swisscom

Press release

Swisscom AG's interim report to 31 March 1999:

Swisscom increases revenues in first quarter

Swisscom successfully expanded its business in the first quarter of this year, mainly as a result of the booming mobile communications market: net revenues increased by 7.6% compared with the first quarter of 1998 to reach CHF 2,616m. Competition in general did not develop as much as expected in the first three months, but is increasingly making its presence felt in voice and data communications. Due to the increase in competition, the very positive development in revenues in the first quarter of 1999 will not be repeated in the current year. Overall, Swisscom expects moderate revenue growth and another good result for the full year.

1. Net revenues in million CHF	to 31/3/1998	to 31/3/1999	Change
Voice communication	1,593	1,558	-2.2%
Mobile communication	385	555	+44.2%
Data communication and multimedia	192	190	-1.0%
Carrier Services	193	211	+9.3%
Other revenues	68	102	+50.0%
Net revenues	**2,431**	**2,616**	**+7.6%**

Voice communication

Revenues from voice communication fell less than expected in the first quarter of 1999, by 2.2% to CHF 1,558m, as a result of falling revenues from national and international telephony. This development is in line with expectations and was partially offset by the continued growth in fixed-to-mobile traffic and local calls. For value-added services, the Internet had a positive effect on call turnover and thus on revenue growth. This trend was further enhanced by the return to Swisscom of various Internet service providers.

As expected, competitors were able to extend their market share overall. However, the losses in market share over the first three months were less than expected, with the exception of national and international telephony. Furthermore, Swisscom is stemming the increasing pressure from competition with focused discount schemes and other measures, such as the launch of the "Joker" loyalty scheme.

ISDN channels	to 31/3/1998	to 31/3/1999	Change
ISDN Basic accesses (no. of channels)	449,000	508,000	+13.1%
ISDN Light accesses (no. of channels)	0	224,000	--
ISDN Primary accesses (no. of channels)	228,000	282,000	+23.7%
Total ISDN accesses (no. of channels)	**677,000**	**1,014,000**	**+49.8%**

The targeted migration from analogue to digital (ISDN) accesses increased further in the first quarter compared with the same period in 1998. The total number of ISDN channels increased by over 10% since the start of the year to reach 1 million. This is a result of the continued boom in ISDN Light. By the end of March, 224,000 ISDN Light channels had been registered. This is an increase of over 50% compared with the year-end figure for 1998 of 146,000 channels.

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Continued growth in the number of ISDN channels is expected for the 1999 business year as well as a sound increase in revenues from fixed-to-mobile traffic and value-added services. The price reductions introduced in early April and the increase in competition will nevertheless have an effect on revenues.

Mobile communication

Revenues from mobile communication developed favourably in the first quarter of 1999, increasing by over 44% compared with the same period in the previous year to reach CHF 555m. This strong growth is attributable to the sustained growth in NATEL customers. Over 60,000 new NATEL-D customers are acquired each month on average. NATEL easy continues to show strong growth and accounts for nearly two-thirds of the net growth in customers. Overall, the NATEL customer base had increased to 1.84m by the end of March 1999, an increase over the first quarter of 1998 of almost 60%, or 10% more than the end of 1998.

The average revenue per user (ARPU) per month, excluding NATEL easy remains constant at CHF 123. If the lower-revenue NATEL easy customers are taken into account, the ARPU fell from CHF 103 in the same period of the previous year to CHF 88 for the first quarter of 1999.

A continued increase in market penetration and sound revenue growth are expected for the 1999 business year as a whole. The forthcoming market entry of the second competitor in mobile communications will, however, intensify competition.

Mobile communication	to 31/3/1998	to 31/3/1999	Change
Total NATEL customers	1,165,000	1,840,000	+57.9%
NATEL easy customers	287,000	696,000	+142.5%
As a % of total NATEL customers	24.6%	37.8%	+13.2%
New NATEL D customers (monthly average)	50,700	60,200	+18.7%
Market penetration (Swisscom)	16.3%	25.7%	+9.4%
ARPU per month in CHF	103	88	-14.6%

Data communication and multimedia

In the field of data communication and multimedia, Swisscom recorded stable revenues in the first quarter compared with the same period last year. The expected downturn in revenues from managed network services, as a result of price erosion, was offset by an increase in revenues from corporate communications solutions and multimedia (Blue Window).

For the full year, revenues from data communication and multimedia are expected to be slightly less than last year. A downturn in revenues is expected in multimedia as a result of the outsourcing of the telephone directory operations to Swisscom Directories AG with effect from 1/1/99 on the one hand and price reductions already announced by the Internet provider Blue Window with its Freemail, Freeway and Highway services on the other hand.

Carrier Services

Revenues from Carrier Services increased by more than 9% compared with the first quarter of last year to reach CHF 211m - a development above expectations due to increases in incoming international traffic.

Due to reductions in international accounting rates, lower revenues are expected from incoming international traffic for this year, though this should be offset by an increase in revenues from interconnection. Overall, stable revenue growth is expected for 1999.

Other revenues

Revenues from consolidated subsidiaries had a positive effect on other revenues. Work completed on international strategy and the focus on activities as part of the "Heart of Europe" strategy are increasingly bearing fruit. Continued solid revenue growth is expected from these new areas for the remaining months of this year.

2. Operating expenses

Expenses were again reduced in the first three months of this year. The scheduled cuts in the workforce led to a reduction of 1,304 full-time equivalents for the first three months of 1999, bringing the total down to 20,642 units. This reduction was mainly achieved through the outsourcing of the building cleaning and maintenance services with effect from 1 January 1999. As a result of the agreement concluded with the unions in May regarding the release of a further 2,800 full-time equivalents by the end of 2001, the total workforce will continue to decrease until the end of 1999. As a result personnel expenses will decrease further in 1999.

The various measures to cut costs continue to have an effect. For the full business year, expenses will therefore continue to decrease compared with last year.

3. Outlook

For the 1999 business year, Swisscom expects moderate overall revenue growth. Increased competition, the market entry of the third mobile operator at the end of the first half of the year as well price reductions in voice telephony and at Blue Window will place a burden on revenue growth.

Pressure from competition is being met effectively and in a focused manner with customer loyalty measures, the launch of new mobile communications products (NATEL private, NATEL business) and attractive offers from Blue Window.

Losses from affiliated companies will be substantially lower for this year as a result of the refocus on activities under the "Heart of Europe" strategy. The systematic implementation of measures to reduce operating expenses means that, despite restructuring charges for the accelerated job cuts, a sound result can again be expected for 1999.

Bern, 20 May 1999