

Report on the first semester of 1999

Bern, 27 August 1999

Dear shareholder

The first semester is now over. Swisscom has clearly maintained its position as market leader in Switzerland. Revenues grew by 2.1% compared to last year to reach CHF 5,211m. The booming mobile communications business more than compensated for the decline in revenues from voice telephony, which is a result of competition. Operating expenses were further reduced and lower personnel expenses compensated for higher expenses on goods and services purchased, as well as expenses related to advertising and sales. Net income in the first semester improved by 6% over the previous year to reach CHF 1,201m. The second semester will be affected by the restructuring measures implemented and the higher expenses common to this period. Nevertheless, we again expect a sound result for the financial year overall.

Increased revenues thanks to the booming mobile communications sector

As expected, competition intensified in the first semester of 1999. With new products and targeted price cuts, Swisscom successfully positioned itself in the new competitive environment. In the field of fixed-line voice telephony, the charges for international calls were reduced. Intensified marketing activities helped us to increase the number of subscribers to our discount schemes. ISDN services, in particular ISDN Light, continue to enjoy growing demand: the customer base here has more than doubled since the end of 1998.

In mobile communications we successfully defended our market position in the face of competition and expanded our customer base by more than 20% in 1999 to reach over 2 million Natel customers. An average of over 56,000 new customers per month chose Swisscom as their service provider. By launching new, tailored products such as "Natel private", "Natel business" and "Follow-me", we have taken the growing communications requirements of our customers into account.

Blue Window, Switzerland's leading Internet service provider, reached new heights with nearly 200,000 customers and we expect further strong growth here. New, customer-oriented offers have been launched in

the form of "HighWay", "FreeMail" and the recently launched free Internet access "FreeWay". We are currently investing in future-oriented services of the next generation to meet the growing needs for faster multimedia transmission. We are building a completely new communications network based on the Internet Protocol (IP).

Successful "Joker" bonus programme

Since early 1999 our residential customers have been benefiting from the Joker bonus programme to intensify customer relations, the first scheme of its kind launched by a telecommunications company in Switzerland. Anyone who phones, faxes or surfs the Internet with Swisscom collects points, which can be redeemed against a discount on the Swisscom bill, against the purchase price of Swisscom products or as bonus points with Joker partners, such as Swissair. Joker already has over 500,000 participants and we expect rapid growth in the second semester too.

Customer orientation further increased

To adapt our company's organisation to the rapidly changing environment, the "Progress" project was launched in the second semester of 1998 and completed

by the end of June 1999. Progress streamlined our management and geared our organisation and processes even more closely towards customer segments and their needs. This allows us to market customer-oriented innovation better and more quickly, increase our employees' sense of responsibility, increase the use of synergies and save more on costs.

The planned reduction of the workforce is another important factor in our cost reduction programme. Together with the social partners we have agreed on the "Perspektiv" project – a comprehensive range of measures for socially-acceptable job cuts. Among the main offers available to employees are the promotion of labour mobility, an extended early retirement scheme, advanced semi-retirement and part-time employment for older employees. As part of this, one-off expenses of around CHF 300m are planned in the second semester of 1999.

debitel as a platform for European expansion

There were also some significant changes in international business. The agreed sale of our holdings in Asia is part of the systematic focus on Europe. The acquisition of the majority in the German telecommunications company debitel AG offers us excellent prospects in the European mobile communications business. debitel's broad European presence and focus on Germany, together with significant activities in the Netherlands, France, Belgium and Denmark, make it the ideal complement to and reinforcement of our international strategy. debitel is number three in the German mobile market, which continues to exhibit strong growth, and is by far the biggest network-independent telecommunications company in Germany. Together with debitel, we are the

eighth-biggest mobile communications operator in the European market. debitel has a highly-developed distribution network and an excellent reputation for customer service. This, combined with Swisscom's technical expertise, creates an ideal platform for us to establish ourselves as the preferred service provider in Europe. We intend to further expand the joint customer base of 8 million with comprehensive telecommunications services in the field of mobile communications and the Internet, as well as with innovative convergence products.

debitel's high-revenue service business is typically characterised by lower margins. With the takeover of debitel, Swisscom is consolidating two different types of business. This means that there will be a positive impact on earnings before interest, tax and depreciation (EBITDA) but the actual figure will drop in relation to revenues. The goodwill payable represents the future value of the strong customer base, the established debitel brand and the existing sales channels. The goodwill will be written off over 10 years and will impact our statement of operations accordingly in future.

Outlook: increasing revenues and another good result

We expect an overall increase in revenues for 1999. The takeover of debitel means that the proportion of revenues earned abroad will increase considerably, thus compensating for the downturn in revenues in Switzerland as a result of competition. Further cost management measures are required. The provisions for "Perspektiv" and the higher costs common in the second semester will have an impact on the result, but we nevertheless expect another good result for 1999 overall.

Yours sincerely



Dr. Markus Rauh
Chairman of the Board of Directors



Tony Reis
Chief Executive Officer