swisscom

Press release

Swisscom AG's interim report to 30 September 1999:

Continued high growth in mobile communications and ISDN

With an increase of 1.3% to CHF 7752m, Swisscom's revenues were up slightly over the first nine months of the 1999 business year: the boom in mobile communications and ISDN stood in contrast to a stark downturn in revenues from traditional telephone traffic. The downturn is the consequence of intensified competition and massive price cuts. Swisscom is meeting the growing pressure of competition by launching innovative new services, particularly in the field of mobile communications. Targeted measures will also allow further cost reductions. Despite lower operating income, Swisscom expects an increase in net income for the 1999 business year as a whole.

Uninterrupted demand for ISDN - increasing competition in voice telephony

As expected, revenues from voice communication dropped. Compared with the previous year's period, revenues decreased by 10.9% to CHF 4362m. A continued strong increase in fixed-to-mobile traffic and stable development for local calls only partly compensated for falling revenues in national long-distance and international traffic. In the field of value-added services, the increase in Internet traffic in particular led to continued growth. Swisscom is counteracting the growing competition with price reductions for international telephony and the extension of the local area nationally. Furthermore, marketing for discount schemes and future-oriented services has been stepped up.

Swisscom increased the number of ISDN channels by over 30% since the start of the year to reach 1.23m. The booming demand for ISDN-light is particularly striking. Compared with the end of 1998, the number of registered channels has more than doubled, reaching 397,000 by the end of September. Swisscom expects continued strong demand for ISDN channels for the remaining quarter.

Price reductions already made in the field of national and international telephony will reduce our losses in market share. The intensive competition will lead to a downturn in revenues from voice communication for the full year.

Strong growth in mobile communication – new innovative services

With revenues increasing to CHF 1753 (36.5% more than the previous year's period), growth in mobile communications continued. Swisscom's market penetration had reached around 30% by the end of September. The arrival of another mobile operator on the market further intensified competition and reduced monthly customer growth at Swisscom. The number of NATEL customers increased by 44% to 2.12m over the previous year's period, equating to a monthly customer

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growth of around 50,000 in 1999. The average revenue per user (ARPU) in the first nine months of the current year was, at CHF 86, 16.5% below the previous year's figure. This decrease is mainly due to the growing number of NATEL easy (prepaid) customers. Compared with the previous year, the number of NATEL easy customers increased by 76% to 803,000. There was a veritable boom in the SMS messaging service: In September 1999 the NATEL network recorded over 21m short messages (excluding Combox notifications), which translates into an increase of 150% over December 1998.

To further improve value for money, Swisscom reduced its mobile charges by an average of 25 – 30% in 1999. At the international Telecom 99 exhibition, Swisscom presented a range of new products and services: for example Natel Office Link, which allows rapid data transmission. WAP technology combines the Internet with mobile communications and enables e-commerce via mobile phones.

For the 1999 business year as a whole, Swisscom expects increased market penetration and very good revenue growth in mobile communications, despite intensified competition.

Blue Window exhibits continued growth: over 250,000 customers

In the field of data communications and multimedia, revenues were 2.4% above the previous year's period at CHF 651m. Revenue growth for leased lines and data transmission services remained stable. The number of leased lines again increased, with the migration to higher bandwidths continuing unabated. As a result of the intensive competition, prices remained under pressure. Revenues from corporate communications solutions again increased. In order to take the increasing demand for new services into account, a new IP platform was rolled out across Switzerland. Revenues from multimedia services developed in accordance with expectations. The launch of new products and services, coupled with a reduction of the subscriptions charges and the launch of free Internet access from August, allowed Blue Window to further extend its leading position in Switzerland. The service currently has over 250,000 customers and continued strong growth is expected. Blue Window also has around 110,000 customers for its BlueMail service – a free e-mail service launched at the end of June this year that can be used independently of the service provider. With around 35m page views per month, Blue Window is currently the most-visited Internet portal in Switzerland.

The directories division, outsourced as Swisscom Directories AG since 1 January 1999, is no longer consolidated. As a result, the Data and Multimedia division will exhibit a slight decrease in revenues for the 1999 business year as a whole.

Revenue growth from interconnection - moderate increase expected for 1999

Carrier Services increased its revenues by 19% over the previous year's period to CHF 662m. Strong revenue growth in national interconnection services more than compensated for price-related revenue decreases in International Carrier Services. On the basis of falling international prices, a moderate revenue increase over 1998 is expected for the full 1999 business year.

Increased cost management necessary – required processes set in motion

With the stamp duty paid in 1998 taken into account, total operating expenses increased slightly compared with the previous year. Increased expenditure on marketing and sales, the Millennium project and increased roaming charges (as a result of the increase in international mobile communications traffic) were only partly compensated by the decrease in personnel expenses. Since the beginning of the year, Swisscom had reduced the size of its workforce according to schedule by 9.3% or 2,041 full-time equivalents to 19,906 full-time equivalents by the end of September. Increased cost management is required to further reduce costs, the necessary processes have already been set in motion.

Participations: debitel consolidated from 1 October – focus on Europe

The acquisition of debitel has been concluded. Following the expiry of the public purchase offer for the free-floating shares on 10 September 1999, Swisscom now holds 74.1% of the shares. The purchase prices totals around CHF 3.4bn. Swisscom paid for the transaction using cash and cash equivalents of CHF 1.7bn and intermediate financing for the remaining amount. debitel is incorporated in Swisscom's consolidation group from 1 October. The acquisition of debitel is a decisive step for Swisscom in its strategic reorientation to establish itself as a value-added service provider in Europe.

The sales negotiations for the participations in Malaysia and India have reached an advanced stage. The Norwegian telecom operator Telenor will replace Swisscom as strategic partner of DiGi Swisscom Berhad. The participation was fully written down in the 1998 business year and the expected profit from the sale will be booked to the 4th quarter 1999. The sales negotiations for the participation in India are expected to be concluded in the year 2000.

The reorganisation of Unisource is also at an advanced stage. Infonet has taken over management control of AT&T-Unisource Communications Services (AUCS) and will thus replace the departing partner AT&T. Infonet and AUCS are ideal partners, both in terms of their geographic distribution and their services. Further disposals are planned as part of the reorganisation of Unisource.

The sale of the Swisscom stake in cable network operator Cablecom is expected in early 2000.

Outlook: higher net income despite lower operating income

Increased competition and price reductions, above all in voice communications, mobile communications and at Blue Window, will have a negative impact on revenues. Swisscom will compensate for such revenue losses with targeted expansion of business activity in Europe. Group revenues will increase as a result of the acquisition of debitel.

As part of a stricter cost management, Swisscom will introduce targeted cost reductions. A first step in this direction was the accelerated socially-responsible workforce reduction agreed with the social partners in May, which will lead to a non-recurrent restructuring charge CHF 500m. The majority, some CHF 300m, will be booked to the second-half accounts for 1999. As part of the new project "Fit for Competition" additional cost reduction and savings potentials are currently being examined.

The take-over of debitel, a service company with typically low margins, involves the consolidation of two different types of business. This means that Swisscom will in future have lower margins in relation to revenues. debitel has been able to consistently increase its EBITDA over the past few years. This will lead to further growth in Swisscom's consolidated EBITDA. The goodwill of CHF 3.3bn paid for debitel will be written off linearly over the next 10 years. Taking this depreciation and the restructuring charge of approx. CHF 300m into account, operating income (EBIT) will decrease in comparison with the 1998 business year. Proceeds from the disposal of the participation in Malaysia, lower interest expenses and better results from affiliated companies make Swisscom confident of an increase in net income for the 1999 business year.

The most important figures at a glance

Net revenues in MCHF	to 30/9/1998	to 30/9/1999	Change
Voice communication	4,897	4,362	- 10.9%
Mobile communication	1,284	1,753	36.5%
Data communication and multimedia	636	651	2.4%
Carrier Services	556	662	19.1%
Other revenues	283	324	14.5%
Net revenues	7,656	7,752	1.3%

ISDN channels	to 30/9/1998	to 30/9/1999	Change
ISDN basic accesses (no. of channels)	551,000	521,000	- 5.4%
ISDN Light accesses (no. of channels)	61,000	397,000	550.8%
ISDN primary accesses (no. of channels)	260,000	314,000	20.8%
Total ISDN accesses (no. of channels)	872,000	1,232,000	41.3%

Mobile communication	to 30/9/1998	to 30/9/1999	Change
Total NATEL customers	1,471,178	2,120,288	44.1%
of which NATEL easy customers in % of total NATEL customers	454,891 30.9%	802,832 37.9%	76.5%
New NATEL D customers (average per month)	47,000	50,000	
Market penetration (Swisscom only)	20.6%	29.6%	
Average revenue per user (ARPU) in CHF	103	86	- 16.5%

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