



# 1998 Annual Report

Swisscom AG

## Communication's many faces

**As a statement of account, an information medium and an image-bearer, the Swisscom annual report offers an in-depth look at a multi-faceted company that deals with many aspects of one theme: communication.**

The illustrations in the 1998 annual report once again focus on human communication. Gestures can often convey much more than the spoken word, or indeed the unspoken word. Body language has a fundamental importance in all cultures, the hands nearly always being used. They express moods or feelings, both consciously and sub-consciously. The following photographs therefore speak for themselves, the observer can choose his own words.

The photographs in this annual report were taken by Pia Zanetti, who was born in 1943. Following her training, she spent a considerable amount of time working as a freelance photographer in Rome and London. She became well known through her numerous portfolios on countries in Africa, America and Asia. Her work has been published in quality newspapers and magazines throughout Europe and she has published various books and catalogues. Pia Zanetti has lived and worked in Zurich and the Ticino since 1971.

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## Facts & figures on the 1998 financial year

(CHF in millions, except where indicated)	1997	1998
<b>Swisscom Group</b>		
Net revenues	9 842	10 461
Operating income before restructuring charges and depreciation (EBITDA)	3 779	4 472
Operating income before restructuring charges (EBIT)	2 040	2 851
Restructuring charges	1 726	(50)
Net (loss) income from continuing operations	(304)	2 074
Net (loss) income	(415)	1 555
Shareholders' equity	1 230	5 347
Equity ratio	% 7.9	31.6
Full-time equivalent employees at end of period	FTE 22 170	21 946
Revenues per employee	CHF in thousands 444	474
Net cash provided by operating activities	1 335	3 574
Capital expenditures	2 374	1 305
Investments in subsidiaries, affiliated companies and other non current assets	329	240
Free cash flow	(1 142)	2 235
<b>Swisscom AG</b>		
Net income	n/a	1 011
Shareholders' equity	n/a	5 562
Dividend	n/a	809*
<b>Key figures per share</b>		
Average number of shares outstanding (nom. CHF 25 each)	(million) 66.0	67.888
Price per share (high/low) (since October 5, 1998)	CHF n/a	588/376.50
Net (loss) income	CHF (6.29)	22.91
Shareholders' equity	CHF 18.64	72.70
Gross dividend	CHF n/a	11*
Pay-out ratio	% n/a	52.0*
Market capitalization at end of period	n/a	42 291

\* according to the proposal of the Board of Directors to the Shareholders' Meeting

## Corporate profile

**With net revenues of CHF 10.46 billion and 21,946 employees, Swisscom is Switzerland's leading telecommunications company. The innovative, customer-focused and strongly-competitive group offers a full range of voice and data communication services on fixed-line and mobile networks.**

Swisscom provides some 3.9m analog fixed-line network accesses in Switzerland, as well as around 920,000 ISDN access channels – a figure which is rapidly increasing. Switzerland has one of the highest ISDN penetration rates in the world.

Swisscom's network infrastructure encompasses some of the world's most modern technology.

At the end of 1998, the company had over 1.6m mobile telephony customers. Soon, one in four residents in Switzerland will be using Swisscom's Natel network.

Swisscom offers the complete spectrum of state-of-the-art data services, from leased lines to integrated solutions for corporate customers.

With Blue Window, the group is also Switzerland's leading provider of Internet and on-line services.

Swisscom's clear strategy for the future aims to preserve the leading position in the domestic market and establish a targeted presence abroad. Successful customer relations, an innovative pricing policy, the comprehensive range of products and services and technological know-how are the foundations for Swisscom's strategic objectives.



## A successful start

### Dear reader

For Swisscom, January 1, 1998 represented a historic milestone for two reasons: our company entered the competitive market as an independent stock corporation and, some nine months later, on October 5, Swisscom floated on the Zurich and New York stock exchanges.

Our first business year in the fully-liberalized market was a success. In the face of tough competition and falling prices, net revenues rose by 6.3% to CHF 10.46bn. Operating income (before restructuring charges) increased by 39.8% to CHF 2,851m; net income was CHF 1,555m.

### Growth in the liberalized market

Our 1998 results are an indication that our overall performance in the first year of competition was very good. As expected, the increased competition was most apparent in the voice telephony sector. However, the downturn in this field due to price cuts was more than compensated for by increased revenues in all other sectors. New products were launched continuously throughout 1998 and existing products were made even more attractive. Our greatest success undoubtedly came from mobile communications. Carrier Services also recorded solid growth, and Data & Multimedia experienced strong growth in customer numbers.

Complete liberalization allows us to operate as an agile and flexible company both at home and abroad. We see this as both a challenge and an opportunity. The principles we adhere to are clear: systematic customer focus, short lines of decision, rapid implementation and a results-oriented approach.

### Spotlight on the IPO

One of the highlights of last year was Swisscom's debut on the stock market. In October, after a short preparatory phase, our company successfully opened itself up to national and international investors with Europe's biggest IPO of the year. Despite the uncertain outlook on the capital market, the IPO was greeted very positively. The issue was several times oversubscribed and both our employees and our management took advantage of the employee program, with some 13,000 employees buying shares and thus giving the company their vote of confidence.

The shares have performed well since the IPO. The success of the Swisscom IPO proves that investors also believe we have good prospects in the liberalized and rapidly-growing telecommunications market. We will do our utmost to ensure a sustained increase in our company value in the future in order to justify this confidence.

### Strategic objectives achieved

The Board of Directors and the Executive Board have incorporated the government's strategic goals as major shareholder for the 1998–2001 planning period into company strategy and converted them into business plans. Taking stock at the end of the first year, we can see that Swisscom is on the right track and that it has developed to the benefit of all stakeholders.

### A customer-centric approach

Swisscom's targeted focus on customer requirements starts with subdivision of customers into different segments according to profile and revenues. The sales organization has been adapted accordingly and we are now better placed to gear our products and services to our customers and offer our sales personnel more specific training.

In addition to cutting prices, introducing a stream of new, requirements-oriented products and services, and specific branch solutions, our company has also introduced various innovative discount schemes. One new area of activity for Swisscom was telesales, involving a call center pilot project for active market processing by telephone. Swisscom aims to maintain customer satisfaction in future with innovative, beneficial and value-for-money services.

#### A challenge for our employees

The fundamental changes Swisscom has undergone over the past few years have placed considerable demands on the workforce and continue to do so. The competitive situation, and the measures to cut costs associated with it, make reductions in the workforce unavoidable. It is understandable that employees are unsettled by the job cuts. We are doing all we can to make the cuts socially acceptable. However, it is also evident that Swisscom can only survive in the liberalized market with streamlined structures. Our employees deserve particular thanks for their continued commitment.

#### Well prepared for a bright future

Over the past few years, Swisscom has been preparing systematically and intensively for free competition. We have achieved a lot, but much remains to be done. After completing its reorganization, Swisscom will now focus all its efforts on remaining number one in the Swiss telecommunications market in every respect and establishing a targeted presence for itself on the international stage. Our focus here is on extending our home market, which is why we have decided to withdraw from our participations in Asia.

For 1999 we expect moderate growth in spite of increasing competitive pressure and further price reductions. Swisscom is well prepared for competition with discount schemes, intensive marketing activities such as the new Joker bonus program and the launch of new attractive services in all areas of activity.

Due to successful measures to cut costs and increase efficiency, we are optimistic that we will achieve a sound result again in 1999.

#### Change in the management team

Swisscom's experienced management team offers excellent prospects for a successful future. The team was strengthened during 1998 by Jens Alder, Head of Network Services and Calvin Grieder, who took the helm of the new Product House unit.

Felix Rosenberg resigned as Director-General in the year under review in order to concentrate fully on his duties as government representative on the Board of Directors. In his 10 years in office, he managed to meet the political, economic and social demands placed upon Swisscom. We thank him for his outstanding achievements. Special thanks also go to Peter Sollberger, until March 1998 Deputy Director-General, for his commitment in various management positions. He retired at the end of March 1999.

This annual report is intended to present our performance in a transparent manner. Thank you for the confidence that you, as a shareholder, customer or business partner, have shown in our company.

Yours sincerely



Dr. Markus Rauh  
Chairman of the Board of Directors



Tony Reis  
Chief Executive Officer

## A whole host of new services in a new environment

Voice encompasses all products and services related to voice communication, with the exception of mobile communications and Internet telephony. Net revenues in 1998 fell by 1.2% to CHF 6.6bn as a result of a downturn in revenue from local and international traffic. This was mainly due to tough competition, and the tariff reductions and discount schemes that came with it. Conversely, national telephony revenue showed a marked increase and the number of ISDN access channels also increased considerably. The numerous new and enhanced value-added and information services were also well used.

National telephone traffic measured in minutes increased by 8.9% in 1998. International telephone traffic decreased by 2.9% as a consequence of intensive competition. While the number of analog lines fell from 4.1m to 3.9m, the growth of ISDN continued, with the number of access channels increasing by a staggering 50%.

### Tariff reductions for international traffic and attractive discount schemes

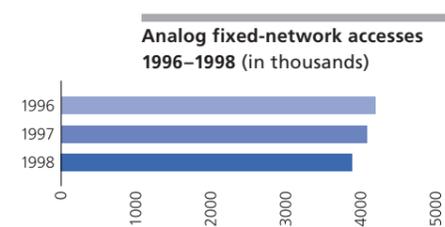
After tariff reductions for national calls in August 1997, we also reduced call charges to the USA and Austria and selected world cities in 1998. With this targeted pricing policy, Swisscom remains an attractive operator, even in the face of its competitors' aggressive plans.

"Hello World", a discount scheme for international calls, was launched in early 1998 for residential customers. At the same time, similar offers were launched for national calls, business customers, and small and medium-sized enterprises. These products, which were simplified in the autumn to make them even more attractive, have developed very successfully.

On Mothers' Day 1998 and on the four Advent Sundays, our customers could make calls for half price. Similar telephone days were also offered for traffic to Portugal, Spain and Italy on the respective national holidays. These proved to be very successful.

### ISDN's continued upswing

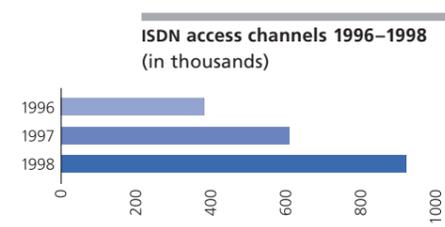
Swisscom's position as a world leader in ISDN penetration was further enhanced with the launch of ISDN Light for residential customers in June 1998. In line with the requirements of this target group, the "Light" option includes three telephone numbers and a reduced supplementary service offer. The new service has established itself within half a year. Growth rates have far exceeded forecasts.



ISDNPac, another new service launched by Swisscom in 1998, offers all the advantages of ISDN, while at the same time allowing packet-switched data transmission via the signaling channel. A typical example of ISDNPac application is cashless transactions in retail outlets (EFT/POS). The product has been very successful in its first year.

### MessageBox – the invisible answering machine that's free of charge

The digital answering machine integrated into the fixed-line network has been available throughout Switzerland since early 1998 and can be accessed from any analog or digital line. This allows the customer to receive telephone and fax messages at any time without the need for additional equipment. MessageBox answers calls and immediately notifies the customer of any messages received – by phone, pager or Natel SMS. The service can be operated worldwide from any telephone.



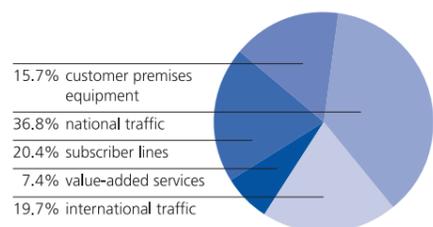
### Changes to abbreviated numbers

The liberalization of the telecommunications market also led us to revise our abbreviated numbers. As a result, since the beginning of 1998, our information providers have no longer been mere suppliers, but also owners of the respective numbers. Sportel 164, for example, was developed for German-speaking Switzerland in conjunction with the newspapers Blick, Sonntagsblick and Sport-Information. Another example is 1600 RegioInfo for regional news and events.

### New Business Numbers

Following pilot trials, Swisscom launched the 0900/0901 Business Numbers in 1998. These are telephone numbers that allow companies to sell products and services and entrust payment collection to Swisscom. The new 0840 Business Number ISP service allows Internet service providers to offer their customers nationwide Internet access at the local rate. The new 0800 Business Number Economy service was developed in response to the fact that small businesses found the price threshold for existing toll-free 0800 numbers too high.

Net revenues from voice communication





#### Payphones with Teleguide

Swisscom started installing Teleguide in public payphones in June 1998. This electronic telephone book offers on-line access to the complete and fully up-to-date electronic telephone directory for Switzerland. By early 1999, the paper directories in all of the 12,500 public payphones will have been replaced by the world-first Teleguide. Swisscom will soon offer the possibility of sending e-mails, short faxes, SMS and pager messages from Teleguide. All payphones will also have been converted to accept credit cards by early 1999.

As part of a modernization drive, the number of card-operated payphones rented to the private sector increased by over 50% in 1998.

#### TeleConferencing

TeleConferencing opens up an impressive array of possible applications for up to several hundred people simultaneously – from press briefings to international meetings to emergency conferences. Depending on requirements, conference participants can be called directly by the TeleConferencing call center or they can dial in themselves. The service proved increasingly popular in 1998.

#### Constant renewal of the range of terminals

Swisscom successfully defended its leading position and further increased sales in the growth area of ISDN through targeted renewal of its comprehensive range. Two Swiss premieres are particularly worthy of note: TRITEL 200i, the first cordless ISDN telephone, and NP430@, the first Internet-compatible laser fax, which can be used to send e-mails.

#### Operator services

The national and international directory inquiries services for telephone numbers and addresses are available round the clock. The tariff structure for these services was adjusted in spring 1998. The tariff now consists of a connection fee and a time-dependent charge based on the national long-distance rate. Since the tariff is mainly determined by the connection fee,

longer calls to directory inquiries now cost little more than shorter ones. The new supplementary service "111 plus 5" has proved very popular. By pressing "5", callers may have their calls collected automatically.

For inquiries of average length, the charge of a call to directory inquiries has remained the same.

#### Preselection stimulates competition

Since September 1, 1998, Swisscom has offered over 50% of customers carrier preselection. This service allows customers to have their line programmed for a new service provider for national long-distance and international calls to avoid having to enter a five-digit code before each call to select an alternative telecommunications carrier. This measure promotes competition in the Swiss telecommunications market.

## 50,000 new customers a month ...

**The dynamic mobile communications market showed renewed vigor in 1998. 60% more customers is the proud boast for the past business year. As a result, net revenues increased by an impressive 30.6% to CHF 1.8bn.**

### Figures that speak for themselves

Four years ago, forecasts predicted 350m mobile customers worldwide in the year 2000. By last year, the prediction had rocketed to 500m. The outlook is similar for Europe: in 1995 experts reckoned there would be 70m mobile customers in the year 2000, whereas in 1998 their estimates had jumped to 120m.

Swisscom Mobile benefited from this boom in 1998. An average of 50,000 new customers were acquired each month, with the total reaching 1,672,300 by the end of the year. This corresponds to a market penetration of 23.4%. Nearly one in four residents in Switzerland were using Swisscom's Natel network by the end of 1998.

This dramatic increase has placed considerable demands on our employees. The specially-created 24-hour hotline answered 120,000 calls per week on average. It is hardly surprising, therefore, that of a total of 1,500 employees at Swisscom Mobile, 600 work in customer service alone.

Since mid-1997, the workforce of this service has quadrupled, with further optimization and improvements planned for 1999 to ensure sound customer service.

### New competitors stimulate the market

**1998: competition has begun**

The Swiss Federal Communication Commission's decision in April 1998 to issue licenses for the operation of two new national digital mobile networks signaled the start of competition in this dynamic market. In future, customers will have three national mobile networks to choose from. Swisscom respects its competitors, but our unparalleled expertise and experience in this market segment allow us to remain confident for the future.



### Downwards price trend

The Natel boom, together with the increase in network efficiency, which resulted in lower costs per subscriber, enabled Swisscom to cut its tariffs twice in 1998. In the first round, the access charge and call tariffs for Natel "international" were considerably reduced in order to reposition the service. Natel international is now clearly cheaper than Natel "swiss" for anyone who uses their mobile phone for more than 6 minutes per day on average for national calls. In addition, Natel international customers can use their phone in over 85 countries. The second round of cuts in the autumn saw the introduction of a new, attractive mobile-to-mobile tariff and a particularly cheap night-time tariff.

### Natel easy – a hit from the outset

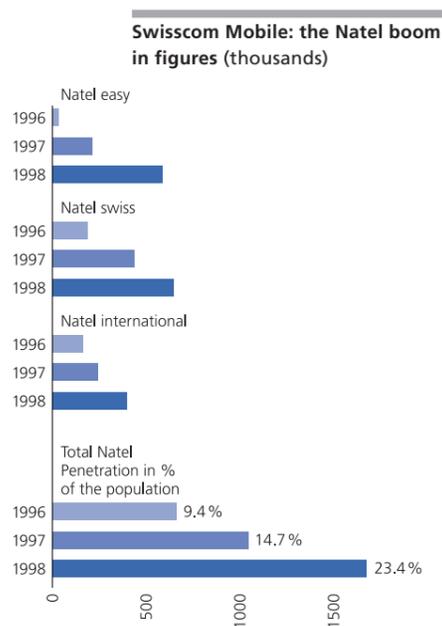
**Natel easy: a sales success**

SICAP (SIM Card Application Platform) is a universal software platform that enables GSM network operators to offer customers innovative new value-added services. The prepaid application in particular, launched in Switzerland in 1996 as Natel easy, found a high level of acceptance from the outset and has developed into a major sales success. More than a third of Swisscom's mobile customers – over half a million people – use Natel easy. We have already successfully launched SICAP for ten other GSM network operators worldwide.

### Targeted improvements in network quality

**Dual-band on the advance**

The digital GSM (Global System for Mobile Communication) network currently covers 70% of Switzerland's surface area and reaches 98% of the population. This nationwide coverage from Swisscom is ensured by some 2,300 base stations. Last year alone, 600 new base stations were added to the network. In 1999 we will be expanding and optimizing the network even more. The dual-band technology introduced by Swisscom as a world first towards the end of 1997 doubles network capacity and thus bridges critical gaps. Dual-band phones automatically search two frequency bands (900/1800 MHz) for free capacity and change frequency without any intervention by the customer. Expansion of the dual-band network will be continued in 1999, particularly in urban areas and border regions, where high traffic volumes lead to bottlenecks.



In addition to network coverage, Swisscom Mobile also focuses on improved transmission quality. Enhanced full rate (EFR) technology, which has been an integral part of the Natel network since summer 1998, enables more powerful speech coding and thus offers a considerable improvement in speech quality. Most new mobile phones support EFR.

**The mobile phone as a personal communications center**

Twenty years ago, you needed an automobile just to transport a mobile phone. Today's devices are not only much handier, they are also around 150 times lighter. Furthermore, they are now much more than just a mobile telephone. In 1998, Swisscom Mobile again considerably improved and extended its range of supplementary mobile services. A mobile phone can today display within seconds share prices, train timetables, available parking spaces in parking lots and information from Swissair. They can even send faxes. Such supplementary functions will be further developed and improved in 1999.

**Liberalization offers new sales opportunities**

The liberalized market allows us to differentiate when offering our services through dealers. Amongst other measures, we are planning to diversify our sales channels. One example of this is the launch of our new shop-in-shop concept in all 11 branches of Globus in Switzerland in the autumn of 1998, to complement the existing specialist Swisscom Mobile shops.

**System solutions for businesses**

In light of the growing requirements for mobility, businesses are increasingly expected to be able not only to communicate systematically, but also independently of location. Mobile telephony is the ideal solution. Swisscom therefore launched the Corporate Mobile Network (CMN) in 1998 – a system solution that incorporates customized mobile communications into a company's communications network. Several renowned Swiss companies have already opted for this solution.

**New: Corporate Mobile Network (CMN)**

**Swisscom is the world leader in roaming**

**World leader in roaming**

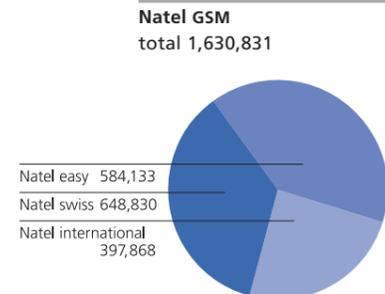
Some 160 roaming agreements offer Swisscom customers mobile communications in over 85 countries. In 1999, we expect to increase this to 200 agreements and 100 countries. This makes Swisscom the world leader in roaming.

In 1998 we also became the service provider for Iridium in Switzerland. Iridium is a system of 66 satellites and earth stations that enable mobile communications from any point on earth to any other.

**Innovations on the international stage as well**

The international acclaim we have received for our innovative solutions from Mobile International Business allowed us to sell the Natel service to service providers worldwide in 1998 under the brand name GSM Card. This offers end customers numerous supplementary services in addition to the existing 160 roaming agreements.

In conjunction with the British GSM network operator Vodafone, we offer other network operators the opportunity of using our roaming agreements under the Global Cellular Service brand. This offers our partners access to one of the most widespread mobile communications networks in the world with a single contract.



**Substitution in the paging market**

The increasing substitution of paging as a means of one-way communication by two-way GSM has resulted in stagnation in this market, not just in Switzerland but throughout Europe. Swisscom has therefore increased the appeal of paging by launching new services such as info services, e-mail applications and voice mail (MessageBox). We are currently looking to reposition the paging service.



## Data communications - the gateway to the world

**Net revenues for Data & Multimedia, which includes data communications and online services, increased by 9.3% in 1998 to reach CHF 901m. In the year under review, the main trends continued: demand for broadband services increased considerably and network services also recorded growth. The Internet provider Blue Window further consolidated its market leadership.**

Swisscom offers its customers a broad range of data and multimedia services. Data & Multimedia offers national and international leased lines, data transport services such as telex, X.25, frame relay and ATM; it also offers complete Internet, Intranet and Extranet solutions for corporate customers and small and medium-sized enterprises. The unit also includes the Internet service provider Blue Window, telephone directories and communications solutions which meet the needs of specific sectors such as the healthcare industry.

### Internet: from a playground to a strategic success factor

The ability to gather, process and forward information rapidly and on a global scale is of increasing importance for giving companies a strategic competitive edge. Swisscom's full range of services paves the way for customers to enter the global village that is the Internet.

Around 100m people worldwide already use the Internet, with forecasts for 2002 estimating 320m users. The tremendous growth opens up an enormous market potential. According to a national study in August 1998, one in four Swiss over the age of 14 log into the network of all networks either regularly or occasionally.

### Blue Window: customer base doubles in one year

The rapid advance of the Internet is exemplified by the customer base of Blue Window, which more than doubled in 1998 from 70,000 to over 150,000. With 30m hits per month, Blue Window was Switzerland's most-visited homepage at the end of 1998. New partnerships with companies such as Yahoo (Internet portal service) and content providers such as Cinémachine (cinema magazine) and Sonicnet (music magazine) have enabled Blue Window to further expand its position as the leading Internet service provider in Switzerland. Blue Window is now also available abroad: since May 1998, we have been offering Internet access in the attractive market of Baden-Württemberg in conjunction with our local joint venture Tesion.

In the 1998 business year, Blue Window was reorganized in order to concentrate exclusively on residential customers. The solutions for corporate customers are now marketed under the Swisscom brand.

**Heading for the global village with Swisscom's comprehensive Internet services**

**Partnerships and attractive content have made Blue Window the clear choice for Internet access**

**The new Inhouse Communications solution targets the attractive SME market**

**Network solutions to meet any requirement**

### Holistic solutions for SMEs

By grouping the corporate services of Blue Window in a new business unit, we aim to concentrate more on this market, particularly the 300,000 small and medium-sized enterprises (SMEs), where we also wish to play a leading role. Since early 1998 Swisscom has been actively targeting this market with its new communications solution "Inhouse Communications", which is tailored to the requirements of SMEs.

### Customized transport solutions (Managed Network Services)

Managed Network Services cover national and international leased lines, managed bandwidth services and a whole range of transport services for all types of data transmission technology.

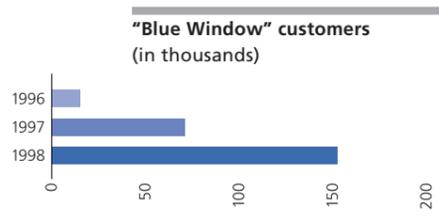
Various changes were made in the leased-line business during the year under review: a revised and adjusted service offer was launched on July 1. The price structures were also revised to both bring them into line with the market and to cover costs. At the same time, Swisscom also launched Direct Link, a new cost-effective leased-line product range for the local area.

In autumn 1998, Swisscom launched City Services and Intercity Service – special new communications solutions for corporate customers, each with security and bandwidth options, as well as distance-independent charges for city area data links. This takes into account the fact that the highest volumes of data traffic in Switzerland, and therefore the densest communications infrastructure, is required *in* and *between* economic centers. City Services and Intercity Service are available to customers in Basle, Bern, Geneva and Zurich.

### Company-wide communications

Swisscom offers its corporate customers a wide range of Intranet, Extranet and Internet services. Our integrated solutions meet the needs of our major accounts and multinational customers. Our services include systems integration, router management, remote access service (RAS), voice/data integration, and Internet access.

Swisscom's systems integration services encompass network design, installation and maintenance. Under the name LAN Interconnect Service, Swisscom offers router management services. By the end of 1998, this service covered around 3,000 routers for customers in the service sector (e.g. banks and insurance companies, travel agents) and the retail industry. Swisscom is the undisputed market leader in router management. The LAN Interconnect Service has been a continued success since its launch in 1995.



Swisscom's remote access service (RAS) allows employees of a company to log into the corporate network from a branch office, from home, or while on the move. RAS allows access to the corporate network via the public-switched telephone network (PSTN), ISDN and mobile connections. Swisscom's Integrated Services are based on frame relay technology and allow simultaneous transmission of data and voice via the same network access. As part of its "heart of Europe" strategy, Swisscom also offers remote access service and voice/data integration in Austria.

**PubliGroupe and Swisscom step up cooperation on directories**

**Directories**  
Electronic directories, such as those on CD-ROM and the Internet, the financing of such products through advertising, and the addition of new content such as fax numbers and e-mail addresses are gaining importance. The pressure of international competition in this segment will continue to increase in the future. For this reason, Swisscom entered into partnership with PubliGroupe in autumn 1998. Both companies will in future work closely together in publishing and marketing directories. To this end, two new joint ventures were set up: Swisscom Directories AG, which will assume responsibility for the existing Swisscom directories from 1999, and PubliDirect AG.

## Committed to increasing competitiveness

**Positive developments in transit traffic and interconnection allowed Carrier Services to increase net revenues by 23.4% to CHF 860m. The 1998 business year was characterized by the entry into the wholesale market. The Wholesale unit is responsible for selling innovative network solutions and services to telecommunications service providers at home and abroad. In addition, numerous projects were launched in 1998 to substantially improve the competitiveness of Swisscom's networks.**

### Numerous interconnection agreements

Since the beginning of 1998, competitors' access to Swisscom's networks in Switzerland has been governed by interconnection agreements. The Telecommunications Act forms the basis for such agreements, guaranteeing fair competition and optimal end-to-end communications for universal services. In the year under review, Swisscom concluded interconnection agreements with 26 operators.

In addition to its wholesale services, Swisscom provides international carriers with leased lines and operates a national network for transmission and broadcasting services for TV and radio.

### Interconnection: gearing up for competition

In March and June 1998 we reduced our interconnection rates with effect from April 1, 1998. Following discussions with two competitors in early 1999, Swisscom agreed to reduce interconnection rates for 1998 by a further 18%, in addition to a 5% reduction in the charges for accessing 0800 services. These charges apply retroactively from May 1, 1998. Interconnection charges will be reduced further still for 1999 as a result of expected efficiency gains at Swisscom. They are now some 26% below the charges agreed in June 1998.

### Entry into the wholesale market

Swisscom is aiming to take a leading position in the wholesale market in Switzerland. In the domestic market, Wholesale offers a range of services for operators entitled to interconnection. The Wholesale portfolio includes services such as international termination, international transit, leased lines

and bandwidth services. Our aim is to supplement the existing range with new offerings and thus stimulate the reseller market with attractive services. Agreements have already been signed with various operators.

### Program launched to make networks even more competitive

The liberalization of telecommunications markets is a major challenge for Carrier Services. In order to maintain competitiveness in the future, network costs must be drastically cut and available capacity better used by new services. For this reason, a specially-created team was given the task of developing ideas for reducing investments and costs, optimizing use of existing infrastructure and generating extra revenues.

The project led to numerous sub-projects, which identified considerable savings potential in 1998. For example, it was seen that market-oriented investment planning would enable considerable savings to be made, without entailing any substantial market risks. The negotiation of more favorable purchasing conditions should also lead to a reduction in costs.

### More competitive networks through cost cutting and increased revenues

### Use of synergies for management centers

During the year under review it was also decided to concentrate the nationwide network management centers in the four locations of Zurich, Bern, Geneva and Lugano by the end of the year 2000. The resulting synergies should enable important savings. The concentration will also ensure more efficient end-to-end processes.

### Concentration of network management centers

## Targeted expansion at the heart of Europe

**Swisscom focused its international strategy in 1998, with the “heart of Europe” taking top priority. We now have a physical presence in all neighboring countries. Our aim is to cover the global requirements of existing customers and expand our markets. Through continued expansion of its activities, Swisscom aims to become the preferred carrier at the heart of Europe.**

Swisscom’s international strategy focuses mainly on the extension of the home market into regions bordering Switzerland by means of subsidiary companies and/or joint ventures. The first phase of this strategy was completed at the end of 1998; the setting up of Swisscom S.p.A in Italy means that we are now represented in all neighboring countries. This market extension increases our potential customer base by 29m.

### Germany

Swisscom has been active in Germany since January 1997 as part of its joint venture with Energie Baden-Württemberg, the leading electricity utility in this federal state. The joint venture Tesion Kommunikationsnetze Süd-West GmbH & Co. KG offers high-quality voice, data and multimedia services to small and medium-sized enterprises. The launch of Swisscom’s Blue Window service in 1998 has made Tesion a leading provider of Internet services. The company has the second-biggest optical fiber network (around 3,000km) in Baden-Württemberg and interconnects all state universities. Various new products, including Digital Powerline, Prepaid Card and e-commerce were launched throughout the year, a customer center was opened in Stuttgart and a branch office in Karlsruhe.

### Austria

In July 1998, Swisscom acquired a majority interest in UTA Telekom AG, Austria’s leading alternative telecommunications operator with around 400 employees. The subsidiary Swisscom Telekommunikationsgesellschaft m.b.H. set up in 1997 was integrated into UTA’s operations. The new joint venture offers comprehensive telecommunications solutions to business and residential customers throughout Austria. Its main focus is the expansion of nationwide telephony services. In October, UTA was the first private company to launch a telephone service for residential customers and small businesses. UTA’s preselection code offers national long-distance and international calls at attractive prices.

**The attractive southern German market**

**Market potential in Lombardy**

### France

In April 1998 we set up the joint venture Estel together with Electricité de Strasbourg. In late November, the French Ministry for Industry gave the green light for a license to be issued. In an initial phase, the company will offer telephone, data and Internet services to small and medium-sized enterprises in Alsace. An important precondition for the expansion of Estel’s activities is the conclusion of an interconnection agreement with France Telecom, which we expect in the first half of 1999. The first alternative telecommunications operator in Alsace has access to a potential of around 1.6m inhabitants and some 42,000 companies. Our French partner is making its highly-developed optical fiber network available, whereas Swisscom is providing its extensive expertise and a share of the resources required for setting up the company. Estel offers Swisscom access to its second-largest foreign market after Germany.

### Italy

In February 1998, we established the wholly-owned subsidiary Swisscom S.p.A. with headquarters in Milan. After a set-up phase lasting several months, the company commenced operations in mid-December. In February 1999, interconnection negotiations with Telecom Italia were successfully completed. The company offers international voice, data and Internet services throughout the Lombardy region. The portfolio will gradually be extended with products such as telematics and value-added services. A new billing and reporting system was developed exclusively for customers in Italy. The portfolio is mainly geared towards small and medium-sized enterprises and retailers in northern Italy. The new company harnesses a potential of around 9m inhabitants and 37,000 companies in the greater Milan region, where around 20% of Italy’s GDP is produced.

### Principality of Liechtenstein

Our wholly-owned subsidiary Telecom FL AG, Vaduz, was awarded the local services license for universal services in 1998 and secured the contract for network strategy and planning. The Principality’s government decided to postpone the entry into force of the license until the beginning of 1999, with the exception of the license for mobile communications. The telecommunications section of the bilateral treaty between Switzerland and Liechtenstein was therefore rendered void de facto with effect from the end of 1998.

In November, the government awarded our subsidiary a license to continue providing all universal services previously offered by Swisscom.

#### Unisource N.V.

Unisource is the strategic alliance between Swisscom, KPN Telecom Netherlands and Telia of Sweden. The extended partnership AT&T-Unisource Communications Services (AUCS) is held jointly by Unisource (60%) and AT&T (40%). AUCS focuses on multinational customers and offers global telecommunications solutions. AT&T is set to leave the alliance in July 2000. Various options for repositioning Unisource are currently being evaluated together with both international partners.

#### Infonet Services Corporation, El Segundo, CA, USA

Infonet Services Corporation, in which Swisscom has an 18.7% interest, is one of the world's leading providers of customized solutions for international voice and data transmission. Infonet is mainly active in the field of networks and offers remote access services, Internet and Intranet applications, electronic shopping and messaging services. Infonet's global network can be accessed from over 180 countries. The company has representative offices in 57 countries and its shareholders include various leading telecom operators such as KPN, Telia, Telefonica, KDD and Telstra.

#### Swisscom North America Inc. (SCNA), Washington DC

Swisscom North America Inc. (SCNA), headquartered in Washington DC, was set up in May 1997 as a wholly-owned subsidiary of Swisscom. SCNA has been operational since spring 1998 and offers end-to-end service level agreements, 24-hour help desk support, managed network services and communications solutions for companies in the USA.

#### Withdrawal from Asia

In Malaysia, Swisscom holds 30% of DiGi-Swisscom-Berhad (formerly Mutiara-Swisscom). DiGi has licenses for the operation of a national digital mobile network (GSM 1800), a fixed network, an international gateway, VSAT and data network services in Malaysia. By the end of 1998, DiGi had 310,000 customers but currently faces a difficult market situation due to the financial crisis in Asia.

Swisscom has held a 32.5% interest in Sterling Cellular in India since 1996. The Sterling subsidiary Aircel Digilink, in which Swisscom has an additional direct investment of 10%, has licenses for the Harvana, Rajasthan and Uttar Pradesh East regions, covering the northern part of India with a mobile network. Regulatory restrictions by the Indian government, in particular the high level of license fees, made it impossible to extend the market position in India during the year under review.

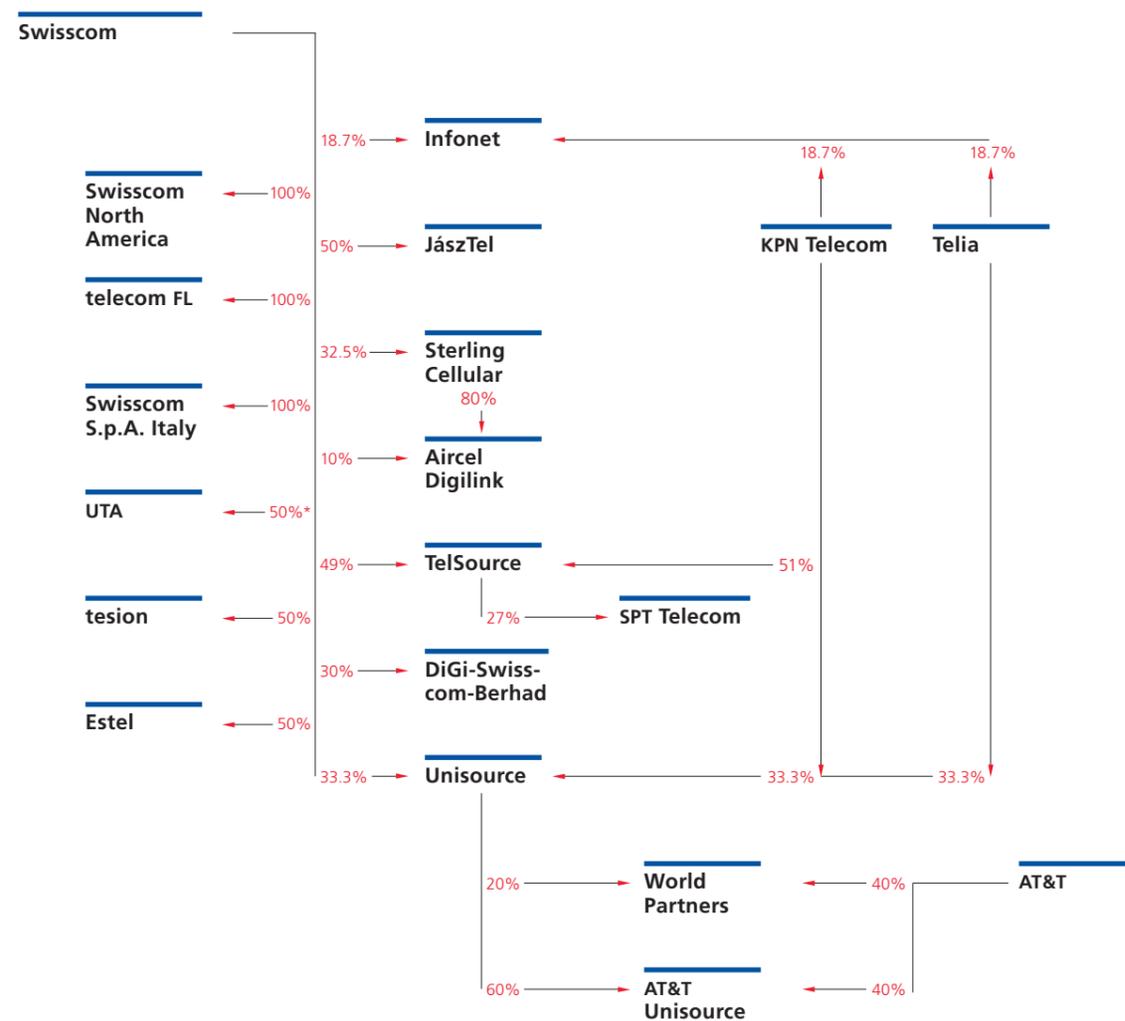
Swisscom recorded high losses in its participations in the mobile network operators in India and Malaysia in 1998. As a consequence of the focusing of international activities and following detailed critical analysis of various options, in March 1999 Swisscom decided to withdraw from the participations in Malaysia and India.

#### Holdings in eastern Europe

As part of joint ventures with KPN Telecom Netherlands, Swisscom jointly holds a 27% interest in the partially-privatized national telephone operator SPT Telecom in the Czech Republic and 50% of JászTel Rt in Hungary. In the Czech Republic, Swisscom is supporting SPT Telecom with regard to technology and operational management. SPT Telecom holds 51% of Eurotel, one of the country's two mobile communications operators. The launch of innovative products such as Swisscom's Natel easy enabled Eurotel to extend its lead over its competitor in 1998. In Hungary, JászTel has been offered for sale following reorganization at the two parent companies Swisscom and KPN Telecom.

**Infonet's global network  
can be accessed from over  
180 countries**

## Swisscom - Participations and alliances



## Vision and strategic outlook

**“Swisscom is the most successful telecommunications provider in Switzerland. The company will continue to shoulder its social responsibility in future. At international level, we will focus our attention on extending the home market into bordering regions of neighboring countries, where we want to establish a significant market presence.”**  
**In order to realize this vision, we are aiming for customer satisfaction and customer loyalty, competent employees who are committed achievers, and effective and efficient processes. Our overall aim is a sustained increase in company value.**

### Clear objectives

#### Four strategic objectives

From our vision, we have derived the following strategic objectives for the coming years.

Firstly: Swisscom will use as yet untapped potential in the telecommunications market to maintain its leading position in Switzerland. The more competitive the markets are, the more important customer loyalty is for success. Customer satisfaction therefore takes top priority at Swisscom. Our innovative pricing policy and intelligently-bundled services form the basis for successful customer relations in future. Telephony usage rates in Switzerland are relatively low by international comparison, and therefore offer considerable potential for growth once new services have been launched, particularly in the fields of Internet and value-added services. Swisscom is working actively in these areas, constantly developing customer-focused solutions and services. The liberalization of telecommunications has created the new wholesale market, to which we attach major importance. We intend to systematically exploit the opportunities that exist here.

Secondly: Swisscom will use its technological expertise and existing customer relations to market new products and services. Our fully-digitized network, our technical skills and our existing customer base allow us to meet new needs quickly and efficiently. Swisscom expects demand for value-added services, bundled services and integrated network solutions to increase in all customer segments, all of which will result in increasing convergence of the various sub-markets.

In order to meet such demand, we are promoting ISDN, developing new mobile value-added services based on our proprietary SICAP technology, and are promoting corporate network solutions as an alternative to conventional leased lines.

Thirdly: Swisscom will continue to cut its costs and increase productivity according to schedule.

The necessary reduction in personnel expenses is to be achieved mainly through early retirement, natural turnover and the outsourcing of activities that do not form part of our core business. This should reduce the workforce to a total of 18,000 full-time equivalent posts by the end of 2001 (not taking into account changes in the group). Whereas new jobs are being created in the growth areas of mobile and data communications, jobs will have to be cut in various other areas. We will also optimize personnel deployment and move over to a more performance-related pay system.

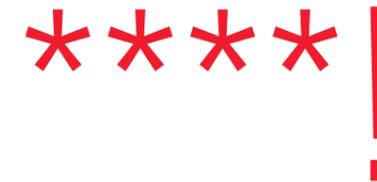
Miscellaneous operating costs will be considerably reduced by improved process management and streamlining operations. Professionalized central purchasing of network material will help reduce operating and maintenance costs.

Investments in Swisscom's already highly-modern fixed network will in future only be made in line with market requirements. We will invest in new technology, but in line with clear commercial criteria. Investments in the mobile communications network will be geared mainly towards service quality and market requirements.

Fourthly: as part of its international strategy, Swisscom is establishing a presence in regions bordering Switzerland.

Swisscom is extending its activities into border regions in the surrounding countries of Germany, France, Italy and Austria. This means that Swiss customers can benefit from uniform services on both sides of the Swiss border, and that Swisscom can tap attractive new markets.

One of the core components of Swisscom's international strategy is seamless international voice, data and network services for multinational customers.



#### From "Change" to "Progress": from strength to strength

The "Change" project, which got Swisscom into shape for free competition, was completed at the end of 1997. Since liberalization, new national and international operators have set up in Switzerland with the aim of winning market share in attractive customer segments. In order to counter this challenge successfully, Swisscom must gear its organization and processes clearly to customer requirements. In core areas, there is additional need for action in this respect. More specifically, we must gear ourselves more towards individual customer segments, promote market-oriented innovation, avoid duplications, clearly assign responsibilities and exploit cost synergies.

#### Swisscom is getting even fitter

All this will be achieved with Swisscom's new business model, which is to be developed and implemented as part of the "Progress" project. The aim is threefold: increased proximity to the customer, increased innovation, increased speed. The strategic and financial management of the group will be supported by a reduction in the number of profit centers and a simplified and unified value-flow and management accounting system, with reporting adapted to the newly-defined responsibilities.

The new business model places considerable demands on management and employees. We attach particular importance to rapid and systematic implementation. This is why we have promoted open communication from the outset, actively involving the staff associations. The measures associated with the new structural organization should be nearing completion by the end of June 1999.

## Swisscom and its customers

**Following far-reaching changes in its organization and culture, Swisscom is now a company that is operating in liberalized markets and systematically focusing on customer requirements. As part of this focus, residential customer business was targeted for expansion in 1998 and the Customer Service unit was reengineered. Swisscom has been making intensive preparations for the millennium date-change over the past two years, with the aim being to offer customers a smooth transition into the year 2000 for their telecommunications equipment.**

In the year under review, we continued our drive for even closer customer contact, opening up new sales channels and looking into new distribution models. We entered into cooperation with various retail partners and established a stronger presence in prime locations such as shopping malls.

### Increased focus on residential customers

As part of the new shop strategy adopted in early 1998, we reviewed all existing locations. As a result, three shops in Basle, Olten and Adliswil were chosen to be refurbished in the new shop design, which gives the customer a better overview of our range and offers better physical access to products and information. The new strategy will be fully implemented by the end of the year 2000.

### Launch of the Joker bonus program

In early 1999, Swisscom also launched an attractive bonus program to take customer requirements into account in a more targeted and flexible way. This program thanks our residential customers for their loyalty by offering them attractive bonuses. Anyone who makes phone calls, sends faxes or surfs the Internet with Swisscom is awarded points which can be exchanged for attractive special offers or vouchers for services provided by Swisscom and selected partners. Our shops, which are responsible for keeping the offers up to date, play a key role in the implementation of the program.

### Shop-in-shop

Thanks to its cooperation with Migros, Swisscom will have a prominent presence in the newly-conceived Tele-Shops. Another important element in the shop-in-shop concept is our Mobile division's presence in all Globus stores. The continuous adjustment of the shop portfolio aims to bring the

wide-ranging world of telecommunications closer to the customer with innovative products and associated services. Other forms of cooperation with major retailers and companies with branch offices are planned. Swisscom shops increased revenues by around 30% in 1998, which allowed us to maintain and even extend our lead in a hotly-contested market with a downward price trend for customer premises equipment.

### Millennium Swisscom

Since 1996, Swisscom has been working actively on the date-change from 1999 to 2000. The aim of our millennium project is to ensure a smooth transition into the year 2000 for our customers' telecommunications equipment. As part of our efforts in this area, we created the comprehensive service package 2000.k., which we marketed in the year under review using a wide variety of information channels. Feedback from customers and the general public has been very positive.

As a first step, all basic systems for the Swisscom networks were tested for millennium compliance. The necessary adaptations are already fully underway and work on individual components has progressed well, with comprehensive tests planned for the first quarter of 1999 – firstly in Switzerland and then worldwide within the ITU (International Telecommunications Union) framework. The Swisscom support and information systems have also been renovated to a large extent and released for operation. Swisscom uses the definitions of the British Standards Institution for testing the year 2000 compliance of its products and services.

Our products and services have been tested extensively in conjunction with suppliers and other partners, in order to ensure millennium compliance. The tests were conducted in Swisscom's own accredited laboratories and were observed and certified by TÜV (*Technischer Überwachungsverein*, "technical monitoring association") Switzerland. The newly-created Customer Service unit offers customers various services related to the millennium issue. Swisscom and its partners are doing everything they can to find solutions to the millennium problem. However, despite all internal efforts, failures as a result of external factors such as regional power cuts cannot be excluded. For this reason, we are attaching considerable importance to power supply. Despite written assurances from our suppliers, there is still a high level of risk to our installations.

**2000.k. – Swisscom's service package for overcoming the Year 2000 problem**

**A bonus for our residential customers**

**Restructured customer service**

The 2,600 employees at our restructured customer service units can look back on a year that was as turbulent as it was successful. The development and launch of 20 modular services and products took individual customer requirements into account.

Customer Service acts as a general contractor for project management of jobs ranging from simple telephone installations to complex tailored communications systems, including all associated coordination work. One of the biggest challenges of the past year was the installation of Teleguides in all 12,500 public payphones (Publifon®) in Switzerland, set to be completed by May 1999. In 1998, our Customer Service dealt with over 5,000 different types of modules, systems and terminals.

Over 100,000 companies in Switzerland entrust their maintenance to Swisscom in the form of a maintenance contract with Customer Service. In 1998, the 1,700 service technicians visited an average of 5,000 customers a day, completing over a million orders.

As part of Customer Service's partner concepts, contracts were prolonged or extended with numerous renowned companies, including Digital, Credit Suisse, Ciba Speciality Chemicals, as well as the Swiss Federal Administration. Another cornerstone of Customer Service is the help desk solutions offered to companies and organizations, including central fault reporting for companies such as Reuters and IBM. The central fault reporting telephone number 175 has a staff of 500 and answered over 4m calls around the clock in 1998.

5,000 customer visits a day

## Swisscom and the financial community

**The successful floatation of Swisscom's "Blue Share" in October 1998 was the biggest IPO that Switzerland had ever seen and the year's biggest in Europe. This has awakened interest in Swisscom from investors and analysts in Switzerland and abroad. We want to create a lasting relationship of trust with these new stakeholders through active and open communication with the financial community.**

**New routes to the investor**

In addition to liberalization of the market, the 1998 business year was also characterized by the intensive preparations for the IPO. Swisscom had to be made fit for the stock exchange in the shortest time possible. For us it was important that all residents in Switzerland had the opportunity of preferential treatment. As part of the priority retail offer, all those who registered their interest received an individually-numbered subscription form which was only valid for them and which allowed them to indicate a price limit. These people benefited from a guaranteed allocation and a discount of CHF 5 per share. Around 70,000 retail investors took advantage of this scheme. Furthermore, shares could also be purchased as part of the general retail offer. Outside Switzerland the worldwide offer was aimed at institutional investors in western Europe, the USA and Canada, as well as the rest of the world. Despite an unfavorable situation on the capital market, our IPO generated considerable interest, with the offer volume being three times oversubscribed. A total of 25,374,750 registered shares were placed with investors worldwide, of which 7,550,000 came from a capital increase by Swisscom (primary offering) and 17,824,750 (including the Green Shoe option of 3,309,750 shares) from the government's holding (secondary offering). The Green Shoe option is a reserve for additional allocations in the event of oversubscription. The shares quoted represent 34.5% of Swisscom's share capital; the government remains the majority shareholder with 65.5%. The employee and management share programs were also very successful, with over 50% of employees and over 80% of management investing in the shares.

Swisscom's IPO was an overwhelming success

**Shareholder base (excluding Swiss Confederation) at December 31, 1998**

Number of shares	Number of shareholders
1-500	44,621
501-1,000	85
1,001-10,000	172
10,001-100,000	76
>100,000	15

**Open and transparent investor relations**

Due to the additional communication requirements, we created the new Investor Relations unit, the main link between the financial community and Swisscom. The unit is committed to an open, comprehensive and continuous

## Swisscom and employees

**The challenges of the liberalized market, coupled with far-reaching changes in the international telecommunications industry, mean that our employees are compelled to rethink. In order to be successful in global competition, considerable flexibility and commitment are required.**

### New staff appraisal system

A new staff appraisal system was introduced as a management tool during the year under review. This is one of the main requirements for a new performance and market-related pay system at Swisscom. Pilot schemes at Marketing & Products and Data & Multimedia brought positive results.

### On the road to private law

From 2001, public employment law, governed by the Civil Service Act and Civil Service Regulation, will no longer apply to Swisscom employees and will be replaced by private employment law in accordance with the Swiss Code of Obligations (*Obligationenrecht [OR]*). Swisscom is obliged to negotiate a collective bargaining agreement with the unions, for which preparatory work has already been started.

The new Telecommunications Act provides for individual employment contracts in accordance with OR before 2001 in justified cases. At the levels of executive, senior and middle management, and for holders of special positions, this option is already being used to transform existing employment contracts and for new appointments.

### A more flexible pay system

The new Civil Service Regulation, which entered into force in December 1998, allows Swisscom to make adjustments to the pay system before 2001 in accordance with the company's specific requirements. This allowed us to conclude an agreement with the unions that deviates from the civil service remuneration systems.

### Staff and management development

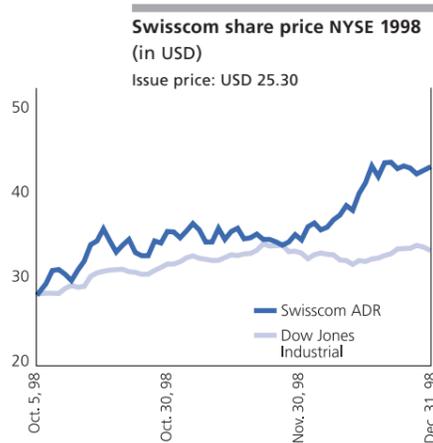
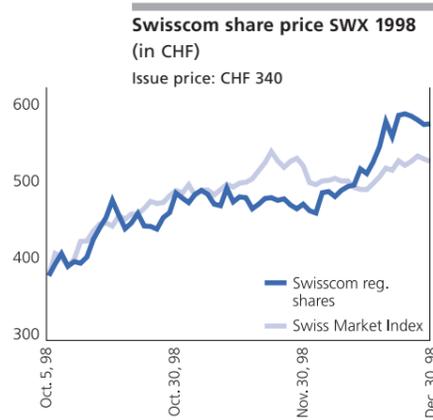
In 1998 we took a major step towards creating the ideal conditions for future-oriented staff and management development. On the one hand we opened modern training centers in Martigny and Pfäffikon, which offer ideal training conditions, and on the other hand we introduced the new concept of "management development". Changes were also made in the field of

### New management development concept

information policy, which aims to further consolidate the confidence shown in Swisscom and its management by our existing shareholders, as well as potential investors and financial analysts. In order to meet the growing information requirements of the capital markets, regular road shows and analyst meetings are planned. For further information, investors and any other interested parties can consult our continuously-updated website at <http://www.swisscom.com>.

### Milestones en route to the stock exchange

May 13, 1998	The government as majority shareholder approves the opening balance sheet of January 1, 1998 and gives the go-ahead for further preparations. Decision to issue registered shares
July 22	Presentation of the 1997 Annual Report (including restated accounts for the previous two years in accordance with the International Accounting Standards) to the media and financial analysts
August 20	Presentation of the First Half report for 1998 to the media and financial analysts
September 13	Price range for the offer fixed at CHF 330 to 410
September 16 – October 2	Registration period. At the same time road shows for analysts, potential investors in Switzerland and abroad and the media
October 4	Offer priced fixed at CHF 340
October 5	First day of trading on the stock exchanges in Zurich and New York



apprenticeships. In future, we will focus on recognized professions related to our core business and at the same time increase the number of attractive apprenticeships, thus making a significant contribution to the promotion of professional qualifications in Switzerland. Swisscom employed over 700 apprentices in the year under review.

#### Unavoidable job cuts

Swisscom cannot avoid reductions in personnel expenses, and therefore job cuts, if it is to achieve a sustained increase in its competitiveness. The fastmoving technological and structural changes in the markets in which we operate, together with the new competitive situation, make action unavoidable. Furthermore, work can no longer be found internally for all employees concerned. At the same time, the growth areas of mobile and data communications require additional staff. We expect a total net reduction in the workforce of 4,000 by 2001, taking the total down to 18,000 (not taking into account changes in the group). Job cuts are currently being made as part of the early retirement scheme and through voluntary departures. However, such measures will not be sufficient to achieve the reduction required. The first releases came towards the end of 1998.

#### Active support in career reorientation

In order to assist those employees affected by job cuts in their search for new jobs, we have set up internal labor market centers which offer professional support for released employees who are looking for new jobs both within the company and outside. We also set up a venture fund with CHF 20m capital for supporting employees who wish to set up in business independently.

Our negotiations with the staff associations aim to make the job cuts as socially responsible as possible.

In late 1998, as a result of the required cost cutting measures Swisscom set up a team to come up with creative and innovative ideas to prevent redundancies. Work in this area is focused on measures to stimulate job creation.

Last year the company had an average workforce of 22,069 employees; the year-end figure for 1998 was 21,946 or 1.0% less than the previous year. This reduction, which came from restructuring, outsourcing certain activities and an effective reduction in jobs, was practically absorbed by increases in the workforce resulting from the integration of employees from subsidiary companies (e.g. UTA Telekom AG). Swisscom saw 2,660 arrivals in the year under review.

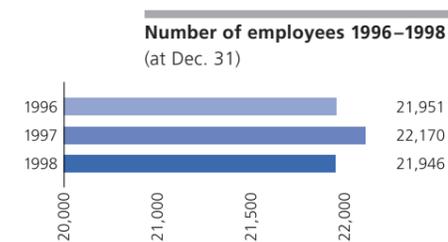
This relatively high number is mainly due to the increased requirement for technical expertise and additional resources in the growth areas of Mobile and Data & Multimedia.

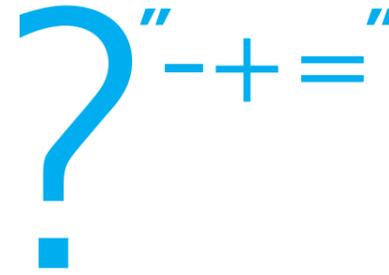
#### Personnel survey

October 1998 saw our second broad-based personnel survey, the first having been conducted in 1996. The results were assessed in view of the two demanding restructuring projects "Change" and "Progress", as well as the job cuts announced. The survey showed that it is this second point that most concerns our employees. Furthermore, it was seen that cooperation between organizational units and management in general must be improved. The results also indicate that our employees felt that a considerable readiness to change was expected from them over a short period. In view of this, the survey results can be considered as satisfactory overall. However, this should not detract from the fact that action requiring distinct management and social skills on the part of superiors is needed in various areas.

#### New pension fund

On January 1, 1999, the new Swisscom pension fund comPlan started operations. At the same time, all 22,000 people insured at our company were transferred from the Federal Pension Fund (PKB) to comPlan after some 95% had approved the new private pension scheme by ballot. ComPlan is a defined benefit plan.





## Swisscom and the public

**As the market leader in Switzerland and a provider of products and services that are used daily, Swisscom is at the forefront of public interest. Swisscom's commitment to the general public, which gained further importance after the IPO, is exemplified by open communication and socially-responsible action.**

### Uniform image

Our public relations work in 1998 was characterized by the IPO. Numerous communication measures not only drew customers' attention to our products and services, but also to Swisscom as a whole – a modern and innovative Swiss company that offers genuine value.

Efforts to systematically implement our company brand were intensively pursued in the year under review. In particular, the market presence of our international partners and holdings were brought into line with that of Swisscom. In Switzerland, all 12,500 public payphones, 7,000 Swisscom vehicles and 240 buildings have displayed the new image since early 1998.

### New company slogan

The new Swisscom slogan, "Let's keep in touch", also forms part of our public presence. It underlines customer focus as our most important positioning element and emotionally represents the service aspect: "connecting people – with enthusiasm". The brand slogan is in English, the language of telecommunications. This allows Swisscom to use a uniform slogan across linguistic boundaries both within and outside Switzerland and thus take the global market into account.

### Sponsoring

Our targeted sponsoring makes an active contribution to achieving company objectives. We concentrate on tennis, movies, music, technology and science, as well as major undertakings such as Expo.01 and Sion's bid for the 2006 winter Olympics. We also attach great importance to supporting classical music concerts, since music brings people together. The Locarno international film festival, the international music festival in Lucerne, Cinemusic in Gstaad, the CinéPrix Swisscom Award and "Stars de Demain" in Geneva are our most important sponsoring commitments.

**ISO 14001 environmental certification complete**

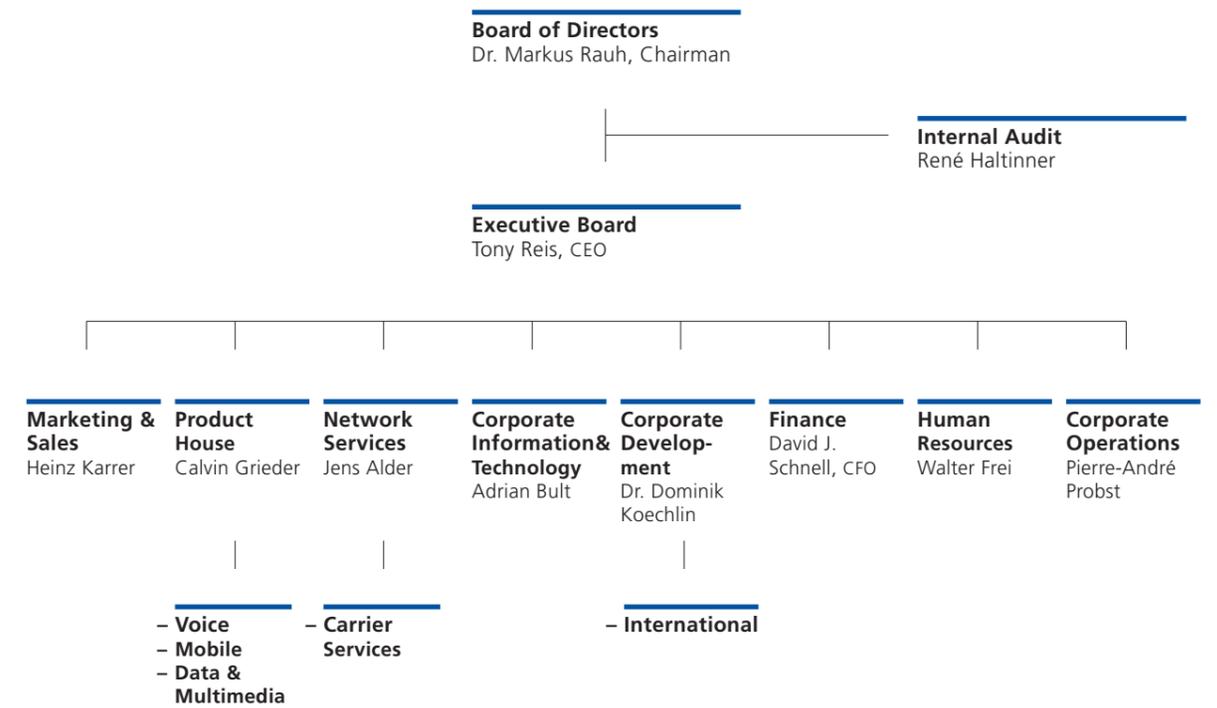
### Systematic environment management

Our commitment to the general public also includes a distinct quality awareness, protection of the environment and adherence to high security standards. Swisscom's environment management is based on the international ISO 14001 standard. All business units have now achieved ISO 14001 certification and a new environment strategy has been drawn up for 1999–2001. For the first time ever, the potential environmental risks were systematically recorded for all business units. We also introduced the life cycle analysis method, which allows the environmental effects of a product to be assessed over its entire life cycle, from development to disposal. An environmental statistics system was also set up.

Our quality management is geared towards the Business Excellence Model of the European Foundation for Quality Management (EFQM). We have already trained over 40 assessors who have conducted self-assessments in the different branch offices. The improvement potential recorded forms the basis for the 1999 targets.

Let's keep in touch

## Board of Directors and Executive Board





(from left to right)  
 Dr. André Richoz  
 Helmut Woelki  
 Jaqueline Demierre  
 Peter K pfer  
 Dr. Markus Rauh  
 Ernst Hofmann  
 Rose Gerrit Huy  
 Franco Ambrosetti  
 Felix Rosenberg  
 Alfred Bissegger (secretary)



(from left to right)  
 David J. Schnell  
 Pierre-Andr  Probst  
 Adrian Bult  
 Tony Reis  
 Heinz Karrer  
 Dr. Dominik Koehlin  
 Walter Frei (front)  
 Jens Alder  
 Calvin Grieder

**Board of Directors**

**Dr. Markus Rauh,**  
 Chairman, born 1939  
 Studied at the Swiss Federal Institute of Technology (ETH) in Zurich, graduating with a degree in mechanical engineering. Subsequently PhD (Dr.sc.tech.) from ETH Zurich.  
 Career: Sperry Univac, Philips, Wild Leitz; CEO of Leica Group. Chairman of the Board of Directors of AGI.

**Franco Ambrosetti,**  
 born 1941  
 Studied business administration in Zurich and Basle, graduating as lic.rer.pol. Since 1995 Chairman and Managing Director of Ambrosetti Technologies SA.

**Peter K pfer,**  
 born 1944  
 Swiss Certified accountant  
 Career: Revisuisse, Financi re CSFB, CS First Boston, CS Holding, Bank Leu AG, Leu Holding; since 1997 independent consultant.

**Jacqueline Fran oise Demierre,**  
 born 1954  
 Trained as a PTT telecommunications secretary; Bern School of Management, advanced school of management, marketing and communication.  
 Career: Bern Telegraph Office, PTT General Directorate, since 1992 senior management position in Multinational Corporations unit, PTT General Directorate.

**Ernst Hofmann,**  
 born 1937  
 St. Gallen School of Transport, apprenticeship as telegraph operator, Zurich Telegraph Office.  
 Career: Basle Telecom Directorate; General Secretary of PTT and customs employee association, Vice Chairman of Swiss PTT Association. Member of Executive Committee of the Swiss Confederation of Trade Unions.

**Rose Gerrit Huy,**  
 born 1953  
 Studied economics in Hamburg and Strasbourg, graduating with degrees in economics and mathematics.  
 Career: Daimler-Benz; Since 1997 CEO of Compaq Germany GmbH.

**Dr. Andr  Richoz,**  
 born 1947  
 Studied at the Swiss Federal Institute of Technology (ETH) in Zurich, graduating with a PhD in physics.  
 Career: BIM/National Scientific Fund, Credit Suisse, Sulzer Group; since 1990 head of the Charmilles group of companies, of Georg Fischer AG, Managing Director of SIKA group.

**Felix Rosenberg,**  
 born 1941  
 Studied law in Bern.  
 Career: Clerk of the local court in Baden, Switzerland; member of cantonal government, Thurgau, Switzerland; member of the PTT Executive Board, CEO of Telecom PTT and until end of March 1998 of Swisscom; representative of the Swiss Confederation.

**Helmut Woelki,**  
 born 1949  
 Studied business administration in Frankfurt am Main, graduating with a degree in commerce.  
 Career: Fegro Handelsgesellschaft, SAS Service Partner, CEO of LSG Lufthansa Service Holding AG.

**Secretary**

Alfred Bissegger

**Executive Board**

**Tony Reis,**  
 Chief Executive Officer, born 1941  
 Commercial training in Lucerne, Cercle Commercial in Paris and Swiss Mercantile College in London.  
 Career: IBM Europe, ultimately as General Manager of Country Operations in Paris; Telecom PTT.  
 Directorships: Bank Vontobel in Zurich; Micronas, Zurich; V-ZUG, Zug.

**David J. Schnell,**  
 Head of Finance, born 1947  
 Studied business administration in Switzerland and the United States.  
 Career: General Electric (USA), DEC, IIT Europe, Elco Looser Holding, Telecom PTT.

**Heinz Karrer,**  
 Head of Marketing and Sales, born 1959  
 Studied economics at the University of St. Gallen.  
 Career: UBS Union Bank of Switzerland, Association of Swiss Manufacturers, Suppliers and Agents for Sporting Goods, Intersport Ringier AG, Telecom PTT.  
 Directorships: Intersport PSC Holding AG

**Walter Frei,**  
 Head of Human Resources, born 1943  
 Studied education at the University of Zurich, specialising as secondary school teacher.  
 Career: Zurich Telecom Directorate, PTT General Directorate, Telecom PTT.

**Dr. Dominik Koehlin,**  
 Head of Corporate Development, born 1959  
 First degree and doctorate in law, MBA from INSEAD, Fontainebleau.  
 Career: Bank Sarasin & Cie, founder and partner in a consultancy firm, Telecom PTT.

**Calvin Grieder,**  
 Head of Product House (from March 1, 1999), born 1955  
 Studied at the Swiss Federal Institute of Technology (ETH) in Zurich, graduating in process technology.  
 Career: Georg Fischer AG, B rkert Contromatic AG, Mikron AG, SIG Verpackungstechnik

**Pierre-Andr  Probst,**  
 Head of Corporate Operations (until March 19, 1999), born 1945  
 Graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a degree in electrical engineering.  
 Career: ETH Zurich, PTT General Directorate, Telecom PTT

**Adrian Bult,**  
 Head of Corporate Information and Technology, born 1959  
 Studied business administration at the University of St. Gallen.  
 Career: IBM Switzerland, Telecom PTT.

**Jens Alder,**  
 Head of Network Services, born 1957  
 Studied at the Swiss Federal Institute of Technology Zurich (ETH), graduating with a degree in electrical engineering; MBA from INSEAD, Fontainebleau.  
 Career: Standard Telephone & Radio AG, Alcatel STR AG, Motor Columbus AG, Alcatel Switzerland AG.

**Felix Rosenberg,**  
 Chief Executive Officer (until March 31, 1998)

**Peter Sollberger,**  
 Head of Technology and Logistics (until March 31, 1998)

**Jeffrey A. Hedberg,**  
 Head of Swisscom International (until November 30, 1998)

**Auditors**

PriceWaterhouseCoopers AG, Bern

# Addresses

	<p><b>Headquarters</b>  <a href="#">Swisscom AG</a>            Head office            CH-3050 Bern            Tel. +41 31 342 11 11            Fax +41 31 342 25 49            E-mail: <a href="mailto:swisscom@swisscom.com">swisscom@swisscom.com</a></p>	
<b>Austria</b>	<p><b>Participations and subsidiaries</b>  <a href="#">UTA Telekom AG</a>            Rooseveltplatz 2            A-1090 Wien            Tel. +43 1 404 60 0            Tel. +43 1 9009 0            Fax +43 1 404 60 3098            Fax +43 1 9009 3098            E-mail: <a href="mailto:info@uta.at">info@uta.at</a>  <a href="http://www.uta.at">www.uta.at</a></p>	
<b>Czech Republic</b>	<p><a href="#">SPT Telecom a.s.</a>            Olšanská 5            CZ-13034 Praha 3            Tel. +420 2 6714 1111            Fax +420 2 691 91 60  <a href="http://www.telecom.cz">www.telecom.cz</a></p>	
<b>France</b>	<p><a href="#">Estel S.A.</a>            26c, boulevard du Président Wilson            F-67000 Strasbourg            Tel. +33 390 224 000            Fax +33 390 224 008            E-mail: <a href="mailto:info@estel.fr">info@estel.fr</a></p>	
<b>Germany</b>	<p><a href="#">tesion Kommunikationsnetze Südwest GmbH &amp; Co. KG</a>            Kriegsbergstrasse 11            D-70174 Stuttgart            Tel. +49 711 2021-100            Fax +49 711 2021-102            E-mail: <a href="mailto:info@tesion.de">info@tesion.de</a>  <a href="http://www.tesion.de">www.tesion.de</a></p>	
<b>Hungary</b>	<p><a href="#">JászTel Rt.</a>            Alsócsincsapart u.2.            H-5100 Jászberény            Tel. +36 57 414 100            Fax +36 57 404 100            E-mail: <a href="mailto:jaszstel@jaszstel.hu">jaszstel@jaszstel.hu</a></p>	
<b>India</b>	<p><a href="#">Sterling Cellular Ltd.</a>            C-48, Okhla Industrial Area, Phase II            New Delhi 110 020            Tel. +91 11 682 88 45-7            Fax +91 11 682 88 74</p>	
<b>Italy</b>		<p><a href="#">Swisscom S.p.A.</a>            Via Caldera 21            Fabbricato D, ala 2 (Piano 5°)            I-20153 Milano            Tel. +3902 409 341            Fax +3902 409 349 34            E-mail: <a href="mailto:info@swisscom-italia.com">info@swisscom-italia.com</a></p>
<b>Malaysia</b>		<p><a href="#">DiGi Telecommunications Sdn Bhd</a>            Lot 30, Jalan Delima 1/3            Subang Hi-Tech Industrial Park            40000 Shah Alam -            Selangor Darul Ehsan            Kuala Lumpur            Tel. +60 3 721 18 00            Fax +60 3 721 18 57            E-mail: <a href="mailto:corpcom@digicom.my">corpcom@digicom.my</a>  <a href="http://www.digicom.my">www.digicom.my</a></p>
<b>Netherlands</b>		<p><a href="#">Unisource N.V.</a>            P.O. Box 2042            NL-2130 GE Hoofddorp            Tel. +31 23 568 6294            Fax +31 23 568 6290            E-mail:  <a href="mailto:corporateuni@unisource.com">corporateuni@unisource.com</a>  <a href="http://www.unisource.com">www.unisource.com</a></p>
<b>USA</b>		<p><a href="#">Swisscom North America, Inc.</a>            2001 L Street, N.W.            Suite 750            Washington, D.C. 20036            Tel. +1 202 785 1145            Tel. +11 800 966 11 45            Fax +1 202 457 8915            E-mail: <a href="mailto:info@swisscom-na.com">info@swisscom-na.com</a>  <a href="http://www.swisscom-na.com">www.swisscom-na.com</a></p>
<b>Belgium</b>		<p><b>Representative offices</b>  <a href="#">Swisscom Brussels</a>            33, bld. de la Cambre            B-1000 Brussels            Tel. +32 2 647 2014            Fax +32 2 647 0053</p>
<b>Malaysia</b>		<p><a href="#">Swisscom Representative Office Malaysia</a>            c/o DiGi Telecommunications            Sdn Bhd            Lot 30, Jalan Delima 1/3            Subang Hi-Tech Industrial Park            40000 Shah Alam –            Selangor Darul Ehsan            Kuala Lumpur            Tel. + 6016 323 5626            Fax + 603 721 3355            E-mail: <a href="mailto:waespe@digicom.my">waespe@digicom.my</a></p>

**For general information:**

Swisscom AG  
Headquarters  
Corporate Communications  
3050 Bern  
Telephone +41 31 342 36 78  
Fax +41 31 342 27 79  
E-mail: [swisscom@swisscom.com](mailto:swisscom@swisscom.com)

**For financial information:**

Swisscom AG  
Headquarters  
Investor Relations  
3050 Bern  
Telephone +41 31 342 25 38  
Fax +41 31 342 64 11  
E-mail:  
[investor.relations@swisscom.com](mailto:investor.relations@swisscom.com)

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