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# Financial Review 1997

Swisscom

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# Key figures

(CHF in millions, except where indicated)

	1995	1996	1997
<b>Net revenues</b>	<b>9 515</b>	<b>9 532</b>	<b>9 842</b>
<b>Operating income before restructuring charges</b>	<b>3 047</b>	<b>2 505</b>	<b>2 040</b>
Restructuring charges	–	–	(1 726)
<b>Operating income</b>	<b>3 047</b>	<b>2 505</b>	<b>314</b>
<b>Net income (loss)</b>	<b>2 415</b>	<b>1 830</b>	<b>(415)</b>
<b>Number of full-time equivalent employees at end of period</b>	<b>20 557</b>	<b>21 951</b>	<b>22 170</b>
<b>Average number of full-time equivalent employees</b>	<b>20 219</b>	<b>21 311</b>	<b>22 145</b>
<b>Total assets</b>	<b>15 291</b>	<b>16 010</b>	<b>15 473</b>
<b>Interest-bearing debt</b>	<b>9 331</b>	<b>9 111</b>	<b>7 378</b>
<b>Shareholder's equity</b>	<b>(1 394)</b>	<b>(84)</b>	<b>1 230</b>
<b>Capital expenditures</b>	<b>2 173</b>	<b>2 278</b>	<b>2 374</b>
<b>Net cash provided by operating activities prior to special contribution to pension fund</b>	<b>4 674</b>	<b>4 115</b>	<b>3 435</b>
Special contribution to pension fund	–	–	(2 100)
<b>Net cash provided by operating activities</b>	<b>4 674</b>	<b>4 115</b>	<b>1 335</b>
<b>Net cash used in investing activities</b>	<b>(3 154)</b>	<b>(2 799)</b>	<b>(2 477)</b>
<b>Free cash flow</b>	<b>1 520</b>	<b>1 316</b>	<b>(1 142)</b>
<b>Fixed-line access channels</b> (end of period, in thousands)	<b>4 480</b>	<b>4 571</b>	<b>4 688</b>
<b>Number of subscribers</b> (end of period, in thousands):			
Mobile subscribers	447	663	1 044
Internet Blue Window subscribers	–	14	71

## Accounting Principles

Selected financial information has been prepared in accordance with International Accounting Standards (IAS).

## Review of the group's results

# Review of the group's results

## Major events and developments

### Year of transition

As of January 1, 1998, with the entry into effect of the Telecommunications Act, the market for telecommunications in Switzerland was opened to full competition. The Telecommunications Act includes the requirement that in markets, where it has a dominant position, Swisscom must allow other service providers to interconnect to its network at cost-related prices. In mobile telephony, two additional national licenses have been granted to competitors of Swisscom with the right to begin using radiocommunications frequencies from October 1, 1998.

In order to meet the challenges presented by this new competitive environment, Swisscom undertook a number of organizational and strategic changes in 1997. As part of the ongoing "Change Telecom" project, the organizational structure of the company was fundamentally reshaped in order to increase its customer focus, decentralize decision-making and increase accountability. In addition, Swisscom adopted a number of strategic initiatives designed to achieve growth in revenues, cash flow and earnings and create value for its shareholders. Some of these initiatives resulted in Swisscom recording significant restructuring charges in 1997.

In anticipation of its separation from the Swiss Post and transformation into an independent company, Swisscom implemented a comprehensive tariff reform in August 1997 which reduced the average price of domestic telephone calls by approximately 20 percent.

In order to provide transparency and improve financial disclosure, management decided to implement International Accounting Standards (IAS) and fully restated the financial statements for the three years ended December 31, 1997 to conform with IAS.

### Separation from the Swiss PTT and the Post and transformation into a stock corporation

Effective January 1, 1998, Swisscom and the Swiss Post were separated into fully independent organizations and Swisscom was transformed into a stock corporation. The separation and incorporation resulted in a number of important changes to Swisscom, in particular from a financial perspective:

#### **Profit distributions**

For 1997 and prior years, Swisscom was required to distribute substantial amounts to the Swiss PTT and the Swiss Confederation (Confederation) which resulted in Swisscom having a relatively high level of debt and a relatively low level of equity.

#### **Financing**

Prior to the separation from the Swiss PTT, Swisscom relied generally on borrowings from the Central Treasury of the PTT for its financing needs. In the future, Swisscom will finance itself on an independent basis.

#### **Income taxes**

Prior to January 1, 1998, Swisscom was not subject to income and other taxes generally applicable to Swiss corporations, except for VAT. As provided by the Telecommunications Enterprise Act (TUG), Swisscom AG is now subject to such taxes.

### Management

In preparation for the opening of competition, a number of senior managers with experience in operating businesses in competitive markets were recruited and appointed to key positions at Swisscom. In addition, as provided by the TUG, a Board of Directors was established for Swisscom effective as of January 1, 1998. The initial members of the Board of Directors were appointed by the Federal Council and are comprised primarily of business executives with extensive experience in private industry. In its long-term strategic goals for Swisscom, the Federal Council acknowledged Swisscom's autonomy as an enterprise and the freedom of decision of Swisscom's Board of Directors.

# Review of the group's results

## Initial capitalization and funding of pension liability

In connection with the separation of Swisscom from the Swiss PTT, certain transactions took place in order to provide Swisscom with a capital structure appropriate for an independent enterprise, as well as to provide funding for the unfunded portion of Swisscom's pension liability at December 31, 1997 as calculated under Swiss law.

In connection with the initial capitalization of Swisscom as a stock corporation, on December 31, 1997 the Confederation advanced a loan to Swisscom in the amount of CHF 3.5 billion. Of such amount, CHF 3.2 billion was simultaneously converted into equity.

At December 31, 1997, Swisscom assumed responsibility for its employees' retirement benefits under a statutory defined benefit plan. At such date, Swisscom's assumed pension obligations under Swiss law were underfunded in the amount of CHF 2.25 billion. Proceeds of CHF 2.1 billion from the CHF 3.5 billion loan from the Confederation were used by Swisscom to make a special contribution to the pension fund in order to reduce the amount of such underfunding. The remaining loan proceeds of CHF 1.4 billion were used by Swisscom to reduce outstanding debt owed to the Central Treasury of the PTT. In March 1998 Swisscom paid the remaining CHF 151 million of its pension obligation to the pension fund. As a result, the retirement benefits of Swisscom's employees as calculated under Swiss law are fully funded.

As calculated under IAS, which are different from Swiss law requirements, the unfunded pension liability as of December 31, 1997, prior to the pension fund contribution, was CHF 3.17 billion, and therefore the difference at December 31, 1997 of CHF 1,071 million was reflected as an accrued pension cost in Swisscom's consolidated financial statements.

The Confederation has provided guarantees to Swisscom protecting Swisscom against certain losses arising from errors in the data provided by the pension fund for purposes of calculating the pension liability at December 31, 1997. However, Swisscom intends to establish its own pension scheme for its employees by December 31, 2000, at the latest, and when it does so, these guarantees will expire.

The above measures represent the first steps taken in order to achieve an adequate and sound financial position. Swisscom intends to further improve its capital structure using proceeds from the planned initial public offering.

## Results of operations

### Net revenues

CHF in millions	1995	1996	1997
Fixed-line voice telephony	7 162	6 881	6 668
Mobile telecommunications services	637	932	1 371
Data and multimedia services	746	762	824
Carrier services	728	719	697
Other revenues	242	238	282
<b>Total net revenues</b>	<b>9 515</b>	<b>9 532</b>	<b>9 842</b>

Total net revenues grew by 3.3 percent in 1997 compared to 1996 and by 0.2 percent in 1996 compared to 1995. Over this period, growth in revenue from mobile telecommunications services and data and multimedia services have more than offset revenue declines in fixed-line voice telephony resulting from tariff reductions.

Swisscom's revenue, in particular its revenue from access services and call traffic, is affected by general economic conditions in Switzerland. During 1995 to 1997, conditions in the Swiss economy were improving but remained relatively weak. Real

# Review of the group's results

gross domestic product declined by 0.3 percent in 1996 and grew by 0.7 percent in 1997.

Total **fixed-line voice telephony** revenues declined by 3.1 percent in 1997 compared to 1996 and by 3.9 percent in 1996 compared to 1995 primarily as a result of significant tariff reductions in national calling in 1997 and in international calling in 1996. These decreases in revenues were offset in part by an increase in revenues generated by value added services, reflecting a continued increase in traffic generated by users of on-line services. Following the tariff reform in August 1997, national traffic increased due to the elasticity effect of the reduced tariffs.

The market for **mobile telecommunications services** has grown strongly in recent years, reaching a penetration rate of 14.7 percent at December 31, 1997. Revenues from mobile telecommunications increased by 47.1 percent in 1997 compared to 1996, and increased by 46.3 percent in 1996 compared to 1995. The increase in each year is due principally to the continued strong growth in the number of customers of Swisscom's Natel D digital mobile telephony service. Part of the growth has resulted from the migration of Natel C analog customers to the Natel D service. Swisscom is encouraging its customers to switch to Natel D in advance of phasing out the Natel C service.

Revenues from **data and multimedia services** increased by 8.1 percent in 1997 compared to 1996 and by 2.1 percent in 1996 compared to 1995. The increase is mainly attributable to the increased demand for managed leased lines, including increasing business from other service providers since 1996, as well as growing revenues from the Blue Window internet service.

Revenues from **carrier services** decreased 3.1 percent in 1997 compared to 1996 and by 1.2 percent in 1996 compared to 1995. Lower rates charged by Swisscom to international telephone operators for calls terminated in Switzerland contributed to the decrease in 1997.

	CHF in millions		
	1995	1996	1997
<b>Total operating expenses</b>			
Goods and services purchased	1 351	1 389	1 666
Personnel expenses	2 154	2 348	2 584
Other operating expenses	1 557	1 881	2 090
Depreciation and amortization	1 751	1 727	1 739
Restructuring charges	-	-	1 726
<b>Total operating expenses</b>	<b>6 813</b>	<b>7 345</b>	<b>9 805</b>

Excluding the effect of the restructuring charges in 1997, total operating expenses increased by 10.0 percent in 1997 compared to 1996 and by 7.8 percent in 1996 compared to 1995, and, as a percent of net revenues, increased to 82.1 percent in 1997 from 77.1 percent in 1996 and 71.6 percent in 1995. Higher personnel expenses contributed to the increase in each year, with increased goods and services purchased also accounting for a large portion of the increase in 1997 compared to 1996 and higher other operating expenses accounting for a large portion of the increase in 1996 compared to 1995.

## Goods and services purchased

Goods and services purchased increased by 19.9 percent in 1997 compared to 1996 and by 2.8 percent in 1996 compared to 1995. The increase resulted from a number of factors including higher outgoing fixed-line traffic and increasing roaming traffic, both of which resulted in an increase in settlement payments made to foreign carriers. Other contributing factors were purchases in connection with the rebranding which resulted from the change of name to Swisscom in October 1997 and higher purchases in growth areas such as mobile equipment and starter kits for the Blue Window internet service.

# Review of the group's results

## Personnel expenses and number of employees

	1995	1996	1997
Number of full-time equivalent employees (at end of period)	20 557	21 951	22 170
Average number of full-time equivalent employees	20 219	21 311	22 145

The increase in the number of employees since 1995 resulted primarily from the restructuring that occurred in connection with the separation of Swisscom from the Swiss PTT. In 1996, 740 employees of the PTT, primarily from the information technology and vehicle maintenance departments, were transferred to Swisscom, and in 1997 a further 65 employees were transferred from the PTT to Swisscom. Apart from the increase due to the transfer of employees from the PTT, personnel has increased as a result of additions in growing businesses such as mobile and data and multimedia, as well as customer care functions.

Personnel expenses increased 10.1 percent in 1997 compared to 1996 after increasing 9.0 percent in 1996 compared to 1995. The increase is attributable to the higher average number of employees, higher payments related to ongoing early retirement programs and an increased incurrence of overtime charges. During the three year period, Swisscom actively encouraged early retirements.

### Other operating expenses

Other operating expenses increased 11.1 percent in 1997 compared to 1996, after rising by 20.8 percent in 1996 compared to 1995. A substantial portion of the significant increase in other operating expenses in 1997 related to projects undertaken to prepare Swisscom for the liberalized market, such as improvements to information systems and the acceleration of repair and maintenance activity.

### Depreciation and amortization

Swisscom's depreciation and amortization expense remained substantially unchanged in the 1995 to 1997 period. The amount of expense recorded was attributable to the high level of capital expenditure, which has resulted in a highly advanced fixed-line network.

### Restructuring charges

CHF in millions	1997
Personnel restructuring charges	1 326
Write-down of long-lived assets	316
Miscellaneous restructuring charges	84
<b>Total restructuring charges</b>	<b>1 726</b>

In connection with the preparation for competition, Swisscom conducted a company-wide review of its staffing requirements and determined that its aggregate staff was in excess of the level Swisscom believes is necessary for operating in a competitive environment. Accordingly, in order to reduce its total number of employees, in the fourth quarter of 1997 Swisscom offered a voluntary early retirement plan to all employees aged 55 and over. 2,840 employees formally accepted the offer, with retirement dates for 550 employees in 1997, 1,100 employees in 1998 and the remainder in 1999 and 2000. Liabilities resulting from the early retirements, i.e. accelerated pension benefits, were estimated to be CHF 1,206 million, which Swisscom recognized as a restructuring charge in 1997. No severance or other costs are required to be paid in connection with the early retirements. The special early retirement plan is expected to reduce Swisscom's personnel expenses from 1999 onwards.

# Review of the group's results

In addition, Swisscom adopted a plan to outsource substantially all cleaning and property maintenance staff, consisting of 1,620 full-time and part-time employees, and recognized a restructuring charge of CHF 120 million in connection therewith. Swisscom expects the outsourcing to result in ongoing cost savings.

In 1997 Swisscom also recorded write-downs of fixed assets in the aggregate amount of CHF 316 million. Due to the reallocation of radiocommunication frequencies to competitors under the Telecommunications Act, Swisscom decided to discontinue operation of its Natel C analog mobile telephony network by year-end 2000 at the latest. This resulted in a write-down of fixed assets in the amount of CHF 140 million. In addition, Swisscom recorded additional write-downs of CHF 176 million for assets impaired or related to activities to be discontinued.

Swisscom recognized additional restructuring charges in the amount of CHF 84 million relating to discontinuing selected activities and streamlining certain facilities and operations. The majority of cash payments associated with such restructuring charges are expected to occur in 1998 and 1999.

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## Operating income

Swisscom's operating income in 1997 was CHF 314 million, compared to operating income in 1996 of CHF 2,505 million. Excluding the effect of the restructuring charges in 1997, operating income decreased 18.6 percent in 1997 to CHF 2,040 million compared to 1996. In 1996, operating income decreased 17.8 percent to CHF 2,505 compared to CHF 3,047 in 1995. The decrease in operating income over the period resulted from increased operating expenses and a related decrease in margins, especially in fixed-line telephony.

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## Interest expense

Interest expense declined as a result of a decrease in interest-bearing debt combined with a decrease in the average interest rate from 5.9 percent in 1995 to 5.1 percent in 1996 and to 4.4 percent in 1997.

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## Equity in net loss of affiliated companies

Equity in net loss of affiliated companies was CHF 325 million in 1997, compared to CHF 213 million in 1996 and CHF 103 million in 1995. The increase primarily reflects Swisscom's share of net losses and the related goodwill amortization incurred by new investments made by Swisscom in 1996 in mobile telecommunications operators in Malaysia and India, which are still in their start-up phase.

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## Working capital

At December 31, 1997, Swisscom had a significant deficit in its working capital. As at December 31, 1997, the company recorded restructuring charges in the amount of CHF 1,726 million, of which a significant portion is expected to fall due in 1998. Swisscom typically carries current liabilities in excess of current assets, as is common with international telecommunication companies. Swisscom believes that its negative working capital position does not create a liquidity risk because the timing of its discretionary capital expenditures can be adjusted should cash flows diminish at any point in time. Swisscom also has access to uncommitted lines of credit which would provide additional sources of liquidity should the need arise.

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## Liquidity and capital resources

### Liquidity

Swisscom's primary source of liquidity is cash generated from operations. The substantial decrease in net cash provided by operating activities in 1997 compared with 1996 was principally due to the one-time pension fund contribution of CHF 2.1 billion made by Swisscom in December 1997. Excluding the effect of the one-time pension fund contribution, net cash provided by operating activities decreased by CHF 680 million, or 16.5 percent, in 1997 compared with 1996. The major factors contributing to the decrease were a larger increase in trade accounts receivable in 1997 compared to 1996, a decrease in trade accounts payable in 1997, compared to an increase in 1996, and higher operating expenses paid in 1997 compared to 1996.

# Review of the group's results

Swisscom's principal financing transaction in 1997 consisted of the CHF 3.5 billion loan advanced by the Confederation on December 31, 1997 providing the capitalization necessary for incorporation of Swisscom as a stock corporation. In 1996 and 1995 Swisscom's financing activities consisted of the repayment of debt and the payment of profit distributions to the PTT and the Confederation from net cash provided by operations.

Swisscom's cash and cash equivalents have declined from CHF 902 million at December 31, 1995 to CHF 685 million at December 31, 1996 to CHF 256 million at December 31, 1997, as the result of management's efforts to reduce the level of cash balances held.

## Capital resources

Interest-bearing debt decreased by approximately CHF 1.7 billion during 1997. This decrease is primarily due to the reduction of outstanding debt owed to the Central Treasury of the PTT by CHF 1.4 billion using proceeds of the loan advanced by the Confederation in connection with the initial capitalization of Swisscom.

In the future, Swisscom expects to be able to meet its financing requirements, including the repayment of remaining debt owed to the Swiss Post and the Federal Treasury, from cash flows from operations and through debt issuances in the capital markets or bank borrowings.

Under the TUG, the Confederation is authorized, during a specified transitional period, to grant further loans to Swisscom. Swisscom and the Confederation have agreed that any such loans will be made on an arm's length basis and will be repaid prior to December 31, 2003.

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## Capital expenditures and investments

### Capital expenditures

Capital expenditures increased by 4.2 percent in 1997 compared to 1996 primarily due to an increase in expenditure in Swisscom's mobile network which was incurred in order to meet the expansion and capacity increases in the Natel D mobile network. This was partly offset by a reduction in capital expenditures in the fixed-line network. Swisscom plans to continue to invest in new technologies, but does not intend to roll out such technologies on a network-wide basis unless clearly justified from a commercial point of view. Swisscom believes it will be able to reduce further its capital expenditures on fixed-line networks in the future. Swisscom intends to continue to invest in mobile infrastructure as necessary in order to maintain quality of service to meet growing market demand.

### Investments

In 1997, additions to investments of CHF 221 million mainly consisted of capital increases at Unisource, the purchase of additional shares to maintain the interest in Mutiara and the purchase of a 50 percent interest in tesion.

In 1996, additions to investments of CHF 771 million included capital increases at Unisource, the purchase of a 30 percent interest in Mutiara and the purchase of a 33 percent interest in Sterling Cellular which is held through Mobilvest. Additions to other investments in 1996 of CHF 47 million include the purchase of an additional interest in Infonet Services Corporation and increases of interests in several satellite operating companies.

# Review of the group's results

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## Outlook

Maintaining its leadership in a competitive market environment is the most important challenge facing Swisscom. Swisscom expects competition to stimulate overall market demand for telecommunications services, including in particular the growth in the mobile telephony market. Swisscom intends to exploit its advantages by positioning itself as a customer-oriented and innovative full-service provider of high quality telecommunications products and services.

Current efforts are focused on remaining the market-leader in the future, achieving sustainable revenue growth and improving the cost structure. Swisscom has adopted a number of strategic initiatives designed to meet these targets and to create value for its shareholders.

As a result of the introduction of improved procurement procedures, management expects to rationalize expenses for goods purchased. In addition, as a net exporter of international minutes, Swisscom expects to benefit from future decreases in international settlement rates. The special early retirement plan implemented in 1997 is expected to reduce Swisscom's personnel expenses from 1999 onwards and the adopted plan to outsource substantially all cleaning and property maintenance staff will also result in ongoing cost savings. Additional measures are currently being evaluated to reduce total operating expenses in the future. Specific areas within other operating expenses in which Swisscom intends to achieve savings include network and real estate maintenance expense.

With the recently adopted strategy of applying a strictly market-oriented approach to network planning and construction, it should be possible to reduce capital expenditures relating to the fixed-line network. Similarly, Swisscom has revised its real estate strategy, and on the basis of capital expenditure already made and partly still under construction, is planning no substantial new building projects, and believes it will be able to reduce its capital expenditure on real estate in the future.

In summary, management is convinced that the strong market position, the measures currently being implemented and the potential for further optimization will improve profitability in future years.

Consolidated financial statements

# Report of Independent Accountants

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To the Shareholder  
and Board of Directors  
of Swisscom AG  
Berne

We have audited the accompanying consolidated balance sheets of Swisscom AG and subsidiaries (and its predecessor, Swiss Telecom PTT) ("Swisscom") as of December 31, 1997, 1996 and 1995 and the related consolidated statements of operations, cash flows and shareholder's equity for each of the three years in the period ended December 31, 1997, (pages 13 to 35) all expressed in Swiss francs.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audits were conducted in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Swisscom as of December 31, 1997, 1996 and 1995 and Swisscom's results of operations and cash flows for each of the three years in the period ended December 31, 1997 in accordance with International Accounting Standards and the legal provisions of the Swiss Code of Obligations.

Revisuisse Price Waterhouse AG

Peter Wittwer

Julie Fitzgerald

Berne, June 12, 1998

# Consolidated statement of operations

CHF in millions	Note	Year ended December 31		
		1995	1996	1997
<b>Net revenues</b>	3	9 515	9 532	9 842
Capitalized cost and changes in inventories	4	345	318	277
<b>Total</b>		<b>9 860</b>	<b>9 850</b>	<b>10 119</b>
Goods and services purchased	5	1 351	1 389	1 666
Personnel expenses	6, 7	2 154	2 348	2 584
Other operating expenses	8	1 557	1 881	2 090
Depreciation and amortization		1 751	1 727	1 739
Restructuring charges	9	-	-	1 726
<b>Total operating expenses</b>		<b>6 813</b>	<b>7 345</b>	<b>9 805</b>
<b>Operating income</b>		<b>3 047</b>	<b>2 505</b>	<b>314</b>
Interest expense	10	(581)	(487)	(428)
Financial income		53	26	25
<b>Income (loss) before income taxes and equity in net loss of affiliated companies</b>		<b>2 519</b>	<b>2 044</b>	<b>(89)</b>
Income tax expense	11	1	1	1
<b>Income (loss) before equity in net loss of affiliated companies</b>		<b>2 518</b>	<b>2 043</b>	<b>(90)</b>
Equity in net loss of affiliated companies	12	(103)	(213)	(325)
<b>Net income (loss)</b>		<b>2 415</b>	<b>1 830</b>	<b>(415)</b>

The accompanying notes form an integral part of these financial statements

# Consolidated balance sheet

CHF in millions	Note	At December 31		
		1995	1996	1997
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	13	902	685	256
Securities available for sale	14	21	27	51
Trade accounts receivable	15	1 903	1 916	2 052
Inventories	16	234	282	169
Other current assets		80	54	34
<b>Total current assets</b>		<b>3 140</b>	<b>2 964</b>	<b>2 562</b>
<b>Non-current assets</b>				
Property, plant and equipment	17	11 037	11 329	11 453
Investments	18	971	1 602	1 238
Other non-current assets	19	143	115	220
<b>Total non-current assets</b>		<b>12 151</b>	<b>13 046</b>	<b>12 911</b>
<b>Total assets</b>		<b>15 291</b>	<b>16 010</b>	<b>15 473</b>
<b>Liabilities and shareholder's equity</b>				
<b>Current liabilities</b>				
Short-term debt	20	3 181	711	1 178
Trade accounts payable		910	1 079	889
Accrued pension cost	7, 9	-	-	789
Other current liabilities	21	2 250	1 400	2 213
<b>Total current liabilities</b>		<b>6 341</b>	<b>3 190</b>	<b>5 069</b>
<b>Long-term liabilities</b>				
Long-term debt	20	6 150	8 400	6 200
Finance lease obligation	24	-	236	439
Accrued pension cost	7, 9	3 013	3 086	1 488
Accrued liabilities	22	664	698	709
Other long-term liabilities	23	517	484	338
<b>Total long-term liabilities</b>		<b>10 344</b>	<b>12 904</b>	<b>9 174</b>
<b>Total liabilities</b>		<b>16 685</b>	<b>16 094</b>	<b>14 243</b>
<b>Shareholder's equity</b>				
Share capital		-	-	1 650
Accumulated deficit		(1 365)	(151)	(298)
Unrealized market value adjustment on securities available for sale	14	9	15	39
Cumulative translation adjustment		(38)	52	(161)
<b>Total shareholder's equity</b>		<b>(1 394)</b>	<b>(84)</b>	<b>1 230</b>
<b>Total liabilities and shareholder's equity</b>		<b>15 291</b>	<b>16 010</b>	<b>15 473</b>

The accompanying notes form an integral part of these financial statements

# Consolidated cash flow statement

CHF in millions	Year ended December 31		
	1995	1996	1997
<b>Income (loss) before income taxes and equity in net loss of affiliated companies</b>	<b>2 519</b>	<b>2 044</b>	<b>(89)</b>
Adjustments for:			
Depreciation and amortization	1 751	1 727	1 739
Loss on disposal of fixed assets, net	256	318	227
Restructuring charges	-	-	1 726
Interest expense	581	487	428
Financial income	(53)	(26)	(25)
	<b>5 054</b>	<b>4 550</b>	<b>4 006</b>
Changes in operating assets and liabilities, net of effects of acquisitions and disposals of subsidiaries:			
Increase in trade accounts receivable	(192)	(13)	(136)
Decrease (increase) in inventories	(2)	(48)	113
Decrease (increase) in other current assets	(51)	40	24
Increase (decrease) in trade accounts payable	250	169	(190)
Increase (decrease) in other current and accrued liabilities	(60)	44	113
Decrease in other long-term liabilities	(91)	(33)	(146)
Increase in accrued pension cost excluding special contribution to pension fund	23	73	85
Special contribution to pension fund	-	-	(2 100)
<b>Cash generated from operations</b>	<b>4 931</b>	<b>4 782</b>	<b>1 769</b>
Interest paid	(309)	(695)	(458)
Income taxes paid	(1)	(1)	(1)
Interest received	46	18	14
Dividends received	7	11	11
<b>Net cash provided by operating activities</b>	<b>4 674</b>	<b>4 115</b>	<b>1 335</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(2 173)	(2 278)	(2 374)
Proceeds from sale of fixed assets	5	243	226
Acquisition of subsidiaries, net of cash acquired	(8)	(21)	(12)
Purchases of investments in affiliated companies	(891)	(724)	(207)
Purchases of other investments	(30)	(47)	(14)
Loans receivable repaid (granted), net	(57)	28	(96)
<b>Net cash used in investing activities</b>	<b>(3 154)</b>	<b>(2 799)</b>	<b>(2 477)</b>
<b>Cash flows from financing activities:</b>			
Issuance (repayment) of short-term debt, net	(2)	211	142
Issuance of long-term debt	3 912	2 925	625
Repayment of long-term debt	(4 359)	(3 356)	(2 500)
Shareholder loans issued for conversion to equity	-	-	3 200
Profit distribution paid	(1 052)	(1 313)	(754)
<b>Net cash (used in) provided by financing activities</b>	<b>(1 501)</b>	<b>(1 533)</b>	<b>713</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>19</b>	<b>(217)</b>	<b>(429)</b>
Cash and cash equivalents at beginning of year	883	902	685
<b>Cash and cash equivalents at end of year</b>	<b>902</b>	<b>685</b>	<b>256</b>

The accompanying notes form an integral part of these financial statements

## Consolidated cash flow statement (continued)

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### Significant non-cash transactions:

At December 31, 1997, the Confederation advanced a loan of CHF 3,500 million of which CHF 3,200 million was converted to equity (see also consolidated statement of shareholder's equity).

During 1996 and 1997 Swisscom sold certain technical equipment in two separate transactions for CHF 236 million in 1996 and CHF 213 million in 1997, which is included in proceeds from sale of fixed assets, and concurrently entered into agreements to lease the equipment back under finance leases.

During 1995 Swisscom acquired a 49 percent interest in TelSource N.V. As part of the purchase agreement Swisscom is to provide certain services in the amount of CHF 75 million in the future.

The accompanying notes form an integral part of these financial statements

# Consolidated statement of shareholder's equity

CHF in millions	Share capital	Accumulated deficit	Unrealized market value adjustment on securities	Cumulative translation adjustment	Total shareholder's equity
<b>Balance at January 1, 1995</b>	–	<b>(2 467)</b>	<b>8</b>	<b>(1)</b>	<b>(2 460)</b>
Net income		2 415			2 415
Profit distribution declared		(1 313)			(1 313)
Unrealized market value adjustment on securities available for sale			1		1
Translation adjustments				(37)	(37)
<b>Balance at December 31, 1995</b>	–	<b>(1 365)</b>	<b>9</b>	<b>(38)</b>	<b>(1 394)</b>
Net income		1 830			1 830
Profit distribution declared		(616)			(616)
Unrealized market value adjustment on securities available for sale			6		6
Translation adjustments				90	90
<b>Balance at December 31, 1996</b>	–	<b>(151)</b>	<b>15</b>	<b>52</b>	<b>(84)</b>
Net loss		(415)			(415)
Profit distribution declared		(1 282)			(1 282)
Conversion of loan payable to equity	1 650	1 550			3 200
Unrealized market value adjustment on securities available for sale			24		24
Translation adjustments				(213)	(213)
<b>Balance at December 31, 1997</b>	<b>1 650</b>	<b>(298)</b>	<b>39</b>	<b>(161)</b>	<b>1 230</b>

At December 31, 1997 the Confederation advanced a loan to Swisscom of CHF 3,500 million of which CHF 3,200 million was converted to equity in connection with the initial capitalization of Swisscom AG as a stock corporation. Of the CHF 3,200 million, CHF 1,650 million was converted into share capital and CHF 1,550 million was credited to retained earnings representing a reimbursement of profit distributions made by Swisscom to the Confederation in prior years. In 1997, a profit distribution of CHF 1,282 million was declared to the Swiss PTT. Of this amount, Swisscom was required to remit CHF 138 million before December 31, 1997. The remaining CHF 1,144 million was recorded as a liability at December 31, 1997 (see note 21) and was paid to the Swiss PTT in May 1998.

At January 1, 1998, issued share capital consisted of 33,000,000 fully paid registered shares with a par value of CHF 50 each. None of the additional conditional share capital of 1,200,000 registered shares with a par value of CHF 50 each was issued at December 31, 1997. Prior to the planned initial public offering the number of shares and their par value will be finally determined and adjusted accordingly.

The amount available for dividend distribution is based on the parent company's shareholder's equity determined in accordance with the legal provisions of the Swiss Code of Obligations (see note 3 to the balance sheet of the parent company, Swisscom AG, at January 1, 1998).

The accompanying notes form an integral part of these financial statements

# Notes to the consolidated financial statements

## 1 Description of business and relationship with the Swiss Confederation

### 1.1 Description of business

Swisscom AG and its subsidiaries (referred to as Swisscom) is the principal provider of telecommunications services in Switzerland, offering a comprehensive range of services to residential and business customers. Swisscom's major lines of business include providing national and international fixed-line voice telecommunications, mobile telephony and other mobile telecommunications services, leased lines and managed bandwidth services, integrated corporate communications solutions and wholesale network services to other telecommunications carriers. Swisscom AG is a stock corporation incorporated in Switzerland, domiciled in Ittigen (Berne), and is wholly owned by the Swiss Confederation (Confederation).

Historically, Swisscom's operations were part of the Swiss PTT, a dependent agency of the Swiss Confederation which operated the state monopolies for both public telecommunications (Swiss Telecom PTT) and postal services (the Swiss Post). Under the provisions of the Telecommunications Enterprise Act of 1997 ("Telekommunikationsunternehmungsgesetz", abbreviated as TUG), Swiss Telecom PTT, the predecessor of Swisscom, and the Swiss Post were separated into independent organizations and Swiss Telecom PTT was transformed into a special statutory stock corporation under the name Swisscom AG. As required by the TUG, on May 13, 1998, the Federal Council approved Swisscom's Articles and its January 1, 1998 opening balance sheet under Swiss Law. The opening balance sheet represents the tax basis of the assets and liabilities.

### 1.2 Relationship with the Confederation

The Confederation is the sole shareholder of Swisscom. The TUG states that the Confederation must hold a majority of the capital and voting rights of Swisscom. Any reduction of the Confederation's holding below a majority would require a change in law necessitating action by the Federal Assembly, which in some circumstances may also require a referendum by Swiss voters. As the majority shareholder, the Confederation will have the power to control any decision at a shareholders' meeting requiring a majority vote, including the election of the members of the Board of Directors and the approval of dividend payments.

#### **Income taxes**

Prior to its transformation to a stock corporation on January 1, 1998, Swisscom was not subject to income taxes. Upon incorporation, Swisscom became subject to income taxes.

#### **Transactions with the Confederation**

Swisscom supplies telecommunication services to, and acquires materials and services from various departments and agencies of the Confederation. All such transactions are made within normal customer/supplier relationships on terms and conditions no more favorable than those available to other customers and suppliers. In the aggregate the departments and agencies of the Confederation comprise Swisscom's largest customer.

In providing services to the departments and agencies of the Confederation, Swisscom deals with them as separate customers. Services provided to any one governmental department or agency or in total do not represent a significant component of Swisscom's revenues.

#### **Profit distributions to the Confederation**

Distributions of profit for each of the years 1995 through 1997 represent payments made directly to the Confederation as well as required distributions to offset the losses of the other entities of the Swiss PTT.

## 2 Summary of significant accounting policies

### 2.1 Basis of presentation

The consolidated financial statements of Swisscom have been prepared under the historical cost convention and in accordance with International Accounting Standards (IAS) as issued by the International Accounting Standards Committee (IASC) as explained below and in conformity with the legal provisions of the Swiss Code of Obligations.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions Swisscom may undertake in the future, actual results ultimately may differ from those estimates.

### 2.2 Principles of consolidation

The consolidated financial statements of Swisscom include the operations of Swisscom AG and all its direct and indirect subsidiaries which Swisscom AG controls by more than 50 percent of votes.

Investments and joint ventures where Swisscom exercises significant influence but does not have control are accounted for using the equity method. Under the equity method, investments are disclosed as investments in affiliated companies and presented at their fair value as of the date of acquisition adjusted for Swisscom's share in retained earnings (losses) resulting after the date of acquisition.

Investments in which Swisscom's interest is less than 20 percent are recorded at cost less appropriate allowances in the case of a permanent impairment in value.

A schedule with all significant subsidiaries and investments in affiliated companies is presented in note 29.

Subsidiaries and investments acquired or disposed of during the year are included in the consolidated financial statements after the date of acquisition and excluded after the date of sale, respectively.

All intercompany balances, transactions and intercompany profits are eliminated on consolidation.

Significant balances and transactions with investments and joint ventures accounted for using the equity method are separately disclosed as items with affiliated companies.

### 2.3 Intangible assets

Differences between the purchase price of acquisitions and the fair value of net assets acquired are classified as goodwill from acquisitions. Goodwill and other intangible assets are amortized on a straight-line basis over their estimated useful life, principally 5 years and not exceeding 20 years.

### 2.4 Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange prevailing at the dates of transaction, or at a rate that approximates that rate. At the end of the accounting period the unsettled balances in foreign currency receivables and liabilities are valued at the rate of exchange prevailing at balance sheet date, with resulting exchange rate differences charged to income. If such balances are hedged, the hedged exchange rate is used for conversion.

Assets and liabilities of subsidiaries and affiliated companies accounted for using the equity method reporting in currencies other than Swiss francs are translated at the rates of exchange prevailing at balance sheet date. Goodwill arising on the acquisition of foreign entities is treated as an asset of the foreign entity and translated at the closing rate. Income, expenses and cash flows are translated at the average exchange rates

# Notes to the consolidated financial statements (continued)

for the period. Translation gains and losses are accumulated as a separate component of equity labeled cumulative translation adjustment.

## 2.5 Cash and cash equivalents

Cash includes petty cash, cash at banks and cash on deposit with the Central Treasury of the PTT. Cash equivalents include term deposits with the Central Treasury of the PTT and short-term money market investments with original maturity dates of three months or less.

## 2.6 Securities available for sale

Securities available for sale are carried at market and are comprised of marketable equity securities. Unrealized gains are reported separately as an unrealized market value adjustment on securities within consolidated shareholder's equity. Unrealized losses to the extent that they are reversals of previous gains are also recorded within the unrealized market value adjustment on securities. All other losses are recognized as an expense as incurred.

## 2.7 Trade accounts receivable

Trade accounts receivable are recorded at nominal value less an allowance for receivables whose collection is considered uncertain.

## 2.8 Inventories

Inventories consist primarily of customer premises equipment for resale and supplies used in constructing and maintaining the network. Inventories are valued at the lower of cost and net realizable value using the weighted average method. Allowances are made for obsolete and slow-moving items.

## 2.9 Property, plant and equipment

Land, buildings, machinery and equipment are recorded at cost less accumulated depreciation. Leasehold improvements are depreciated over the shorter of their estimated useful life and the remaining term of the lease. Repairs and maintenance are expensed as incurred while major renovations and improvements are capitalized as property, plant and equipment and depreciated over their estimated useful lives. Borrowing costs incurred during the construction of property, plant and equipment are expensed as incurred.

Depreciation is computed using the straight-line method based on estimated useful lives:

	Years
Buildings	15–40
Cable and ducts	14–20
Transmission equipment	5–12
Switching equipment	8–10
Customer premises equipment	5–20
Broadcasting equipment	10
Vehicles	5–7
Machinery, office and auxiliary equipment	4–15
EDP equipment	3–5

## 2.10 Leases

Assets acquired under leasing agreements which effectively transfer substantially all the risks and benefits incidental to ownership from the lessor to the lessee are classified as finance leases. Finance leases are recorded at amounts equivalent to the estimated net present value of the future minimum lease payments which approximate the fair value at the inception of the lease. The estimated net present value of the future minimum lease payments are recorded correspondingly as a finance lease obligation. Assets under finance leases are amortized over their estimated use-

ful lives. Unearned gains on sale and leaseback transactions resulting in finance leases are deferred and amortized over the term of the lease.

Operating lease payments are treated as rentals and charged to income as incurred.

#### 2.11 Impairment of long-lived assets

Property, plant and equipment and other non-current assets, including goodwill and other intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets whose carrying values exceed their recoverable amount are written down to an amount determined using discounted net future cash flows expected to be generated by the asset.

#### 2.12 Dismantlement and restoration costs

Swisscom has a legal obligation to dismantle analog transmitter stations and to restore the property owned by third parties on which the stations are situated. Such costs have been estimated and are accrued over the estimated useful life of these transmitter stations.

#### 2.13 Revenue recognition

Net revenues include all sales of goods and services, net of any value-added taxes, rebates and discounts. Revenues are recognized when goods are delivered or services are rendered. Revenues earned from foreign carriers for international incoming calls are included in revenues in the period in which the calls occur.

#### 2.14 Revenue received in advance

Revenue received in advance consists of rentals of private branch exchange systems received from customers in advance and prepaid telephone cards. Such revenues received in advance are deferred and recognized when services are provided.

#### 2.15 Capitalized cost and changes in inventories

Swisscom's consolidated statement of operations is prepared on the total-cost basis commonly used in Switzerland. Costs to be capitalized and expensed in future periods, such as increases or decreases in inventories and other costs capitalized on construction projects, are classified in the statement of operations as revenues with a corresponding amount included in expenses such that the net effect is zero.

#### 2.16 Retirement benefits

Swisscom contributes to the Pensionskasse des Bundes (PKB), a statutory defined benefit plan of the Confederation, which provides retirement benefits for civil servants and other public servants. The pension cost in each period is calculated on the basis of a yearly actuarial valuation. In accordance with IAS 19 "Retirement Benefit Costs" pension costs are accounted for using the projected unit credit method.

Swiss pension law provisions require that the employer at a minimum matches the contributions made by its employees.

#### 2.17 Restructuring charges

Costs relating to restructuring plans, including the reduction of excess staffing, the discontinuation of certain activities or the streamlining of facilities and operations and other restructuring measures, are recorded in the period management commits itself to a plan and it is probable that a liability has been incurred and the amount can be reasonably estimated.

#### 2.18 Income taxes

Prior to its incorporation on January 1, 1998, Swisscom was not subject to income taxes. Income tax expense is therefore not applicable for years ended through December 31, 1997. Income tax expense of subsidiaries was not significant. Upon incorporation, Swisscom became subject to income tax from January 1, 1998.

# Notes to the consolidated financial statements (continued)

## 2.19 Research and development

Research and development costs are expensed as incurred.

## 2.20 Derivative financial instruments

The only derivative transactions undertaken to date have been entered into for purposes of hedging U.S. dollar lease obligations. The derivative instruments have been designated and are effective as hedges of U.S. dollar foreign currency transaction exposure. Swisscom has entered into currency swaps and foreign exchange contracts that match the payment of the lease obligation. As there is a match between the lease obligation and the derivative financial instruments, the foreign currency effects on these financial instruments are offset. Thus, there is no currency fluctuation effect on the statement of operations or the lease obligation.

## 2.21 Related parties

Under IAS, transactions with the Confederation, including its departments and agencies, are excluded from the scope of related party disclosures.

CHF in millions	1995	1996	1997
<b>3 Net revenues</b>			
Fixed-line voice telephony	7 162	6 881	6 668
Mobile telecommunications services	637	932	1 371
Data and multimedia services	746	762	824
Carrier services	728	719	697
Other revenues	242	238	282
<b>Total net revenues</b>	<b>9 515</b>	<b>9 532</b>	<b>9 842</b>

**Fixed-line voice telephony** revenues consist of revenues from access, national calling, outgoing international calling, voice value-added and information services as well as customer premises equipment and systems, and customer service. Revenue from access consists principally of monthly subscription fees charged to customers for providing analog and digital telephone access lines to residential and business customers in Switzerland as well as one-time connection charges for digital lines. National calling revenue consists of charges to customers for making local and national long distance calls to fixed and mobile handsets and international outgoing calling revenue consists of charges to customers for making outgoing international calls from a fixed-network access line. Revenues from voice value-added and information services consist of charges to business customers for providing toll-free, cost-shared and premium rate business telephone numbers, charges to callers using information services such as directory information and charges for certain other services including virtual private networks. Revenue from customer premises equipment and systems and customer service consists of revenue from the sale and rental to customers of end-user telecommunications equipment, including private branch exchanges, network management systems, video-conferencing equipment, fixed-line telephone handsets, facsimile terminals and modems.

Revenues from **mobile telecommunications services** consist principally of mobile telephony revenues, including one-time charges for service connection, monthly subscription charges and domestic and international calling charges paid by customers, roaming fees paid by foreign operators whose customers use their mobile telephones over Swisscom's network and sales by Swisscom of mobile handsets.

Revenue from **data and multimedia services** consists of revenue from managed network services, including leased lines and data transmission services, revenue from corporate communications solutions and revenue from multimedia services, including Swisscom's Blue Window on-line service and other multimedia and content aggregation services.

Revenue from **carrier services** consists of revenue from network services provided to other telecommunication service providers including revenues from international carriers' carrier services for the use of Swisscom's network for international calls terminating in or transiting through its network, as well as mandated television and radio activities. From January 1, 1998, revenues generated from interconnection agreements are included in revenue from carrier services. Prior to this time, no such agreements were in place.

Other revenues include revenues from non-core activities such as line and other construction work, rental of real estate and equipment and various other services rendered.

#### 4 Capitalized cost and changes in inventories

Capitalized cost includes direct material and labor costs related to the construction of buildings and technical equipment with no interest allocation included.

#### 5 Goods and services purchased

CHF in millions	1995	1996	1997
Raw material and supplies purchased	180	169	261
Customer premises equipment purchased for resale	305	340	431
International traffic fees	584	602	673
Services purchased	106	114	108
Services purchased from affiliated companies	176	164	193
<b>Total goods and services purchased</b>	<b>1 351</b>	<b>1 389</b>	<b>1 666</b>

International traffic fees represent settlement payments to foreign operators for carrying outgoing international traffic and providing roaming services to Swisscom mobile customers using their handsets in foreign countries.

Services purchased from affiliated companies represent the cost of data services purchased from Unisource, an affiliated company.

#### 6 Personnel expenses

CHF in millions	1995	1996	1997
Salaries and wages	1 675	1 772	1 877
Social security expenses	128	141	155
Pension cost	252	256	271
Other personnel expenses	99	179	281
<b>Total personnel expenses</b>	<b>2 154</b>	<b>2 348</b>	<b>2 584</b>

#### 7 Retirement benefits

Substantially all of Swisscom's employees are eligible for retirement benefits under the statutory defined benefit plan provided through the Pensionskasse des Bundes ("PKB"). In connection with the separation of Swisscom from the Swiss Post, Swisscom assumed responsibility for its employees' retirement benefits under Swiss law. Historically, the Confederation's practice was to fund this benefit plan in an amount of approximately two-thirds of the total pension liability. At December 31, 1997, Swisscom's assumed pension obligations under Swiss law were underfunded in the amount of CHF 2.25 billion (the "Pension Gap"). Using a large portion of the proceeds of the loan from the Confederation that was converted into equity, Swisscom contributed CHF 2.1 billion to the pension fund as of December 31, 1997 and contributed the remaining CHF 151 million to the pension fund in March 1998.

The Pension Gap amount was calculated based on data provided by the PKB (the "Base Data"). The Confederation has provided a guarantee to Swisscom pursuant to which it has agreed to assume liability for any amount by which the Pension Gap

## Notes to the consolidated financial statements (continued)

exceeded CHF 2.25 billion at December 31, 1997 due to errors in the Base Data. If the Pension Gap was less than CHF 2.25 billion at that date due to such errors, this guarantee would require the PKB to reimburse Swisscom for the overpayment.

In addition to providing Swisscom with protection against an over-estimation or under-estimation of its Pension Gap liability under Swiss law, the Confederation has provided Swisscom with a guarantee pursuant to which it will protect Swisscom against loss arising from an under-estimation of its accrued pension cost under IAS at December 31, 1997. The guarantee does not specify the procedure how the Confederation would fund any such increase in liability.

In any case, the guarantees provided by the Confederation, with respect to both the Pension Gap under Swiss law and the pension liability under IAS, will expire when Swisscom transfers its pension portfolio from the PKB to a private scheme, which – subject to Federal Council approval – it intends to do by year-end 2000, at the latest.

The PKB plan covers the risks of old age, death and disability in accordance with Swiss pension legislation. Retirement benefits are provided based on a defined final pay formula. The cost and obligations resulting from the sponsoring of this defined benefit plan are determined on an actuarial basis using the projected unit credit method which reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. The latest actuarial valuation was performed as at December 31, 1997. Current service costs are charged to income in the periods in which the services are rendered. The effects of changes in actuarial assumptions are systematically charged or credited to income over a period approximating the average of expected remaining working lives of participating employees.

The assets of the plan are invested in deposits held with the Confederation and mortgages provided to plan participants. It is Swisscom's policy to contribute to the plan at rates specified by the funding rules of the plan.

Net periodic pension cost includes the following components:

CHF in millions	1995	1996	1997
Service cost on benefits earned	94	96	107
Interest cost on projected benefit obligation	328	340	353
Actual return on plan assets	(170)	(180)	(189)
Net periodic pension cost before curtailment and special termination benefits	252	256	271
Curtailment and special termination benefits	–	–	1 206
<b>Net periodic pension cost</b>	<b>252</b>	<b>256</b>	<b>1 477</b>

The curtailment and special termination benefits have been recorded under restructuring charges and represent accelerated pension benefits to employees who accepted voluntary early retirement offers from Swisscom in the fourth quarter of 1997. See note 9.

The status of the pension plan is as follows:

CHF in millions	1995	1996	1997
<b>Benefit obligation:</b>			
At beginning of year	6 351	6 604	6 875
Service cost on benefits earned	94	96	107
Interest cost on projected benefit obligation	328	340	353
Contributions of plan participants	98	106	106
Benefits paid	(267)	(271)	(270)
Curtailment and special termination benefits	-	-	1 206
<b>Benefit obligation at end of year</b>	<b>6 604</b>	<b>6 875</b>	<b>8 377</b>
<b>Plan assets at fair value:</b>			
At beginning of year	3 410	3 591	3 789
Actual return on plan assets	170	180	189
Employer contributions	180	183	186
Contributions of plan participants	98	106	106
Benefits paid	(267)	(271)	(270)
Non-recurring contribution made	-	-	2 100
<b>Plan assets at fair value at end of year</b>	<b>3 591</b>	<b>3 789</b>	<b>6 100</b>
<b>Accrued pension cost</b>	<b>3 013</b>	<b>3 086</b>	<b>2 277</b>
Less current portion	-	-	(789)
<b>Long-term accrued pension cost</b>	<b>3 013</b>	<b>3 086</b>	<b>1 488</b>
<b>Accrued pension cost comprises of:</b>			
Accrued pension cost excluding curtailment and special termination benefits	3 013	3 086	1 071
Curtailment and special termination benefits	-	-	1 206
<b>Accrued pension cost</b>	<b>3 013</b>	<b>3 086</b>	<b>2 277</b>

The following weighted average assumptions were used in accounting for the defined benefit plan:

	1995	1996	1997
Discount rate	5.0%	5.0%	5.0%
Rate of increase in future compensation levels	3.5%	3.2%	3.2%
Expected long-term rate of return on plan assets	5.0%	5.0%	5.0%

# Notes to the consolidated financial statements (continued)

	CHF in millions	1995	1996	1997
<b>8 Other operating expenses</b>	Rent	117	134	137
	Repairs and maintenance	350	427	577
	Loss on disposal of fixed assets, net	256	318	227
	Energy	72	75	81
	Insurance	37	35	29
	EDP	199	308	460
	Advertising and promotion	60	73	88
	General and administration	141	175	176
	Miscellaneous operating expenses	325	336	315
	<b>Total other operating expenses</b>	<b>1 557</b>	<b>1 881</b>	<b>2 090</b>

	CHF in millions	1997
<b>9 Restructuring charges</b>	Personnel restructuring charges	1 326
	Write-down of long-lived assets	316
	Miscellaneous restructuring charges	84
	<b>Total restructuring charges</b>	<b>1 726</b>

## Personnel restructuring charges

A voluntary early retirement plan was offered to all employees aged 55 and over during the fourth quarter of 1997. 2,840 employees formally accepted the offer prior to December 31, 1997, and the liability of CHF 1,206 million was recognized as a personnel restructuring charge in 1997 (see also note 7). This amount represents accelerated pension benefits to those accepting the offer. No severance or other costs are to be paid to these employees. All employees that accepted the offer will retire by December 31, 2000, at the latest. Payments by Swisscom to the PKB for these benefits will occur over this same period. None had yet been made as of December 31, 1997.

As a further measure, a plan to outsource substantially all cleaning and property maintenance staff, consisting of 1,620 part-time and full-time employees was approved by management prior to year end which necessitated an additional personnel restructuring charge of CHF 120 million. On January 6, 1998, the plan was approved by the Executive Board, thus confirming that a liability had been incurred at the balance sheet date. This cost represents the amounts Swisscom will pay to a third party to hire these employees as part of an outsourcing contract, and is in addition to market rate costs for services to be provided in the future.

## Write-down of long-lived assets

Due to the reallocation of radiocommunication frequencies to competitors under the Telecommunications Act, Swisscom decided to discontinue operation of the Natel C analog mobile telephony network by year end 2000 at the latest. This resulted in a write-down of fixed assets in the amount of CHF 140 million reducing their net book value to a recoverable amount of approximately CHF 75 million.

Based on the review of the carrying values of long-lived assets for impairment, additional write-downs of CHF 176 million were recorded for assets impaired or related to activities to be discontinued.

## Miscellaneous restructuring charges

Miscellaneous restructuring charges in the total amount of CHF 84 million reflect various measures taken in 1997 related to discontinuing selected activities and to streamlining certain facilities and operations, the majority of which relates to penalty payments on the early termination of certain contracts.

	CHF in millions	1995	1996	1997
<b>10 Interest expense</b>	Interest on debt	576	484	409
	Miscellaneous	5	3	19
	<b>Total interest expense</b>	<b>581</b>	<b>487</b>	<b>428</b>

#### 11 Income tax expense

As Swisscom was not subject to income taxes prior to its incorporation effective January 1, 1998, the reported income tax expense of CHF 1 million for the years 1995 through 1997 relates solely to income tax expense incurred by subsidiaries.

	CHF in millions	1995	1996	1997
<b>12 Equity in net loss of affiliated companies</b>	Equity in net result of affiliated companies	93	129	166
	Amortization of goodwill from purchases of investments in affiliated companies	10	84	159
	<b>Total equity in net loss of affiliated companies</b>	<b>103</b>	<b>213</b>	<b>325</b>

See also note 18 for additional information.

	CHF in millions	1995	1996	1997
<b>13 Cash and cash equivalents</b>	Cash deposits	132	160	256
	Term deposits	770	525	-
	<b>Total cash and cash equivalents</b>	<b>902</b>	<b>685</b>	<b>256</b>

Term deposits were held with the Central Treasury of the PTT.

#### 14 Securities available for sale

Securities available for sale consist of listed shares valued at market with an original cost of CHF 12 million. Unrealized gains in the amount of CHF 24 million (CHF 6 million in 1996) were recorded as an unrealized market value adjustment on securities within shareholder's equity.

	CHF in millions	1995	1996	1997
<b>15 Trade accounts receivable</b>	Trade accounts receivable	2 003	1 999	2 139
	Trade accounts receivable from affiliated companies	-	16	14
	<b>Total trade accounts receivable, gross</b>	<b>2 003</b>	<b>2 015</b>	<b>2 153</b>
	Allowance for bad debts	(100)	(99)	(101)
<b>Total trade accounts receivable, net</b>	<b>1 903</b>	<b>1 916</b>	<b>2 052</b>	

	CHF in millions	1995	1996	1997
<b>16 Inventories</b>	Raw material and supplies	58	65	54
	Customer premises equipment for resale	217	252	130
	<b>Total inventories, gross</b>	<b>275</b>	<b>317</b>	<b>184</b>
	Allowance for obsolete and slow-moving items	(41)	(35)	(15)
<b>Total inventories, net</b>	<b>234</b>	<b>282</b>	<b>169</b>	

# Notes to the consolidated financial statements (continued)

## 17 Property, plant and equipment

CHF in millions	Land and Buildings	Technical equipment	Vehicles and other equipment	Total
<b>At cost:</b>				
<b>Balance at January 1, 1995</b>	<b>5 133</b>	<b>23 132</b>	<b>1 739</b>	<b>30 004</b>
Additions	256	1 716	201	2 173
Disposals	(16)	(2 018)	(106)	(2 140)
<b>Balance at December 31, 1995</b>	<b>5 373</b>	<b>22 830</b>	<b>1 834</b>	<b>30 037</b>
Initial consolidation of subsidiary	35	–	–	35
Additions	214	1 815	287	2 316
Disposals	(27)	(1 858)	(133)	(2 018)
<b>Balance at December 31, 1996</b>	<b>5 595</b>	<b>22 787</b>	<b>1 988</b>	<b>30 370</b>
Additions	334	1 677	363	2 374
Disposals	(32)	(1 930)	(239)	(2 201)
<b>Balance at December 31, 1997</b>	<b>5 897</b>	<b>22 534</b>	<b>2 112</b>	<b>30 543</b>
<b>Accumulated depreciation:</b>				
<b>Balance at January 1, 1995</b>	<b>3 146</b>	<b>14 910</b>	<b>1 089</b>	<b>19 145</b>
Additions	106	1 468	160	1 734
Disposals	(8)	(1 805)	(66)	(1 879)
<b>Balance at December 31, 1995</b>	<b>3 244</b>	<b>14 573</b>	<b>1 183</b>	<b>19 000</b>
Initial consolidation of subsidiary	22	–	–	22
Additions	119	1 398	195	1 712
Disposals	(14)	(1 586)	(93)	(1 693)
<b>Balance at December 31, 1996</b>	<b>3 371</b>	<b>14 385</b>	<b>1 285</b>	<b>19 041</b>
Additions	177	1 616	215	2 008
Disposals	(27)	(1 814)	(118)	(1 959)
<b>Balance at December 31, 1997</b>	<b>3 521</b>	<b>14 187</b>	<b>1 382</b>	<b>19 090</b>
<b>Net book value:</b>				
<b>At January 1, 1995</b>	<b>1 987</b>	<b>8 222</b>	<b>650</b>	<b>10 859</b>
<b>At December 31, 1995</b>	<b>2 129</b>	<b>8 257</b>	<b>651</b>	<b>11 037</b>
<b>At December 31, 1996</b>	<b>2 224</b>	<b>8 402</b>	<b>703</b>	<b>11 329</b>
<b>At December 31, 1997</b>	<b>2 376</b>	<b>8 347</b>	<b>730</b>	<b>11 453</b>

Translation adjustments were insignificant for 1995 through 1997.

In 1997, additions to accumulated depreciation included write-downs in the total amount of CHF 316 million. See note 9.

Included within property, plant and equipment are the following:

CHF in millions	1995	1996	1997
<b>Assets under construction</b>	<b>648</b>	<b>802</b>	<b>503</b>
<b>Technical equipment acquired under finance leases:</b>			
At cost	–	236	449
Accumulated amortization	–	–	(26)
<b>Net book value</b>	<b>–</b>	<b>236</b>	<b>423</b>

## 18 Investments

CHF in millions	Equity in affiliated companies	Goodwill from investments in affiliated companies	Other investments	Total investments
<b>At cost:</b>				
<b>Balance at January 1, 1995</b>	<b>81</b>	<b>40</b>	<b>66</b>	<b>187</b>
Additions	946	25	30	1 001
Disposals	(3)	(9)	-	(12)
Equity in net result	(93)	-	-	(93)
Translation adjustments	(37)	(2)	-	(39)
<b>Balance at December 31, 1995</b>	<b>894</b>	<b>54</b>	<b>96</b>	<b>1 044</b>
Additions	278	446	47	771
Dividends received	(3)	-	-	(3)
Equity in net result	(129)	-	-	(129)
Translation adjustments	89	-	-	89
<b>Balance at December 31, 1996</b>	<b>1 129</b>	<b>500</b>	<b>143</b>	<b>1 772</b>
Additions	138	69	14	221
Dividends received	(4)	-	-	(4)
Equity in net result	(166)	-	-	(166)
Disposals	-	-	(2)	(2)
Translation adjustments	(162)	(89)	-	(251)
<b>Balance at December 31, 1997</b>	<b>935</b>	<b>480</b>	<b>155</b>	<b>1 570</b>
<b>Accumulated amortization/allowance:</b>				
<b>Balance at January 1, 1995</b>		<b>40</b>	<b>26</b>	<b>66</b>
Additions		10	8	18
Disposals		(9)	-	(9)
Translation adjustments		(2)	-	(2)
<b>Balance at December 31, 1995</b>		<b>39</b>	<b>34</b>	<b>73</b>
Additions		84	13	97
<b>Balance at December 31, 1996</b>		<b>123</b>	<b>47</b>	<b>170</b>
Additions		159	44	203
Disposals		-	(2)	(2)
Translation adjustments		(39)	-	(39)
<b>Balance at December 31, 1997</b>		<b>243</b>	<b>89</b>	<b>332</b>
<b>Net book value:</b>				
<b>At January 1, 1995</b>	<b>81</b>	<b>-</b>	<b>40</b>	<b>121</b>
<b>At December 31, 1995</b>	<b>894</b>	<b>15</b>	<b>62</b>	<b>971</b>
<b>At December 31, 1996</b>	<b>1 129</b>	<b>377</b>	<b>96</b>	<b>1 602</b>
<b>At December 31, 1997</b>	<b>935</b>	<b>237</b>	<b>66</b>	<b>1 238</b>

In 1995, total additions to investments in affiliated companies of CHF 971 million, including goodwill of CHF 25 million, include the purchase of an interest in SPT held through TelSource, as well as capital increases in Cablecom, JászTel and Unisource. See note 29 for significant affiliated companies.

In 1996, total additions to investments in affiliated companies of CHF 724 million, including goodwill of CHF 446 million, include capital increases at Unisource, the purchase of a 30 percent interest in Mutiara and the purchase of a 33 percent interest in Sterling Cellular which is held through Mobilvest. Additions to other investments in 1996 of CHF 47 million include the purchase of an additional interest of 4.7 percent in Infonet Services Corporation and increases of interests in several satellite operating companies.

In 1997, total additions to investments in affiliated companies of CHF 207 million, including goodwill of CHF 69 million, consist of capital increases at Unisource, the

# Notes to the consolidated financial statements (continued)

purchase of additional shares to maintain the interest in Mutiara and the purchase of a 50 percent interest in tesion.

Other investments mainly consist of an 18.7 percent (1996: 14 percent) interest in Infonet Services Corporation as well as several satellite operating companies with interests ranging from 0.8 to 2.8 percent.

The following schedule provides selected aggregated key data of Swisscom's proportionate interest in joint ventures including Unisource, TelSource, Cablecom, Mutiara (purchased in 1996), Sterling Cellular (purchased in 1996) and tesion (purchased in 1997). Other equity investments are insignificant.

CHF in millions	1995	1996	1997
<b>Statement of operations</b>			
Net revenues	396	569	1 072
Total operating expenses	451	634	1 190
Operating loss	(55)	(65)	(118)
<b>Net loss</b>	<b>(94)</b>	<b>(122)</b>	<b>(173)</b>
<b>Balance sheet</b>			
Current assets	137	297	505
Fixed assets	1 190	1 756	1 626
Current liabilities	246	413	599
Long-term liabilities	208	531	594
<b>Shareholders' equity</b>	<b>873</b>	<b>1 109</b>	<b>938</b>

## 19 Other non-current assets

CHF in millions	1995	1996	1997
Loans receivable	17	19	111
Loans receivable from affiliated companies	125	95	97
Intangible assets	1	1	12
<b>Total other non-current assets</b>	<b>143</b>	<b>115</b>	<b>220</b>

In 1995, loans receivable from affiliated companies include a loan to Unisource of CHF 33 million bearing interest at the average rate of Swiss Federal Treasury Bonds. A loan was granted to Cablecom in the amount of CHF 80 million bearing interest at the 6-month LIBOR rate plus a margin of 0.375 percent throughout the three years ending December 31, 1997. In addition loans of CHF 12 million were granted to JászTel bearing interest at the 6-month LIBOR rate plus a margin of 0.5 percent. In 1997 loans receivable secured by real estate amounted to CHF 89 million bearing interest at 5 percent.

## 20 Debt

### Short-term debt

CHF in millions	1995	1996	1997
Short-term loans payable to Central Treasury of the PTT	–	211	2
Short-term loan payable to Federal Treasury	–	–	300
Short-term loans payable to affiliated companies	–	–	51
Current portion of long-term debt	3 181	500	825
<b>Total short-term debt</b>	<b>3 181</b>	<b>711</b>	<b>1 178</b>

The short-term loan payable to Federal Treasury of CHF 300 million represents the portion of the loan in the total amount of CHF 3,500 million, advanced by the Confederation at the end of 1997, which was not converted to equity. See consolidated statement of shareholder's equity. This loan is payable on June 30, 1998, and bears interest of 1.875 percent.

### Long-term debt

Long-term debt consists of unsecured fixed interest rate loans, denominated in Swiss francs, granted by the Central Treasury of the PTT. At December 31, 1997, maturities range from 1998 to 2003 as follows:

CHF in millions	1995	1996	1997
Within one year	3 181	500	825
Within 1–2 years	500	1 700	1 250
Within 2–3 years	1 700	1 750	1 950
Within 3–4 years	1 250	1 950	1 250
Within 4–5 years	1 700	1 250	1 000
After 5 years	1 000	1 750	750
<b>Total</b>	<b>9 331</b>	<b>8 900</b>	<b>7 025</b>
Current portion of long-term debt	(3 181)	(500)	(825)
<b>Total long-term debt</b>	<b>6 150</b>	<b>8 400</b>	<b>6 200</b>

Interest rates range from approximately 3 to 5.5 percent with the weighted average interest rate of debt at 4.4 percent in 1997 (5.1 percent in 1996 and 5.9 percent in 1995).

### 21 Other current liabilities

CHF in millions	1995	1996	1997
Profit distribution payable (see note 1.2)	1 313	616	1 144
Accrued liabilities – current portion (see note 22)	10	17	287
Interest payable	341	133	103
VAT payable	51	59	57
Social security payable	19	27	29
Accrual for overtime and unused vacation	70	70	79
Accrued expenses	313	343	312
Revenue received in advance	133	135	192
Current portion of finance lease obligation (see note 24)	–	–	10
<b>Total other current liabilities</b>	<b>2 250</b>	<b>1 400</b>	<b>2 213</b>

# Notes to the consolidated financial statements (continued)

	CHF in millions		
	1995	1996	1997
<b>22 Accrued liabilities</b>			
Outsourcing program (see note 9)	-	-	120
Other accrued liabilities	674	715	876
<b>Total accrued liabilities including its current portion</b>	<b>674</b>	<b>715</b>	<b>996</b>
Less current portion (see note 21)	(10)	(17)	(287)
<b>Total accrued liabilities</b>	<b>664</b>	<b>698</b>	<b>709</b>

Included within other long-term accrued liabilities is an amount of approximately CHF 300 million for dismantlement of analog transmitter stations and restoration of property owned by third parties on which the transmitters are situated. Total costs are expected to be approximately CHF 400 million. In addition, accrued liabilities at December 31, 1997, include miscellaneous restructuring charges in the amount of CHF 84 million representing costs of various measures taken related to discontinuation of selected activities and streamlining of certain facilities and operations. See note 9.

	CHF in millions		
	1995	1996	1997
<b>23 Other long-term liabilities</b>			
Revenue received in advance	327	232	148
Deposits received from customers	156	148	137
Miscellaneous	34	104	53
<b>Total other long-term liabilities</b>	<b>517</b>	<b>484</b>	<b>338</b>

## 24 Leases

In 1996 and 1997 Swisscom sold part of its technical equipment in two separate transactions for proceeds of CHF 236 million in 1996 and CHF 213 million in 1997, resulting in total gains on sale of CHF 38 million, and concurrently entered into agreements to lease the equipment back under finance leases. See also note 17 and 25.

Payments for finance leases amounted to CHF 4 million in 1997. Future minimum lease payments resulting from non-cancellable finance lease contracts are due as follows:

	CHF in millions	
	1996	1997
Within one year	4	21
In year 2	17	32
In year 3	18	33
In year 4	18	33
In year 5	18	33
After year 5	209	391
<b>Total future payment commitments</b>	<b>284</b>	<b>543</b>
Less future interest charges	(48)	(94)
<b>Total finance lease obligation including its current portion (net present value)</b>	<b>236</b>	<b>449</b>
Less current portion (see note 21)	-	(10)
<b>Long-term finance lease obligation</b>	<b>236</b>	<b>439</b>

## 25 Financial instruments

### Derivative financial instruments

Swisscom has entered into currency swaps and foreign exchange contracts as hedges of two U. S. dollar denominated leases. The total lease obligation at December 31, 1997 amounted to CHF 449 million (CHF 236 million in 1996). It is Swisscom's policy to hedge all currency exposure on such liabilities with foreign currency derivative instruments such as swaps and foreign exchange contracts. The

terms and conditions of the swaps and foreign exchange contracts match the terms and conditions of the underlying finance lease obligations disclosed in note 24. Accordingly all foreign exchange gains and losses on the lease obligations are completely offset by foreign exchange gains and losses on the financial instruments. Swisscom does not undertake speculative trading using derivative instruments.

Swisscom has a net foreign exchange exposure, in particular on international telephone settlements which are expected to be settled within one year. Swisscom's exposure to this foreign exchange risk is not hedged.

### Liquidity risk and credit risk

Liquidity risk includes the risk that, as a result of liquidity requirement in the future, Swisscom will be forced to sell financial assets or derivative positions at a value which is below their underlying worth or may be unable to exit these positions at all, or Swisscom will have insufficient funds to settle a transaction on the due date. To help counter these risks Swisscom has standby facilities and has a liquidity policy which requires a minimum liquidity level to be maintained.

Credit risk includes the risk that a counterparty will fail to discharge their obligation under a financial instrument and cause Swisscom to incur a financial loss. To help counter this risk Swisscom ensures it does not have any significant exposure relative to approved counterparty limits, and has a policy which establishes counterparty limits. Swisscom does not have any significant exposure to any individual customer or counterparty nor does it have any major concentration of credit risk related to any financial instruments.

### Fair value of financial instruments

The following table presents the carrying amounts and fair values of Swisscom's financial instruments outstanding at December 31, 1996 and 1997. The carrying amounts in the table are included in the balance sheet under the indicated captions. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidated sale.

CHF in millions	Carrying amount 1996	Fair value 1996	Carrying amount 1997	Fair value 1997
<b>Financial assets</b>				
Cash and cash equivalents	685	685	256	256
Securities available for sale	27	27	51	51
Trade and other receivables	1 935	1 935	2 064	2 064
Loans receivable	114	114	208	208
<b>Financial liabilities</b>				
Short-term debt <sup>1)</sup>	711	734	1 178	1 204
Trade accounts payable	1 079	1 079	889	889
Other current liabilities	1 248	1 248	1 983	1 983
Long-term debt <sup>1)</sup>	8 400	8 952	6 200	6 655
Finance lease obligation	236	227	449	444
Accrued liabilities and accrued pension cost	3 737	3 737	2 967	2 967
Other long-term liabilities	148	148	137	137

<sup>1)</sup> The difference between carrying value and net fair value relates principally to interest rate movements.

# Notes to the consolidated financial statements (continued)

## Estimation of fair values

### Accounts receivable, accrued expenses and accounts payable

The carrying amounts are a reasonable estimate of the fair value because of the short maturity of such instruments.

### Cash and cash equivalents, securities available for sale, investments and loans receivable

The carrying amounts of cash and loans receivable approximate fair value. The fair value of securities available for sale is based on quoted market values.

The fair value of investments were not practically determinable because they are not publicly traded or no liquid markets exist.

### Finance lease obligation, accrued and other long-term liabilities

The fair value of finance lease obligations is estimated using the expected future payments discounted at market rates. The carrying value of accrued and other long-term liabilities approximate their fair value.

### Debt

The fair value of fixed rate debt is estimated using the expected future payments discounted at market interest rates.

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## 26 Commitments and contingencies

Contractual commitments for future capital expenditures at December 31, 1997, are estimated to become due as follows:

CHF in millions	1997
In 1998	155
In 1999	67
In 2000	37
<b>Total</b>	<b>259</b>

At December 31, 1997, Swisscom guaranteed certain loans of affiliated companies in the maximum amount of CHF 285 million.

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## 27 Segment reporting

Swisscom's principal business is providing telecommunication services, comprising more than 90 percent of total revenues, operating income and net assets. Swisscom's business is conducted predominantly in Switzerland, which for reporting purposes is considered a single geographical area.

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## 28 Management and board of directors

Remuneration of senior management and the board of directors in 1997 amounted to CHF 4 million.

## 29 Significant subsidiaries and affiliated companies

Company name	Location, Country	Interest in percent	Consolidation method
<b>Switzerland:</b>			
Balcab AG	Basle, Switzerland	29.7	equity
Billag AG	Berne, Switzerland	100	full
Cablecom Holding AG <sup>1)</sup>	Frauenfeld, Switzerland	32	equity
Comfone AG <sup>1)</sup>	Muri (Berne), Switzerland	50	equity
Hôtel du Parc SA Martigny	Martigny, Switzerland	45.45	equity
Hotel Seedamm AG	Freienbach, Switzerland	40	equity
Infonet (Schweiz) AG <sup>2)</sup>	Berne, Switzerland	90	full
Swiss Clearline AG	Muri (Berne), Switzerland	100	full
Swisscom Immobilien AG	Berne, Switzerland	100	full
Swisscom Immobilien Invest AG	Berne, Switzerland	100	full
<b>Other countries:</b>			
JászTel Rt. <sup>1)</sup>	Jászberény, Hungary	50	equity
Mutiara Swisscom Berhad <sup>1)</sup>	Kuala Lumpur, Malaysia	30	equity
Sterling Cellular Limited <sup>1) 3)</sup>	New Delhi, India	32.51	equity
Swisscom North America, Inc.	Washington D.C., USA	100	full
Swisscom S.p.A.	Milan, Italy	100	full
Swisscom Telekommunikations GmbH	Vienna, Austria	100	full
Telecom FL AG	Vaduz, Principality of Liechtenstein	100	full
TelSource N.V. <sup>1) 4)</sup>	Den Haag, Netherlands	49	equity
tesion, GmbH & Co. KG <sup>1)</sup>	Stuttgart, Germany	50	equity
Unisource N.V. <sup>1)</sup>	Hoofddorp, Netherlands	33.3	equity

<sup>1)</sup> Joint venture.

<sup>2)</sup> Holding the interest in Infonet Service Corporation. See note 18.

<sup>3)</sup> Held through Mobilvest Ltd., a wholly owned subsidiary.

<sup>4)</sup> Holding the interest in SPT. See note 18.



## Balance sheet of Swisscom AG (parent company)

# Swisscom AG

## Report of Independent Accountants

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To the Shareholder  
and Board of Directors  
of Swisscom AG  
Berne

As statutory auditors, we have audited the opening balance sheet and accompanying notes of Swisscom AG as at January 1, 1998.

This balance sheet and accompanying notes are the responsibility of the board of directors. Our responsibility is to express an opinion on this balance sheet and accompanying notes based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the profession in Switzerland, which require that an audit be planned and performed to obtain reasonable assurance about whether the balance sheet and accompanying notes are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the balance sheet and accompanying notes. We have also assessed the accounting principles used, significant estimates made and the overall balance sheet and accompanying notes presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet and accompanying notes comply with the law and the company's articles of incorporation.

Revisuisse Price Waterhouse AG

Peter Wittwer

Julie Fitzgerald

Berne, June 12, 1998

# Swisscom AG

## Balance sheet of the parent company at January 1, 1998

CHF in millions	Note	At January 1 1998
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents		248
Securities available for sale		51
Trade accounts receivable		2 054
Inventories		169
Other current assets		2 416
<b>Total current assets</b>		<b>4 938</b>
<b>Non-current assets</b>		
Property, plant and equipment		9 074
Investments	7	1 304
Other non-current assets		213
<b>Total non-current assets</b>		<b>10 591</b>
<b>Total assets</b>		<b>15 529</b>
<b>Liabilities and shareholder's equity</b>		
<b>Current liabilities</b>		
Short-term debt		362
Trade accounts payable		893
Other current liabilities		2 770
<b>Total current liabilities</b>		<b>4 025</b>
<b>Long-term liabilities</b>		
Long-term debt		7 464
Accrued liabilities		1 504
Other long-term liabilities		386
<b>Total long-term liabilities</b>		<b>9 354</b>
<b>Total liabilities</b>		<b>13 379</b>
<b>Shareholder's equity</b>		
Share capital	2	1 650
Legal reserves	3	500
<b>Total shareholder's equity</b>		<b>2 150</b>
<b>Total liabilities and shareholder's equity</b>		<b>15 529</b>

### Accounting Principles

The balance sheet of Swisscom AG has been prepared in accordance with the Swiss Code of Obligations.

The accompanying notes form an integral part of this balance sheet

# Swisscom AG

## Notes to the balance sheet of the parent company

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### 1 General

The balance sheet of Swisscom AG, the parent company, at January 1, 1998, complies with the statutory provisions of the Swiss Code of Obligations. Due to the fact that Swisscom AG was incorporated as a special statutory stock corporation at January 1, 1998, no balance sheet is presented prior to such date. For further information see note 1 of the consolidated financial statements.

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### 2 Share capital and conditional share capital

At January 1, 1998, issued share capital consisted of 33,000,000 fully paid registered shares with a par value of CHF 50 each. None of the additional conditional share capital of 1,200,000 registered shares with a par value of CHF 50 each was issued at December 31, 1997. Prior to the planned initial public offering the number of shares and their par value will be finally determined and adjusted accordingly.

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### 3 Legal reserves

Dividends may only be distributed from retained earnings and other reserves established for this purpose. So long as the legal reserve amounts to less than one half of the nominal share capital it may not be distributed and can only be utilized to offset against an accumulated deficit. It is generally held that the shareholders may subsequently resolve to transfer a part of the legal reserve to retained earnings to the extent that it exceeds one half of the share capital, i.e. currently CHF 825 million.

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### 4 Commitments and contingencies

See note 26 of the consolidated financial statements.

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### 5 Leases

Assets acquired under leasing agreements which effectively transfer substantially all the risks and benefits incidental to ownership from the lessor to the lessee are classified as finance leases. Operating lease payments are treated as rentals and charged to income as incurred. Finance lease obligations are included in long-term debt. For further information see note 2.10 and 24 of the consolidated financial statements.

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### 6 Employee benefits

Other current liabilities include CHF 151 million payable to the PKB. For further information see note 7 of the consolidated financial statements.

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### 7 Investments

See note 18 and 29 of the consolidated financial statements. Significant balances and transactions with investments and joint ventures are separately disclosed in the consolidated financial statements as items with affiliated companies.

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### 8 Related parties

See note 2.21 of the consolidated financial statements.

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