



MOVING A CHANGING WORLD.

swisscom



Facts & figures for the 1999 fiscal year

CHF in millions, except where indicated

1998

1999

Swisscom Group

Net revenues		10 461	11 160
Operating income before restructuring charges and depreciation (EBITDA)		4 472	4 441
Operating income before restructuring charges (EBIT)		2 851	2 737
Restructuring charges		(50)	249
Net income from continuing operations		2 074	2 208
Net income		1 555	2 391
Shareholders' equity		5 347	6 685
Equity ratio	%	31.6	32.0
Number of full-time equivalent employees at end of period	FTE	21 946	21 777
Average number of full-time equivalent employees	FTE	22 069	20 393
Sales revenue per employee	CHF in thousands	474	547

Net cash provided by operating activities		3 574	3 366
Capital expenditures		1 305	1 468
Investments in subsidiaries, affiliated companies and other non-current assets		240	3 581
Free cash flow		2 235	(1435)

Swisscom AG

Net income		1 011	1 828
Shareholders' equity		5 562	6 652
Dividend		809	1 103*

Key figures per share

Average number of shares outstanding (at CHF 25.– each)	in mio.	67.888	73.550
Price per share (high/low) (since October 5, 1998)	CHF	588.–/376.50	656.–/445.–
Net income from continuing operations	CHF	30.55	30.02
Net income	CHF	22.91	32.51
Shareholders' equity	CHF	72.70	90.89
Gross dividend	CHF	11.00	15.00*
Pay-out ratio	%	52.0	46.1*
Market capitalization at end of period	CHF	42 291	47 366

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

The image. The winds of change are sweeping through the world around us – social changes, political changes, technological changes. And telecommunications is playing a key role in this process. Swisscom is a market leader in this sector, and our solutions are shaping the future that is being created by these changes: Every day we are bringing people progress by reaching out and bringing them closer together. We want to create the 1999 Annual Report in the image of our ethos – departing from tradition and embracing new horizons. For this reason Comenius Röthlisberger – a young photographer from Basel – went on a quest to six European cities to take the pulse and capture the mood of our changing world and its people. Comenius took the individual snapshots to compose holistic photomontages on computer. We perceive these images as a perfect reflection of this dynamic world – a world that we are moving forward every day.

The artist. Comenius Röthlisberger (28) grew up in Basel and went to the Bellas Artes art academy, Buenos Aires, in 1991. After working with a number of photographers in Switzerland and abroad, he set up his own studio in 1996. Apart from working for Swiss advertising agencies, he also photographs for leading magazines and newspapers in Germany and Switzerland. Comenius also has a stake in The Big Show, creating CD covers and posters for a number of successful bands in Los Angeles.

Take a trip through Europe with Comenius Röthlisberger. We hope you enjoy the following pages.

Highlights 1999

January Start of the Perspective Project: Swisscom and the unions join forces to develop solutions for socially-responsible reductions in human resources.

February We launch Joker – the Bonus Program for residential customers. Joker is our way of saying Thank You to customers by offering them an attractive, comprehensive package of special offers that are designed to strengthen links with our subscribers.

March Swisscom forges ahead with constructing a data highway: We team up Cisco, the global leader in networking for the Internet, to develop professional communication services based on the Internet protocol (IP).

We introduce two new mobile services: NATEL private and NATEL business.

April Announcement of the 1998 annual financial statements: positive balance sheet for the first fiscal year as a joint stock company in a deregulated market. Our net revenues rose by 6.3% to CHF 10.461 billion with net income standing at CHF 1.555 billion.

May We announce the launch of the smart FollowMe^{NATEL} diversion service and meet growing customer demand for convergence between mobile communications and fixed networks.

June The number of NATEL customers crashes through the two-million barrier. Simultaneously, Swisscom reduces charges per minute in the mobile sector by up to 25% for national and international calls.

Around 2500 shareholders attend Swisscom's first Shareholders' Meeting in Zurich.

July The acquisition of Germany's third biggest mobile-telecommunications provider debitel doubles our customer base to more than 7 million and considerably beefs up consolidated net revenues.

August Our interim half-yearly figures for 1999 show an upswing in net revenues of 2.1% and a rise in operating income of 8.1%.

The Joker bonus program has already clocked up 500,000 customers after just six months.

September At the end of September Swisscom announces that NATEL easy is roaming-enabled: from October 1, NATEL easy customers can also make mobile calls abroad.

October We extend our local-zone rate to the entire dialing-area code in order to make phoning in Switzerland even more affordable.

Blue Window already has 250,000 customers.

November Once again, we slash charges for mobile communication, some by up to 50%.

December Tony Reis steps down as CEO and leaves Swisscom, at his own request for personal reasons. Jens Alder, formerly Head of Network Services & Wholesale, takes the helm on December 16 as his successor.

Swisscom connects up the 500,000th ISDN access line.

After three years of intensive groundwork, the millennium date-change passes without a hitch for telecommunications and Swisscom.

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Jens Alder
Chief Executive Officer



Markus Rauh
Chairman of the Board of Directors

1999 – A historic year for Swisscom

DEAR READER

Swisscom performed with flying colors in 1999 – an eventful year. July 9 was the high-point. This was the day when we struck the biggest deal in the history of our company. We paid out around 3.4 billion francs for a majority stake in German telecommunications provider debitel. With this quantum leap we doubled our customer base to hit the 7 million mark and significantly beefed up consolidated revenues. Purchasing the biggest network-independent telecoms operator in Europe opens up exciting new perspectives and is significant in progressing our corporate strategy.

Competitive pressure has shaped the development of Swisscom during the second year following liberalization of the Swiss telecommunications market. More than 200 service providers had become established in the Swiss market by the end of 1999. Margins are getting tighter. Customers are reaping the benefits of tumbling prices. This is particularly evident in voice and data services on the fixed network, but customers in mobile communication are also joining the bonanza. Swisscom has slashed charges since the start of 1999. The most recent price cut was introduced on March 1, 2000. Our charges for core products and services are now comparable with, or below, the average charges for Europe. The wide range of new services is a clear indication of a healthy competitive environment. Loss of market share was in accordance with expectations, and, indeed, this is an essential ingredient of liberalization from the perspective of the regulator. Swisscom has compensated for this by tapping additional sources of earnings potential and focusing on cutting costs. We are increasingly benefiting from the trend towards convergence that is melding the fixed network, mobile network, and Internet. As the leading full-service provider, we are launching a steady stream of new packages with enticing value-added services on the fixed-line and mobile networks. These have the potential for continuing to deliver margins in line with market conditions. Universal services satisfy a need and will therefore tend to foster a higher level of loyalty to the service provider.

VALUE ADDED INTO THE FUTURE

Swisscom and its 20,000 employees increased net income in 1999 to CHF 2.4 billion (+53.8%). Revenues rose by +6.7% to CHF 11.1 billion. Mobile communications was the most profitable sector and posted customer growth of 36.5% to 2.3 million subscribers. The Blue Window Internet service rocketed, doubling the number of subscribers from 152,000 to 320,000. In the face of fierce competition and tumbling prices, fixed-line telephony (previously Voice) witnessed a 13.4% drop in revenues to CHF 5.7 billion. By contrast, ISDN accesses (incl. ISDN-Light) posted a hike of 59.1% to 517,000, while the number of conventional analog lines fell back to 3.6 million. ISDN channel penetration in Switzerland is currently running at 27%.

The Swisscom share price turned in a gratifying gain of 12% in 1999, rising to 644 francs and outperforming the SMI Swiss Market Index by more than 6%. The share price surged upwards in November and December when we were able to make a string of forward-looking announcements, mapping out our company's strategic direction to financial analysts and the media. The sale of our stake in Cablecom reaped CHF 1.35 billion. Blue Window was put on an independent footing, and Infonet, in which we have an 18% holding, enjoyed a successful debut on the New York and Frankfurt stock exchanges.

Short-term gains in share price are all well and good, but the creation of sustainable value added for the long term is much more important to us. Telecommunications will continue to be an extremely exciting and dynamic sector, and we are committed to outperforming the competition on the basis of a convincing strategy of innovation. Swisscom's inclusion as a component in major market indexes such as MSCI and our excellent environmental ratings are significant factors for our share price. It means that Swisscom is not just a target for telecom-sector funds. The shares are also sought after by classic tracking funds and investors who favor highly capitalized stocks in environmental trendsetters.

ORCHESTRATED CUSTOMER RELATIONS

Swisscom has reengineered its strategy. The most important trends in our sector are the process of convergence, the supreme importance of the customer base, and fragmentation of the value chain. Telecom operators are focusing increasingly on individual links in the chain, be it the network, product development, value-added services, sales, or customer service. Swisscom is positioned as a Value Added Service Provider with an extensive portfolio of products and services that bring together fixed-network and mobile communication, and link up voice and data communication. We aim to expand our customer base in the European market and break into new segments.

Our acquisition of debitel sets the stage for our future success in the marketplace. Swisscom is strong in networks and value-added services, while debitel's lean service processes are geared up to promote outstanding customer relations. The synergies gained from the link-up have placed Swisscom in an enviable strategic position: state-of-the-art networks, innovative products, world-class customer relations, and low cost.

As the leading provider of mobile, fixed-network, and Internet services, we are ideally placed to develop our range of innovative convergence products. We intend to build on the successes of FollowMe^{NATEL}, Multimedia Combox, WAP services, NATEL OfficeLink, and our products in e-commerce and for in-house communication. Value-added services like these are responsible for generating additional revenues from each customer in our domestic market. Our

aim is to flex our muscles and generate dynamic growth together with our partners in the European market, in European cities, and in regions bordering Switzerland. debitel is our engine of growth on this strategic mission.

Fragmentation of the value chain offers another important strategic opportunity. Because the new service providers are increasingly developing specialist niche markets, the Swisscom Wholesale business unit is becoming an important partner for competitors who want to buy in network services. Not only do we have an excellent fixed network infrastructure, but we invested in developing a broadband universal network at an early stage. This is based on the Internet protocol (IP) and provides a state-of-the-art backbone network for all mobile, fixed-network, and Internet services.

SOCIALLY-RESPONSIBLE JOB CUTS

Fierce competition in the telecoms market compelled us to slash costs and reduce the size of our labor force. In 1997 we set in train a program to shed 4,000 employees by the close of 2001. By the end of 1999 we had reduced personnel in the parent company by 1,768 in line with the projected reduction in the number of employees. Swisscom worked with unions to develop an exemplary package of benefits that is on offer until year-end 2000. Where job cuts have to be made, Swisscom is offering affected employees perspectives that go beyond the level of conventional severance deals.

Our aim is not just to act responsibly towards the staff who have served us so well; we also want to avoid negative repercussions on the regions in which we are active. Competitive pressures are such that, unfortunately, we cannot avoid the unpalatable prospect of merging certain areas. However, the future will continue to see Swisscom strongly involved in individual regions. We don't have a policy of discriminating against specific language areas or localities. In the year under review, Swisscom created products and services worth CHF 3.8 billion. Our company thus made a valuable contribution to the creation and retention of jobs in Switzerland.

NEWCOMERS TO THE EXECUTIVE BOARD

Jürg Marx was appointed to the Executive Board as Head of Human Resources with effect from November 1, 1999. Marx is a seasoned executive with a wide range of management experience. In December 1999 the Board of Directors appointed debitel board member Carsten Schloter to the Group management team. Schloter studied business administration in Paris and has headed parts of the Product House since April 1, 2000. He is also overseeing the transfer of debitel's experience in streamlined customer service processes to Swisscom. This is a project of considerable strategic importance.

A BIG THANK YOU TO EVERYONE

We would like to extend a big Thank You to all our employees for the outstanding contribution they have made during the radical reorganization of our company. The dedication of our staff in times of crisis is worthy of the very highest praise. The Millennium Project and last year's natural catastrophes were particularly testing times, and staff displayed an unsurpassed level of commitment.

We would also like to give special thanks to outgoing Chief Executive Officer Tony Reis. He took office at the start of 1998 and proved enormously effective in leading Swisscom into a highly competitive marketplace and launching the company on the stock market. He left us at the end of 1999 at his own request and for personal reasons. His outstanding management style was marked by clarity, consistency, and persistence. We are indebted to him for his enduring contribution to the development of Swisscom.

Special thanks also go to Walter Frei, Head of Human Resources, who retired at the end of November. His many years of distinguished service to the Group culminated in the smooth transfer of Human Resources from the personnel department at Telecom PTT to the privatized Swisscom AG. We are also grateful for his work on preparing a collective labor agreement.

Pierre-André Probst (Corporate Operations) left the Executive Board in March 1999, and Calvin Grieder (Head of Product House) left the Board at the end of 1999. We would like to take this opportunity to thank them for their services to the company.

OUTLOOK

The full consolidation of debitel in the fiscal year 2000 will increase revenues substantially, while increasingly fierce competition and sustained price erosion in the Swiss market will cause revenues to fall. We anticipate considerably lower operating income than in 1999. However, thanks to the combined effect of a number of extraordinary events – the disposal of our holding in the Cablecom Group, the possible IPO of Blue Window and the planned sale of various Swisscom properties – we anticipate net income to rise again in the fiscal year 2000.

This Annual Report will give you a brief insight into your company – Swisscom. It will take you through the services we are delivering today and outline our strategic route into the future. Thank you for the confidence that you have placed in our company as a shareholder, customer, business partner or employee.

Yours truly,



Markus Rauh
Chairman of the Board of Directors



Jens Alder
Chief Executive Officer

A dynamic company in a dynamic environment

Swisscom is the leading provider of telecom services in Switzerland. By the end of 1999 more than 200 new telecommunications companies had been licensed and registered here. Mobility, closeness to the customer, and tailor-made solutions are increasingly the factors for success. As a full-service provider, Swisscom is reaping significant benefits from the trend towards convergence that is leading to a fusion of fixed-line network, mobile communications, and Internet services.

REWARDS OF TOUGH COMPETITION

Telecommunications is one of the most dynamic markets. Global liberalization and privatization in the sector is proceeding apace, and consumers and corporations are reaping the benefits of proliferating services and falling charges. Swisscom has succeeded in gaining from the winds of change that are sweeping through the markets. Massive price reductions have been partly balanced by increasing the volume of existing services and creating new services.

Swisscom is systematically establishing itself as a provider that creates value-added services. Our aim is to expand and become even more competitive, creating value added for customers, investors, employees and business partners. We are focusing on areas of growth such as mobile communications, the Internet, and e-commerce, while at the same time marketing our network services (wholesale) to resellers.

Focus on growth areas: mobile, Internet, and e-commerce

OUR STRATEGIC APPROACH

The following key strategic principles have emerged from our analysis of the market and our corporate vision:

- Swisscom is the leading full-service provider in Switzerland, offering telecom products and services with value added.
- The trend towards convergence between fixed-network/mobile telephony and mobile telephony/Internet presents an immense opportunity for Swisscom as a full-service provider to expand our leading market positions.
- Competition is the catalyst to enhance customer focus, develop our innovative flair, and make further efficiency gains.
- Swisscom's streamlined customer service organization is based on smart network and IT solutions. This empowers us to support the trend towards systematic customer relations.
- Expanding our home market in Europe, neighboring regions, and international cities, by means of value-added services and acquisitions, is a top priority.
- We generate sustained shareholder value.
- Employees at Swisscom are professional and dedicated achievers.
- Swisscom is a sought-after and socially-responsible employer.
- We take our responsibilities seriously as a supplier of universal services.
- We are particularly sensitive to the needs of the environment (certified according to ISO 14001).

**Reaping the benefits of
debitel know-how
in efficient customer
management**

INTERNATIONAL STRATEGY

We place customer relations at the center of our strategy and focus on growth in Europe. The first step in our strategy was to reposition our portfolio of international holdings. We successfully disposed of our minority interests in India and Malaysia. A similar process of streamlining led to disposals by Unisource – a strategic alliance between Swisscom, KPN Telecom Netherlands, and Telia of Sweden. The repositioning of Unisource last year saw disposals of Unisource Italia, Unisource Iberia, Unisource Carrier Services, Siris (France), D-Plus, and the 7.5% stake in Arcor (Germany). Unisource remains the sole owner of AT&T-Unisource Communications Services (AUCS), managed by the Infonet Service Corporation in the US. Swisscom has an 18% holding in Infonet, which has representative offices in more than 60 countries and is one of the leading global providers of specific customer solutions for international voice and data transmission.

The acquisition of debitel in Germany is a logical step in our policy of strategic expansion, in which the customer base is becoming an increasingly important factor for success. Swisscom purchased a 74% stake in debitel for CHF 3.4 billion. debitel is the biggest network-independent telecommunications operator in Europe and supplies solutions for the rapidly expanding mobile telecommunications sector. The company occupies an extremely strong position in the German market and is also active in the Netherlands, Denmark, Belgium, France, and Slovenia. debitel's strengths within the telecommunications value-added chain are based on extremely efficient management of customer relations. This is evident not least of all in the remarkable loyalty shown by debitel customers. debitel complements the activities of Swisscom, which supplies high-quality network services and products for mobile communication. We anticipate that the combination of these core competencies will create significant synergies in the medium term.

debitel is at the core of our growth strategy, supported by the other foreign subsidiaries and joint ventures. Swisscom is primarily offering products and services to corporate customers through subsidiaries and joint ventures with local partners in the south of Germany, Austria, northern Italy, and Alsace, but is also delivering value added to residential subscribers in Austria.

The past year has witnessed our company being repositioned as a player on the international stage.

CONVERGENCE BETWEEN MOBILE COMMUNICATION/FIXED NETWORK AND MOBILE PHONE/INTERNET

Experts agree on one thing: The most important current trend in telecommunications is convergence. This concept refers to the fusion of technologies and applications that have remained discrete to date. We are not just talking about a seamless interface between the fixed network and mobile telephony. Convergence also involves combining mobile-communication services and e-commerce providers. Internet and mobile telephony are an ideal union, because the personal computer as an access unit offers a big screen, computing power, and low con-

Swisscom: the full-service provider with substance

nection charges, while the mobile telephone (or digital assistant) accompanies users everywhere and at all times as a powerful communication tool. These prospects augur extremely well for Swisscom, because our role as market leader in several segments puts us well ahead of the competition when it comes to convergence of fixed network/mobile network plus mobile/Internet. Although 1999 saw rapid growth in specialist mobile telephony and Internet providers, we believe that over the medium term – and from the customer's perspective – dependable full-service providers are much more attractive. FollowMe^{NATEL} is a good example. Swisscom gives every full-service customer *one* telephone number on which he can be reached anywhere, any time.

COMPETITORS AS MAJOR CUSTOMERS

More than 30 competitors have signed an interconnection agreement with Swisscom. The Telecommunications Act liberalized the telecommunications market in 1998. It guarantees cheap access to Swisscom's network from the year 2000. Swisscom was still permitted to base the calculation of interconnection rates on the historic full-cost principle during 1998 and 1999. Since the beginning of 2000, interconnection rates have been determined by the Long-Run Incremental Costing method (LRIC). Rates are based on the efficient delivery of services to the market valued at long-term replacement costs. We have reduced interconnection charges by 16 to 19%. They are now significantly below average rates applicable in Europe. Even if the competitive climate continues to exert downward pressure on interconnection rates, this trend will simultaneously enhance the attraction of our Wholesale business unit. Interestingly, competitors are major corporate customers, while also acting as a stimulus to improve efficiency over the long term. We have a policy of fair dealings with our wholesale customers. The latest round of interconnection negotiations included a deal guaranteeing our competitors cheaper access to our high-quality network. There are no gains for Swisscom or our competitors in risking involvement in time-consuming procedures with the regulatory authorities, though regulatory action can never be completely ruled out.

Interconnection charges significantly below the European average

OUR PRICING POLICY

Competition has ushered in significantly lower charges for customers. Swisscom has also carried out a substantial cost-cutting exercise since the beginning of 1999, with the last cuts being introduced on March 1, 2000. Our objective is not to have price leadership in individual market segments, but to deliver a complete range of services geared to individual customer groups at charges that are attractive overall. Wherever charges are higher, they should always be transparent and backed up by concrete value added or increased convenience. For example, best national coverage is a decided plus when it comes to mobile communication. The record number of international roaming agreements and convergence services such as FollowMe^{NATEL} are also definite advantages. Swisscom's Joker bonus program rewards customers with discount vouchers and partner programs (e.g. air miles).

A complete, tailored range of attractively-priced goods and services

Our pricing structure always targets the profile of specific customer segments. The differentiated range of NATEL mobile subscription rates is a classic example of the way in which different packages and charges can be structured. The basic concept had already been introduced prior to liberalization of the telecommunications market in 1998. However, our marketing campaigns are never based solely on price. The focus must rest on the service package and quality, customer relations, and the Swisscom brand.

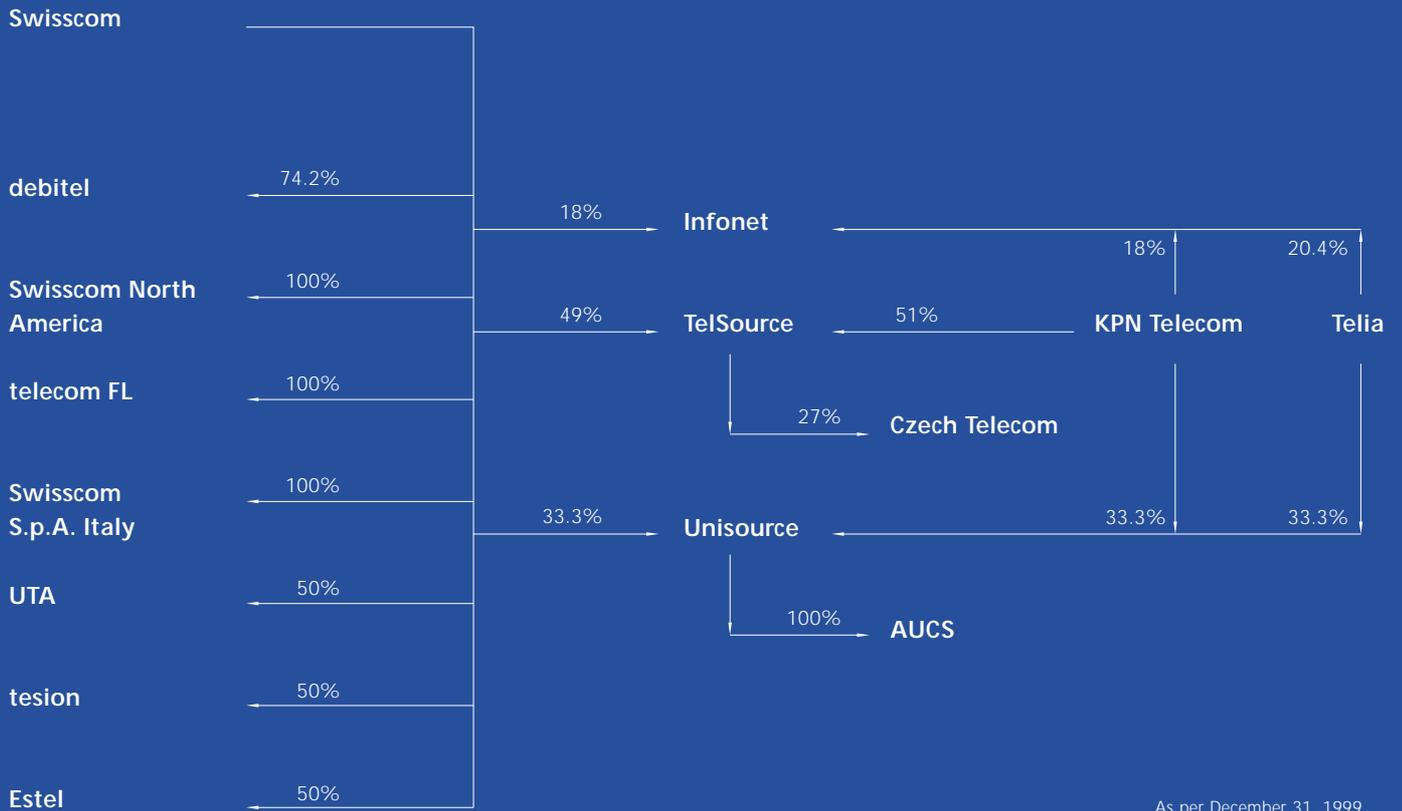
CUSTOMER RELATIONSHIP MANAGEMENT

The benefits of a full-service provider emerge from the principle of Customer Relationship Management (CRM). This concept is really a simple acknowledgement that different customers have extremely diverse requirements and therefore appreciate special treatment. If this goal is achieved successfully, a stable customer relationship can be created even in a dynamic market. Deploying the full panoply of the latest IT solutions is the only way of turning this objective into reality when, like Swisscom, you are delivering services to millions of customers. Bringing the strategically important Basic Customer System Project to a successful conclusion was an important step down this road. The system allows customer data to be updated efficiently and improves response to customer inquiries. An added spin-off generated by the Swisscom Data Warehouse enables us to analyze the profile of customer behavior and paves the way for targeted marketing activities originated at the Direct Marketing Center.

Successful introduction of CRM is being rewarded in the most profitable customer segments with returns of up to 20 francs on every franc invested in marketing! Set against this background, the acquisition of debitel gains added importance. debitel is extremely adept at responding quickly to the diverse requirements of around 4.5 million European customers. An outstanding level of customer loyalty is the reward. Swisscom will soon be in a position to benefit from debitel's successful CRM system. The objective is to create the maximum number of loyal, satisfied customers who use the full range of services on offer.

Swisscom believes that the new strategy will entail withdrawing from certain segments of the value chain over the coming years. In Switzerland it is still the case that we generate all intermediate network and product stages ourselves. European full-service providers who are close to the customer will find this increasingly difficult to achieve in the technical environment of the future. However, it is essential for the future that Swisscom focuses on value-added stages that are close to the customer, such as product integration, value-added services, and CRM. They will need to be orchestrated to perfection.

Swisscom – Participations and alliances



As per December 31, 1999

Satisfied customers are our greatest asset

Swisscom has made great strides in improving and expanding Customer Service since liberalization was introduced in 1998. We now want to serve customers even more professionally. Some of the key factors in this strategy are optimized customer segmentation, the expansion and effective deployment of our sales channels, and the Joker bonus program for residential customers.

FINE-TUNING FOR CUSTOMER SEGMENTATION

Swisscom has geared its organization and range of products and services to the needs of Residential Customers (RES), Small and Medium-sized Enterprises (SME), Large Accounts (LAC) and Major Accounts (MAC). These customer groups will gradually be fine-tuned even further following the introduction of customer-relationship management segments. In this way, automated services, marketing, and customer support can respond even more specifically to the wide range of requirements.

Around 1900 customers are classified as Large Accounts, with telecom expenditure between CHF 150,000 and CHF 1.5 million annually. This category also includes government administration, all the cantons, and 2900 local authorities. Swisscom designates big national and multinational companies with complex telecommunication requirements as Major Accounts. Large Accounts and Major Accounts are each allocated a personal Account Manager to provide support.

MARKETING FOCUSED ON CUSTOMERS AND MARKETS

Swisscom uses different sales channels for different products and different market segments. Almost all the 80 Swisscom shops have now been refurbished with a new shop design. This new-look program will be completed in the course of the year 2000. Residential customers are also being targeted through major retailers such as Manor, Migros Teleshops, Radio TV Steiner, Interdiscount, Media Markt, and Fust Digital Home/Portable Shop. Great care is taken to ensure that new partners meet our exacting standards for the Swisscom quality brand. 850 sales executives for business customers take on the onerous task of serving the needs of 400,000 small and medium-sized enterprises. Since the beginning of 2000, we have facilitated access to Swisscom for existing and new customers. Residential customers can call us on free-phone 0800 800 800. We plan to extend this service to 24 hours a day, seven days a week.

Modern design for
Swisscom shops

**Swisscom scoops
TelcoNet award**

Our Direct Marketing Center is helping us to get to know our customers even better and target their specific needs. Telesales is winning back customers who had migrated to the competition. The Joker Center lets customers take part in our exciting bonus program. By the end of 1999, Joker had already attracted 520,000 eager beneficiaries.

Four Customer Care Centers for mobile communication answered some half a million calls each month during 1999. The staff at these centers won an award in the summer for the most customer-friendly telecommunications company in Switzerland. An independent jury assessed companies for the first TelcoNet Award. It recognizes the achievement of telecommunications companies who regard customer care as an integral component of their corporate strategy.

Call Center Data helps us to ensure smooth operation of data networks for our corporate customers. Any problems are dealt with speedily by a team of specialist engineers that is on call round the clock.

SUCCESSFUL MILLENNIUM DATE-CHANGE

The date-change to the year 2000 went off without a hitch for telecommunications. Telecom traffic in Switzerland was hardly affected by the millennium date-change. A task force of 1000 Swisscom staff worked over the new year festivities from December 31, 1999 to January 1, 2000. The millennium night was the culmination of a project that Swisscom had been actively involved in from the end of 1996. The intervening three years saw 250 engineers and technicians working actively on an extensive program to ensure a smooth YK2000 transition. An inventory was taken, and extensive inspections were carried out on around 1000 telephone exchanges, the entire telephony and data network, the smart network platforms, the mobile network (comprising more than 50 exchanges and 3000 base stations), 600 products for voice communication, and more than 10,000 customer installations. We are pleased to report that the objective of the project – to ensure a smooth transfer into the year 2000 for customers and their telecommunications equipment – was completed with resounding success.

Elimination of regions and branch offices

CHANGE – A CONSTANT FACTOR

Even prior to liberalization of the telecommunications market in 1998, Swisscom embarked on a restructuring program to equip it for the age of untrammled competition. We called the program Change. The end result is a flatter hierarchy, larger areas of management responsibility, and new managerial appointments – particularly at senior management level. This Change Project initiated a cultural revolution to transform Swisscom into a learning organization. Developments in the market forced the pace, and a second round of more extensive restructuring focused on tailoring the organization to customers' requirements and cutting costs. The Progress Project enabled us to optimize customer focus and improve clarity in the roles, functions, and responsibilities of the individual sectors in 1999. Profit centers and services centers were also introduced as the result of this project. Furthermore, Swisscom reduced the number of management areas from nine to seven, while eliminating the regional management focus that has prevailed to date. However, the strong local presence of the sales organization remains intact.

INFORMATION TECHNOLOGY AS A COMPETITIVE FACTOR

Smart and efficient IT deployment is decisive for delivering the flexibility and muscle required of a groundbreaking telecommunications provider. Against this background, Swisscom is developing powerful databases on customers, organizing order management in an efficient, process-driven structure, evolving flexible billing services, and setting up and expanding e-commerce business.

The main thrust of our activities is directed towards setting up a structure for e-commerce applications and commercial exploitation of the Internet. The aim is for Swisscom IT systems to generate sustained value added for Swisscom over the coming years.

THE ROUTE TO BUSINESS EXCELLENCE

Business excellence represents a mindset and vision. The concept is geared towards inspiring a customer and results-oriented approach in management and employees. A high level of commitment is required to ensure a continual process of development. But this is the key to Swisscom's competitiveness and success.

Process management is based on the new Business Excellence Model of the European Foundation of Quality Management (EFQM). It creates the basis for continuous improvement in business processes. Process management delivers enhanced quality, cost reduction, and shorter innovation and lead times. Ideas management promotes an overarching perspective and harnesses the innovative power of employees. Excellent ideas are transformed into reality and rewarded.

Environment management at Swisscom reduces risks to our environment, exploits potential for savings, and promotes new, environmentally responsible products and services. All Swisscom business units have now achieved certification in conformity with the ISO 14001 environmental standard.

CUSTOMER SERVICE ON 175

Even the most innovative solution and the best sales channels can only function if Customer Service is on target. This is why Customer Service is a key factor in the equation at Swisscom. It supports the Swisscom sales organizations and is available on 175 daily, 24 hours a day, 365 days a year for residential and corporate customers. Customer Service mediates the appropriate specialist for consultation, implementation, operation, maintenance, fault correction, or repair right across Switzerland. Smart IT solutions will further optimize knowledge management. This will enable Swisscom's Customer Service organization to present customers with a distinctive image that sets it apart from the competition. In 1999, engineers from Customer Service carried out more than 500,000 on-site call-outs. Around one million faults were corrected over the phone by remote maintenance or through the coordination center for service engineers.

Of course, technical and organizational processes will not be the only decisive factors for success. The approach of our staff is also a key ingredient. The year under review bore testimony to the fact that Swisscom employees are able to meet even the toughest challenges. They came out on top despite a tough round of restructuring, pressure resulting from a natural catastrophe, and the threat of the millennium bug. Swisscom's focus on customers and quality was evident in the professionalism of our engineers. Their commitment ensured that there were no computer problems in the run-up to the new millennium, and they put in round-the-clock shifts to reinstate services swiftly following the damage caused by devastating avalanches, spring flooding, and winter storms.

**Customer Service –
a key factor with
over 500,000 customer
call-outs**

Mobile communication grows and grows

The advent of competition in the market for mobile communications has stimulated exponential growth and triggered a sharp downturn in prices. Swisscom also benefited from the boom in the sector. Our sales climbed by 31%. Attractive new products and services together with the best network combined to rank Swisscom as clear market leader in 1999 despite extremely aggressive competition. Mobile communication has developed from a simple phone to a mobile personal communications center. Mobile data transfer is headed for the heavens.

CORE BUSINESS INNOVATION

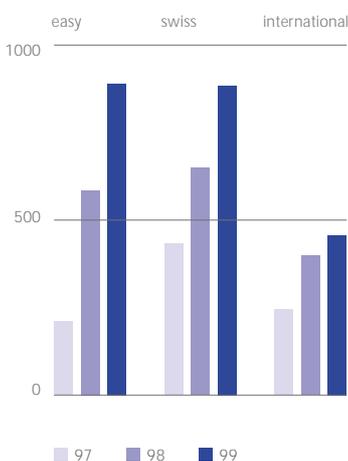
Mobile communications at Swisscom again posted a strong upswing in 1999. The number of subscribers rose by 36.5% to 2.3 million. This is equivalent to monthly growth of around 50,000 customers. Following the launch of two competitors, the Swiss mobile communications market has been subject to fierce competition. When it comes to selling equipment, the fight for customers is now more cutthroat in Switzerland than in foreign markets that have been deregulated for longer. Swisscom continues to hold its own as market leader with innovative products, individual service packages, value for money, professional Customer Care Service, and the best network in Switzerland – qualitatively and quantitatively. We reach 98% of the country's population.

We believe that Swisscom's mobile sector will continue to experience dynamic growth in the future. The Swiss market is witnessing the same trend as in Scandinavian countries, with certain customer segments using the mobile phone as the sole method of voice communication. Conversely, the fixed network is increasingly becoming the carrier of choice for broadband data communication.

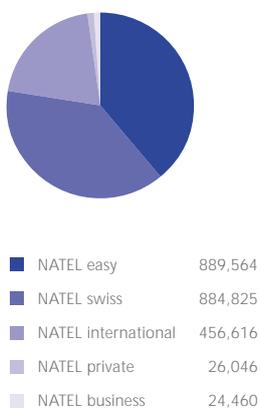
Virtually complete nationwide coverage in Switzerland and over 200 roaming agreements in more than 100 countries abroad are not the only reasons for the increased popularity of our NATEL mobile communication services. Swisscom keeps a high profile by launching a steady stream of new products on the market. Here are just a few of our innovations to illustrate our strengths against a background of converging telecoms markets.

- Roaming for NATEL easy and NATEL swiss: we introduced these two products for roaming in 1999. NATEL easy offers roaming abroad as the first prepaid solution. Loading the SIM card is now much simpler in the prepaid solution thanks to credit card reload. Incoming calls to NATEL easy have also been free of charge since autumn 1999.
- COMBOX pro with Internet functionality: The new COMBOX pro has Internet functionality, e-mail notification, and numerous other new services like personal greeting announcements and a personal absence announcement.
- Mobile e-commerce with NATEL go!: NATEL go! is the first service worldwide that allows you to do rather more than just call up a pizza on your mobile phone. The card is loaded onto an electronic data medium (e.g. Key Card, Swatch Access) and can be conveniently paid by credit card, or added to your telephone bill. Swisscom mobile telecommunications has hit the ground running by launching a first for the virtual world of e-commerce. Once again it has proved its innovative prowess as the leader in the field.

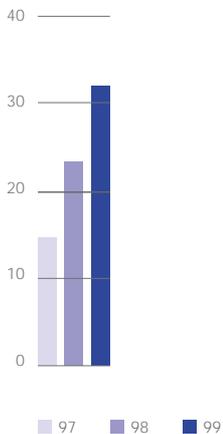
Swisscom Mobile: the NATEL boom
(in thousands)



NATEL GSM
total 2,281,511



Total market penetration
as a % of the population



Mobile Internet access
thanks to WAP

THE ROUTE TO THE "MOBILE COMPUTER"

Swisscom outlined its new strategic trajectory at Telecom 99 in Geneva. This is intended to propel the company to a position as the value-added service provider of choice in central Europe. We are underscoring this claim by launching exciting new innovations. The desire for a link between the personal mobile phone and the Internet creates increasing demand for high speed data access, i.e. data transfer rates faster than the present level of 9.6 Kbps (Kilobits per second). Swisscom delivers a solution with the rapid introduction of HSCSD (High Speed Circuit Switched Data). HSCSD can increase access speeds up to 57.6 Kbps. This approximates to standard speeds on a fixed line using ISDN. HSCSD ingeniously bundles several GSM channels. The higher data rate gives mobile-computer users access to email and the Web via a GSM modem or mobile phone – wherever they are, whatever the time.

Another convergence solution links mobile business people with the Internet and with their own company's network. NATEL OfficeLink is the name of this new product, which enables users to take their office with them on business trips. Swisscom is one of the first telecommunications providers to offer this comprehensive solution. A value-added service like this gives fast access to the Internet and to the in-company Intranet. The product has been specially tailored to the profile of individuals on the move who frequently need to call up information during business trips and who therefore require access to corporate data or the Internet. This turnkey solution links up a portable computer on the move with the local company network via the Internet and virtual private network (VPN). Authorized members of staff can then use all office functions while on the move, including e-mail and organizer, and they can even access centrally archived business intelligence. NATEL OfficeLink is simple and easy to operate after a short introduction. This product guarantees comprehensive security procedures on the server and for the user.

WAP MOBILE WITH WEB ACCESS

Swisscom customers kicked off the new millennium by exploring the benefits of the latest in mobile Internet technology. The American media business fears that this technology will give Europeans the lead in mobile e-commerce. The new technology is called WAP – Wireless Application Protocol. WAP is a convergence technology uniting the advantages of mobile telephony and those of the Internet. All Swisscom mobile customers, from NATEL easy to NATEL business, can benefit from this groundbreaking new mobile technology.

A new concept is emerging from the fusion of these two boom technologies: The Internet is going mobile, and the mobile phone is going interactive. WAP applications will soon open up previously inconceivable opportunities in the arena of e-commerce, once Internet access is available on mobile phones. Quite simply, users have their mobile phone to hand and switched on more often than their desktop computer with Internet access. However, the new technology is only being introduced in stages. The first WAP-enabled mobile phones were not available in sufficiently large numbers at the beginning of the year 2000 to cover the pent-up

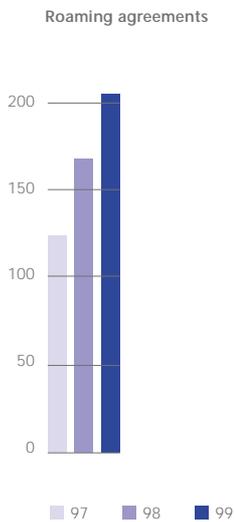
demand. Moreover, Swiss Internet pages for WAP access were few and far between at the beginning of the year. But this will soon change. WAP opens up enormous potential. Customers can get information on the stock market, public transport, cinema, concerts, and other leisure activities – anytime, anywhere. The services are interactive and easy to operate.

GLOBAL MOBILITY MADE IN SWITZERLAND

Swisscom signed the 200th roaming agreement with Chile at Telecom 99 to mark a further milestone as the worldwide roaming leader. Chile is the first South American state and the 100th country to join the club of countries from which Swiss customers can phone home with their mobile phones. The total number of roaming agreements rose from 165 to 215 during 1999.

Swisscom mobile communication is also offering two other new services based on global roaming. GSM card twin gives operators fast access to the mobile business. GSM CARD easyRoam is a prepaid card that can be used across the world. It includes all roaming links and value-added services such as SMS, e-mail, and InfoService. GSM CARD easyRoam is sold worldwide through distributors and most recently on the Internet.

Sales and SICAP support (Solution for Innovative Communications Applications) also number among our core businesses. Outside Switzerland ten other network providers used SICAP modules. In 1999 SICAP was also used for the first time in fixed-network applications in Venezuela.



Fixed network with a future

Fixed-network telephony remains Swisscom's biggest business unit. ISDN is the lead product, and customers perceive perfect harmony between this technology and the dynamic areas of mobile telecommunications and the Internet. ISDN recorded strong growth rates over 1999. Intensive competition for international and national traffic led to a decline in sales development in the year under review.

ISDN: SWISSCOM - A WORLD LEADER

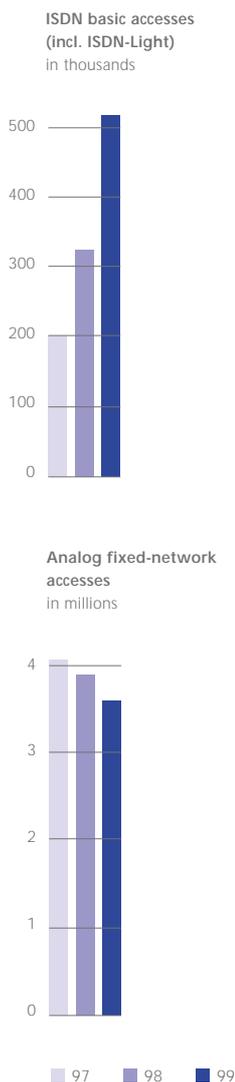
Fixed-network telephony comprises all products and services for voice communication (previously Voice), with the exception of mobile telephony and business connected with private branch exchanges.

Telephone traffic (measured in minutes) over the fixed network – excluding interconnection – increased overall by 2.3% in 1999 despite a decline in national (-7%) and international traffic (-18%). Access traffic to the Internet turned in a positive result, having more than doubled during 1999. Internet traffic now makes up more than 10% of total telephone traffic. Fierce price competition resulted in a downturn of 13.4% in net revenues from fixed-network telephony to CHF 5.7 billion. The range of discount schemes tailored to different customer segments helped to persuade the vast majority of residential and business customers to continue with Swisscom and also played a part in winning new customers.

Figures for ISDN access were extremely gratifying. ISDN-Light is a tailor-made, more affordable ISDN version for residential customers introduced in June 1998. Swisscom had already connected up the 500,000th ISDN access by December 1999. And the trend is upward. This ranks Swisscom as one of the world leaders, with an ISDN market penetration of 27%.

SIGNIFICANT CHARGE REDUCTIONS IMPLEMENTED ...

Swisscom responded to the aggressive pricing policies pursued by our rivals and introduced three rounds of strategic, transparent charge reductions in 1999. The new charges are geared to the new market situation, and in March 2000 we again significantly cut back basic charges for national and international calls, as well as calls on Swiss mobile networks. Tariff reductions for national calls were more than 50%. A long-distance call now costs 12 centimes per minute at the standard rate and 10 centimes at the off-peak rate. Weekend Call offers customers an extremely attractive tariff innovation. Callers can ring anywhere in Switzerland for up



to an hour and pay just one franc. We have also simplified the tariff structure for international calls. Instead of the border-zone, World City, standard and off-peak rates introduced in 1998 and 1999, there are just two new rates from March 1, 2000: the weekday rate from Monday to Friday, and the weekend rate for Saturday and Sunday. Swisscom has also divided up all countries into five country groups with different charges. Calls to neighboring countries, the USA, and Canada are up to 70% cheaper with the new structure.

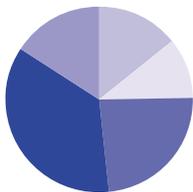
The existing range of discount schemes has also been overhauled and simplified. Hello People and Global Numbers were transferred to Global Volume. Swisscom guarantees its customers discounts of between five and eight percent with Global Volume. A monthly call volume of 100 francs or more for long-distance calls within Switzerland or international calls is a precondition.

... AND NUMEROUS VALUE-ADDED SERVICES INTRODUCED

The introduction of many innovative value-added services improved the image of fixed-network telephony and customer benefits during 1999:

- For business numbers, we discontinued the old 156 access service with the 0906 Telekiosk, and created a new platform based on the 0900 Business Number strategy. Swisscom has created an extremely powerful nationwide access service for Internet service providers with successful introduction of the 0800/0840 Business Number^{SP}.
- In 1999 we successfully launched three package solutions tailored to three different customer segments: ISDN Family, ISDN Business, and ISDN Combi.
- We have been offering a new Multipoint Videoconferencing Service for business customers since mid-1999. This service permits users to hold videoconferences with several participants.
- We have introduced the supplementary 111 plus 5 service for international directory inquiries. Voice-activated directory inquiries services were successfully tested in several pilot studies and we are about to launch the commercial service.
- Call volumes have risen substantially with the introduction of Calling Cards and the International Prepaid Card. We have also entered into important partnerships with the aim of positioning our products in the travel segment.

Net revenues from voice communication



■ national traffic	35.6%
■ subscriber lines	24.0%
■ customer premises eq.	15.7%
■ international traffic	14.5%
■ value-added services	10.2%

Centrex – the virtual telephone exchange

TERMINALS AND PRIVATE BRANCH EXCHANGES

Rationalizing our comprehensive range of terminals has helped us retain our leadership position in the overall telephony equipment market, and we have been able to expand our position in the ISDN submarket. Extending the range of cordless, ISDN, and fax equipment with e-mail functions bolstered Swisscom's position as an innovator and pioneer.

Swisscom remains the market leader for private branch exchanges (PBX). A modest upswing in revenues even permitted us to further strengthen this position. The new slogan "Think.it.smart" covers a range of customer services such as consultancy, and project planning. Our new PBX systems support local area network solutions (LAN).

FLEXIBILITY AND MOBILITY FOR SMEs

Centrex is an outstanding value-added service for small and medium-sized enterprises (SMEs). Centrex implements individual voice and data networks over the Swisscom network. Centrex is not a physical installation like traditional private branch exchange networks; it is a service in the network. Centrex is a type of virtual telephone exchange that can be used like a conventional telephone and data transmission system. This means that any line in Switzerland can be connected up to the corporate network. Installation, network management, service, and maintenance are provided by Swisscom. Customers have the benefit of access to the latest technology and optimum service at any time.

Data solutions for business and retail customers

The data world is on the move. We are saying goodbye to conventional leased lines and classic network systems. Swisscom is offering business customers a range of value-added services in the areas of the Internet, Intranet, Extranet, and e-commerce. Our wide spectrum of services allows corporate customers to network their personnel, optimize existing networks or systems, rationalize processes, and reduce costs to a minimum. Blue Window is the leading Internet service provider in Switzerland, and this puts us in a position to offer the biggest online portal for residential customers.

E-COMMERCE - A GROWING MARKET

The Internet opens up one of the biggest growth markets in the world – the domain of e-commerce. Size, location, and opening times are no longer relevant for corporate enterprise. The Internet is taking off exponentially as companies envision its potential as a new sales channel. The sale and purchase of goods and services over the Internet and the development of the necessary business transactions over electronic media – in a word, e-commerce – represents a strategically important market for Swisscom. We are committed to play a leading role in e-commerce. Companies working to gain a foothold in this market can rely on Swisscom for the essential expertise, infrastructure and applications in a secure operating environment. We are offering our business customers a range of tailor-made digital solutions for electronic shops. These solutions cover e-commerce from the company to the consumer and applications between business partners. Our CommerceMaker payment solution is part of this service range. It is designed to support electronic transactions on a commission basis. CommerceMaker is a convenient method of collecting payments by credit card or Postcard or by debiting payments through Swisscom phone bills. Swisscom's service range includes other solutions for secure and efficient data transmission, transaction platforms, and Web hosting. Web hosting puts companies on the Internet without the need to build up an independent infrastructure. The newly launched NT hosting service makes it easy for companies to prepare and publish content on the Internet. We already have 5,500 customers in this area.

Swisscom well on the way to leading position with e-commerce

GROWTH TOO IN INTRANET AND EXTRANET

Anybody with a PC and an appropriate line has unrestricted access to the Internet. By contrast, the Intranet has a defined circle of users and also specifies the type and extent of access. An Intranet is an internal corporate network that accelerates information transfer, streamlines decision-making, and shortens production pathways. The Extranet opens selective gateways on the Intranet to business partners so that the Intranet can be linked up easily with

internal platforms of other companies and organizations. This facility allows services to be offered in new markets and the number of contacts to be multiplied. Swisscom's growth in this sector outstripped the competition during 1999. Services such as LAN-Interconnect, Remote Access Service, and IP-Plus Internet Services are the outstanding successes.

Analysis and control are the most important principles for communication solutions tailored to the requirements of individual customers. The launch of Insight Services provides us with a platform for personalized, dynamic customer care. This supplementary Internet service guarantees business customers online access to up-to-date information on one or more of the Swisscom data services they use. The benefits to the customer include support for reporting functions, provision of commercial information, and process automation.

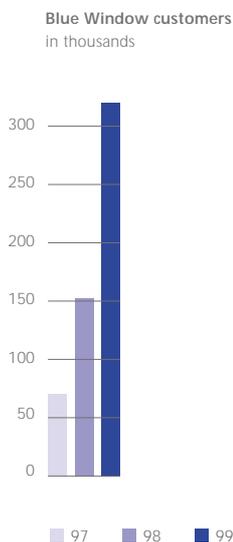
THE NEW COMMUNICATION STANDARD FOR SMEs

Inhouse Communications is a package for small and medium-sized enterprises that integrates the entire panoply of corporate communication. All equipment – servers, personal computers and peripherals – and voice, data, and image communication services are bundled together on the network and can be called up at the click of a mouse. Holistic solutions can be created for the individual needs of every company from a range of standard modules.

BOOMTIME AT BLUE WINDOW

Blue Window is an access portal to the Internet. It acts as a conduit between the requirements of the consumer and the goods and services offered by a company. Blue Window takes its customers to the virtual marketplace on the Internet – whether they log on from a PC, from a TV with Internet access, an Internet telephone, or a mobile phone.

The customer base for the Blue Window access service more than doubled in 1999. At the close of the year, Switzerland's leading Internet service provider had chalked up more than 320,000 access customers and around 150,000 users of the BlueMail free e-mail service. BlueMail allows users to send and receive electronic post through the Blue Window access portal – wherever they are. A phenomenal 25,000 Internet surfers had already signed up for BlueMail in the first five days following its launch on July 1. With up to 45 million hits a month, Blue Window could lay claim to being Switzerland's most-visited homepage by the end of 1999. Our 200-strong Blue Window team achieved a higher number of hits per person than some of the



top US portals. A survey by the leading opinion-poll research institute IHA/GfM found that Blue Window had a market share of 31 percent for access in October 1999, followed by two providers with 17 and 14 percent each.

Blue Window also profiles a range of attractive products. We support electronic business with our CommerceMaker payment solution and charge a commission for this service. CommerceMaker is a convenient method of collecting payments by credit card or Postcard, and debiting payments on Swisscom phone bills.

GREATER INDEPENDENCE FOR BLUE WINDOW

The innovative pulse of the Swiss Internet market will quicken over the coming years and will be even more powerful than in other telecommunications businesses. Blue Window is now the leading access service and the biggest portal in the Internet boom. This means that we need even more flexibility to endow Blue Window with the rapid decision-making processes it requires. Swisscom therefore decided in December 1999 to hive off Blue Window and float it as a stock corporation in the first half of 2000. This decision will pave the way for establishing strategic partnerships by taking stakes in media companies and tapping new markets. Partnerships like this are intended to strengthen our leading position in Switzerland. Swisscom will retain a majority holding in Blue Window.

**Blue Window to become
a stock corporation**

The right technology for today and tomorrow

Swisscom is a world-class company when it comes to service quality, dependability, and product innovation. We hold the world record for mobile roaming and have concluded more than 200 roaming agreements with other countries. The roaming sector acclaimed our performance as equipment sponsor for Telecom 99. We intend to forge ahead with the best multi-purpose network for Internet, multimedia, and voice.

IP UNIVERSAL NETWORK FACILITATES CONVERGENCE

At the beginning of January 2000, we joined forces with Cisco and Siemens to modernize the nationwide telecommunications network in Switzerland. Cisco and Siemens are giants in developing international networks, and they are collaborating with Swisscom to convert the backbone network gradually from a conventional network to a packet-switched network. This will be based on the IP Internet protocol and the asynchronous transfer mode (ATM). High growth rates in data communication are driving a worldwide engineering revolution to packet-switched telecommunications networks. Higher compression rates and higher capacity enable packet-switching technology to carry more data on each bandwidth. The technology also benefits from better standardized network components that are potentially more cost-effective.

Today's network infrastructure is still very much based on voice communication. The objectives of modernization are to adapt the network to the requirements of the new data services such as e-commerce and to continue to reduce costs, increase flexibility with a uniform infrastructure, and launch products more quickly on the market. The clear market trend towards convergence will demand a multiservice network in the future. This will be an open platform offering innovative combinations that are flexible and seamless and comprise mobile communications, fixed-network, and Internet services. This platform is geared towards the fast approaching vision of a universal IP socket – we call it the multimedia socket. It is being developed by an interdisciplinary team of engineers at Swisscom drawn from a number of departments and key accounts. We have formed a task force to launch the long-term MASS Project (Market leadership for Standard Services). To take one example of the effect, we will be linking up all 650 branches of insurer Winterthur Versicherungen directly to the IP backbone network in mid-2000.

Step-by-step overhaul of the traditional telecommunications network

ISDN FOR EVERYONE, DSL FOR SOPHISTICATED USERS

The Internet protocol (IP) and asynchronous transfer mode (ATM) constitute the technologies of the universal backbone network for the future, while access technologies to the fixed-line and mobile networks are being updated. Customers are increasingly subscribing to digital lines such as ISDN and GSM (Global System for Mobile Communications). Today there are affordable ISDN terminals and solutions that are easy to install. ISDN channels have become extremely popular because they offer transfer rates of twice 64 Kbps (Kilobits per second) and two telephone lines that can be used simultaneously. This permits residential customers to use the telephone and the Internet at the same time.

There is a growing requirement for still higher bandwidths to facilitate even faster Internet accesses. Swisscom intends to promote the range of DSL channels (Digital Subscriber Line) in the course of the year 2000. The new access technology exploits unused capacities on conventional copper lines within a radius of up to six kilometers around Swisscom telephone exchanges and offers a transmission rate of up to 6 Mbps (megabits per second). Broadband access forms the basis for a range of offerings geared to corporate and residential customers. Standardization and volume production will soon make DSL-based accesses an attractive alternative for intensive Internet users.

EXPANSION OF THE GSM STANDARD IN VIEW

Coverage for mobile communication was optimized during 1999. Capacity was increased by 50% between May and December alone. Coverage in winter ski resorts was also massively extended. Despite emergency repairs as a result of damage caused by avalanches and other natural catastrophes, Swisscom's NATEL network was virtually the only network to function properly during the winter of 1999.

Today's GSM Standard is undergoing a phased expansion towards providing broadband access to data services. Swisscom demonstrated the latest HSCSD mobile standard (High Speed Circuit Switched Data) at Telecom 99. The standard, developed by Nokia, increases data-transmission rates on our mobile NATEL GSM services from the present level of 9.6 Kbps to around 57.6 Kbps. Dynamic bundling of up to four channels and improved error correction make this increase in performance possible.

Other mobile standards are already being developed with even higher data rates to follow on from HSCSD, for example GPRS (General Packed Radio Services), EDGE (Enhanced Data for GSM), and UMTS (Universal Mobile Telecommunications System). UMTS is a third-generation mobile communication system, and BAKOM put the license out to tender in the spring of 2000. This system will open up mobile multimedia applications with transmission rates of up to 2 Mbps using a portable terminal.

INNOVATIVE JOINT VENTURES BASED ON THE INTERNET

Flexible joint ventures and time-limited partnerships will soon be vital to small and medium-sized enterprises for gaining an edge over the competition. Swisscom is providing support for this form of joint venture on an innovative communications platform. We have been operating a pilot project with several hundred telematics customers using the VEGA Internet service (Virtual Enterprise Generic Application Framework) since September 1998. A new business segment is being launched as a result of the experience gained in the trial. The Business Portal is based on VEGA, and Swisscom will use this portal as a platform for profiling itself as a knowledge mediator, database, and provider of a steadily increasing number of complex services for virtual companies.

The rapid development of consumer electronics demands the connection of many different items of equipment in the domestic setting and an innovative, universal home network. Home networking linked with other telecommunications services means a new business opportunity for Swisscom with expanded customer loyalty. The advanced technical development is based on residential gateways that permit Swisscom customers to communicate across the access network with a wide range of home units.

DELAY IN CONSTRUCTING NATEL ANTENNA

Two new mobile-communications providers have been awarded a license in the liberalized Swiss telecommunications market. This carries with it the obligation to build and operate their own mobile-communication network. Local residents are tending to mount increasingly bitter opposition to planned and existing telecommunication towers. This leads to delays in expanding the network. Swisscom takes the growing concerns extremely seriously. We had already set up our own internal task force in 1993 with the sole remit of addressing issues relating to electromagnetic emissions. Apart from its research work, this section has been extremely active over recent months in running an information campaign for the authorities and the general public. We have teamed up with the other two cellular providers in concluding coordination agreements with some cantons in order to optimize the use of individual locations. The aim is to develop similar cooperative approaches with other cantons. Other joint activities include publishing an information brochure on mobile communication and the environment, opening an Internet page with extensive information on all the FAQs, and setting up a hotline. These initiatives underscore our commitment to providing transparent and factual communication in order to give the public full access to the current state-of-the-art.

On December 23 the Swiss Federal Council passed the Directive on protection against non-ionizing radiation, which came into force on February 1, 2000. This has provided the essential legal framework.

A transparent, objective approach to 50% capacity increase for mobile

Change as a key factor for market success

Swisscom is well on the way to negotiating a new collective labor agreement. We are currently creating more than 2,300 attractive new jobs in growth areas such as mobile telecommunications, e-commerce, and customer service. At the same time, the new competitive environment demands downsizing with the loss of more than 6,300 jobs in other areas. We are pursuing a number of innovative schemes in order to help affected employees develop new perspectives.

COLLECTIVE LABOR AGREEMENT UNDER NEGOTIATION

As part of the process of privatization, Swisscom has been negotiating a new collective labor agreement with the unions. This agreement is scheduled to replace the civil services regulations on January 1, 2001. It is intended to provide a sound framework for future-oriented employment that allows the company to meet the competition head on. Negotiations in 1999 hammered out an agreement on pay and cooperation. This will form the basis for a new performance-related pay structure that takes full account of market conditions.

Negotiations on the collective labor agreement were concluded in the spring of 2000.

HUMAN RESOURCES CHANGE

There was an average of 18,946 full-time posts at the Swisscom parent company in 1999. By the end of the year, this number had been reduced by 1,768 or 8.5% compared with December 1998. The reduction in the number of jobs is in line with planned rationalization. The human resources budget for the parent company was 18,540 staff, and actual staff numbers fell short of this projection by 136.

When the fully consolidated subsidiaries are taken into account, the Swisscom Group had 21,777 staff at the end of 1999 and employed 20,393 staff averaged over the year. This includes consolidation of debitel on October 1, 1999, which employed 2,523 staff at the end of the year.

In 1999 there were 2,449 new jobs compared with 4,217 job separations. Fluctuation in human resources was 4.9%. Roughly a third of all departures were replaced by new staff. The other new appointments were mainly motivated by the need to fill gaps in technical expertise and underpin expansion into growth areas.

MORE THAN 750 APPRENTICE TRAINEES

Swisscom's commitment to training is second to none in Switzerland when measured in terms of the number of training places. Apprenticeships increased from 710 to 760 places during the year under review. We are focusing apprenticeship training in five areas: IT, media, electronic engineering, sales, and retailing. The number of apprenticeships for future-oriented jobs in IT and media is in the ascendant, while places for jobs such as electronics engineer are in decline.

Swisscom restructured apprenticeship training in 1999 and put the scheme on a new footing.

An above-average number of apprentice-trainee places on offer

LIBERALIZATION GENERATES WORTHWHILE JOBS IN GROWTH AREAS

Swisscom is creating more than 2,300 future-oriented jobs in the growth areas of mobile communications, Internet, IT, sales, and marketing. Our experience has shown that despite the considerable resources channeled into retraining and career training, not all available jobs can be filled by internal applicants. We have an excellent reputation in the job market as an attractive employer with good career prospects and performance-related pay for employees.

Swisscom has carried out radical cost-cutting exercises following fierce competition and downward pressure on prices in the wake of liberalization of the telecommunications market in 1998. At the close of 1997, Swisscom employed 22,000 people, and we announced an inevitable downsizing with an overall reduction of 6,300 jobs and a net loss of 4,000 people. Rationalization is essential in order to safeguard the long-term existence of the company and create new jobs in the future.

The big economic picture is also important when assessing the impact of job cuts. Liberalization of the telecommunications sector has not simply eliminated 6,300 jobs at Swisscom and created 2,300 new jobs. We must bear in mind that in the sector overall 200 companies have been set up, creating 4,500 jobs directly and many more indirectly.

INNOVATIVE NEW PERSPECTIVES

Swisscom takes its social responsibilities as an employer extremely seriously. We are doing everything in our power to prevent hardship and minimize the adverse consequences of our program of job cuts. That is why Swisscom took the initiative in spring 1999 and focused on cooperating with the unions to develop solutions for stimulating job creation. This scheme concentrates on meeting cost-cutting objectives without job separation, and a number of successful measures have been set in train. Internal labor market centers were set up and expanded in order to offer consulting services and job mediation. Partial retirement makes use of early retirement windows for employees over 55. A venture fund provides finance for employees setting up their own businesses. Pilot projects based on a reduction in working time have been introduced in areas with overcapacity. By the close of 1999, our labor market centers had already provided 270 employees with a permanent job or mediated an alternative solution. At the beginning of January 2000 a pilot project for a four-day week was started in network construction with 170 employees.

Board of Directors and Executive Board

Board of Directors
Markus Rauh, Chairman

Executive Board
Jens Alder, CEO



As per April 1, 2000



BOARD OF DIRECTORS (FROM LEFT TO RIGHT)

Ernst Hofmann

born 1937
St. Gallen School of Transport, apprenticeship as telegraph operator, Zurich Telegraph Office.
Career: Basel Telecoms Center. General Secretary of PTT and customs employees associations, Deputy General Secretary of the Communication Union

Jacqueline Demierre

born 1954
Degree in Sales Management
Career: Telecommunications Directorate Bern, PTT Executive Board, Swisscom: multinational companies, since 1999 as a Key Account manager with Mobile Communications

Franco Ambrosetti

born 1941
Studied business administration in Zurich and Basel, graduating with a degree in politics (lic. rer. pol.).
Since 1995 Chairman and CEO of Ambrosetti Technologies SA

André Richoz

born 1947
Studied at the Swiss Federal Institute of Technology (ETH) in Zurich, doctorate in physics.
Career: National Scientific Fund, Credit Suisse, Sulzer Group, head of the Charmilles group of companies and Georg Fischer AG, CEO of SIKA Group until 1999

Peter Küpfer

born 1944
Qualified auditor
Career: Revisuisse, Financière CSFB, CS First Boston, CS Holding, Bank Leu AG. Since 1997 independent consultant

Felix Rosenberg

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

Markus Rauh

Chairman, born 1939
Studied at the Swiss Federal Institute of Technology (ETH) in Zurich, graduating with a degree in mechanical engineering. Subsequently doctorate (Dr. sc. tech. ETHZ) from ETH Zurich.
Career: Sperry Univac, Philips, Wild Leitz, CEO of Leica Group. Chairman of the Board of Directors of AGI, IT-Solutions inter alia

Helmut Woelki

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

Rose Gerrit Huy

born 1953
Studied economics and mathematics in Hamburg, graduating with degrees in economics and mathematics.
Career: Daimler-Benz, CEO of Compaq Deutschland GmbH, since 1999

Alfred Bissegger

Secretary



EXECUTIVE BOARD (FROM LEFT TO RIGHT)

Jürg Marx

Head of Human Resources
(from November 1, 1999)
born 1948
Studied business administration at the University of Zurich, doctorate in business administration (Dr. oec. publ.).
Career: Institute of Business Administration (BWI) at the Swiss Federal Institute of Technology (ETH) in Zurich, Migros Group, Chairman and CEO at Denner AG, Head of Engineering/IT and Human Resources and member of Executive Board of SAir-Gruppe, member of the Board of Management, Zürich Versicherungen

Dave Schnell

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

Dominik Koechlin

Head of Strategy and International Affairs
born 1959
First degree and doctorate in law at the University of Bern, MBA INSEAD, Fontainebleau.
Career: Bank Sarasin & Cie, founder and partner in a firm of management consultants, Telecom PTT

Adrian Bult

Head of Corporate Information & Technology
born 1959
Studied business administration at the University of St. Gallen
Career: IBM Schweiz, Telecom PTT

Carsten Schloter

Head of Mobile and Public Com
(from April 1, 2000)
born 1963
Studied business administration and information technology in Paris.
Career: Mercedes Benz France SA, debitel France SA, Head of Operations and member of the Executive Board of debitel AG

Heinz Karrer

Head of Marketing, Sales and Solutions
born 1959
Studied economics at the University of St. Gallen.
Career: UBS Union Bank of Switzerland, Association of Swiss Manufacturers, Suppliers and Agents for Sports Goods, Intersport, Ringier AG, Telecom PTT.

Jens Alder

Chief Executive Officer
(from December 16, 1999)
born 1957
Studied at the Swiss Federal Institute of Technology (ETH) in Zurich, graduating with a degree in electrical engineering (Dipl. El.-Ing. ETHZ), MBA INSEAD, Fontainebleau.
Career: Standard Telephone & Radio AG, Alcatel STR AG, Motor Columbus AG, Alcatel Schweiz AG, Head of Network Services at Swisscom AG

Reto Held

Head of Network Services & Wholesale
born 1946
Studied electrical engineering at the Technical College in Chur, graduated as electrical engineer (El. Ing. HTL).
Career: Telecommunications director Chur, regional head of Network Services

THE FOLLOWING MEMBERS LEFT THE EXECUTIVE BOARD IN 1999

Tony Reis

Chief Executive Officer
(to December 15, 1999)

Pierre-André Probst

Head of Corporate Operations
(to March 18, 1999)

Walter Frei

Head of Human Resources
(to November 30, 1999)

Calvin Grieder

Head of Product House
(to December 31, 1999)

Information for Shareholders

Per share data		1998	1999
Average number of shares outstanding	million	67.88	73.55
Net income (loss) from continuing operations	CHF	30.55	30.02
Net income (loss) before depreciation (goodwill)	CHF	23.08	33.69
Net income (loss)	CHF	22.91	32.51
Dividend	CHF	11.00	15.00 ¹

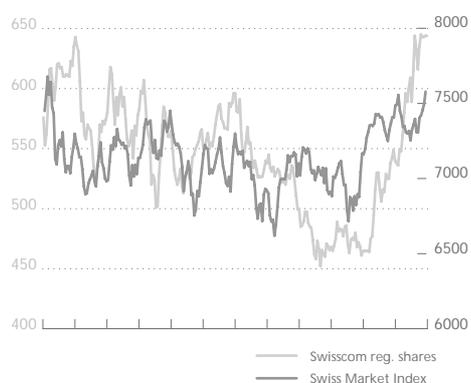
Ratios

ROE	%	29.1	35.8
EBITDA margin	%	42.8	39.8
EBIT margin before special items	%	27.3	24.5
Price/earnings (P/E)	CHF	25,1	19,8
Dividend yield	%	1.9	2.3
Pay-out ratio	%	52.0	46.1

¹ According to the proposal of the Board of Directors to the Shareholders' Meeting

Swisscom registered share 1999²			Swisscom ADR 1999²		
Year-end	CHF	644.00	Year-end	USD	40.500
High	CHF	656.00	High	USD	46.125
Low	CHF	445.00	Low	USD	29.375
Price (loss) gain	%	12.00	Price (loss) gain	%	(4.84)
Total trading volume in mn	CHF	20 122.15	Total trading volume in mn	USD	222.67
Daily average in mn	CHF	79.53	Daily average in mn	USD	0.88
Total trading volume	shares	36 748 346	Total trading volume	ADR	6 018 400
Daily average	shares	145 250	Daily average	ADR	23 883

² Source: Reuters



Stock Exchange	Bloomberg	Reuters	Telekurs
SWX, Zurich, 9.00–17.00	SCMN	SCMZn.S	SCMN
NYSE, New York, 9.30am–4.00pm	SCM	SCM.N	SCM

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