



Second Analysts' Meeting

Zurich, 20 August 1998



Introduction

Tony Reis
CEO

Swisscom is outperforming

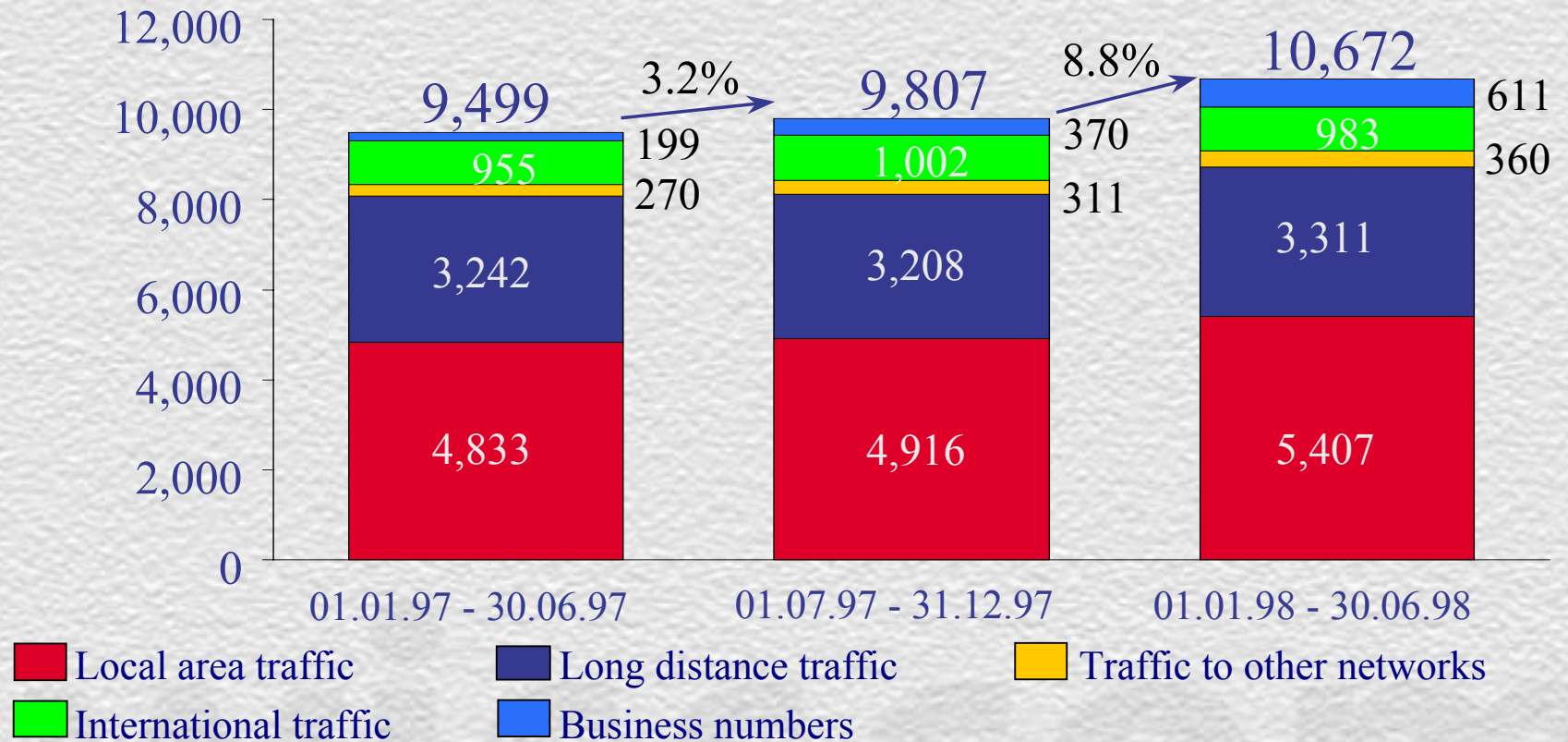
- Market stimulation through increased marketing by Swisscom and competitors
- Retention of market share - delayed impact of competition
- Limited revenue impact from new pricing plans
- Cost and capex reductions well on track - high weighting of projects in second half



The turnaround is being realised

Price cuts and increasing marketing have led to volume growth

Total minutes (m)

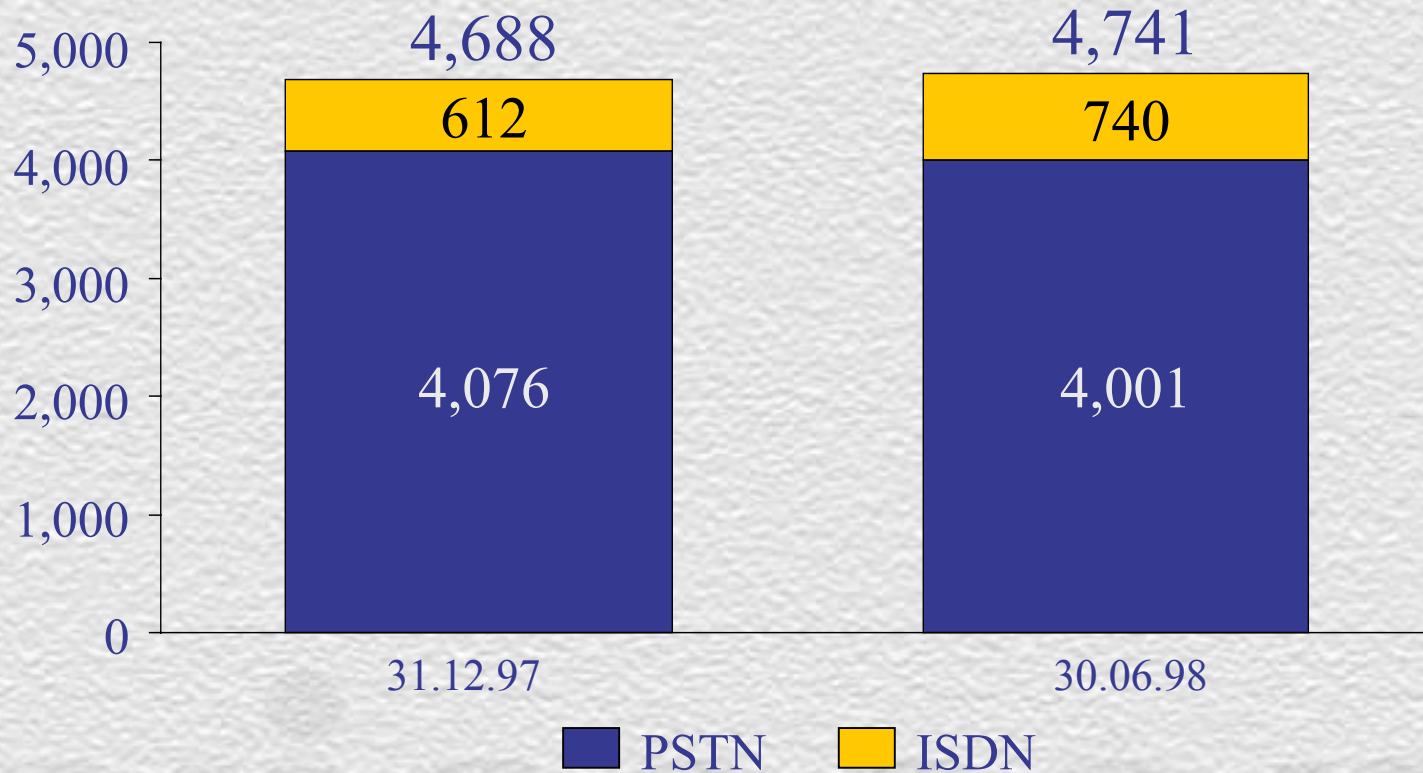


Higher than expected market share retention

Note: Management estimates

ISDN continues to expand into the residential market

Total channels (000's)



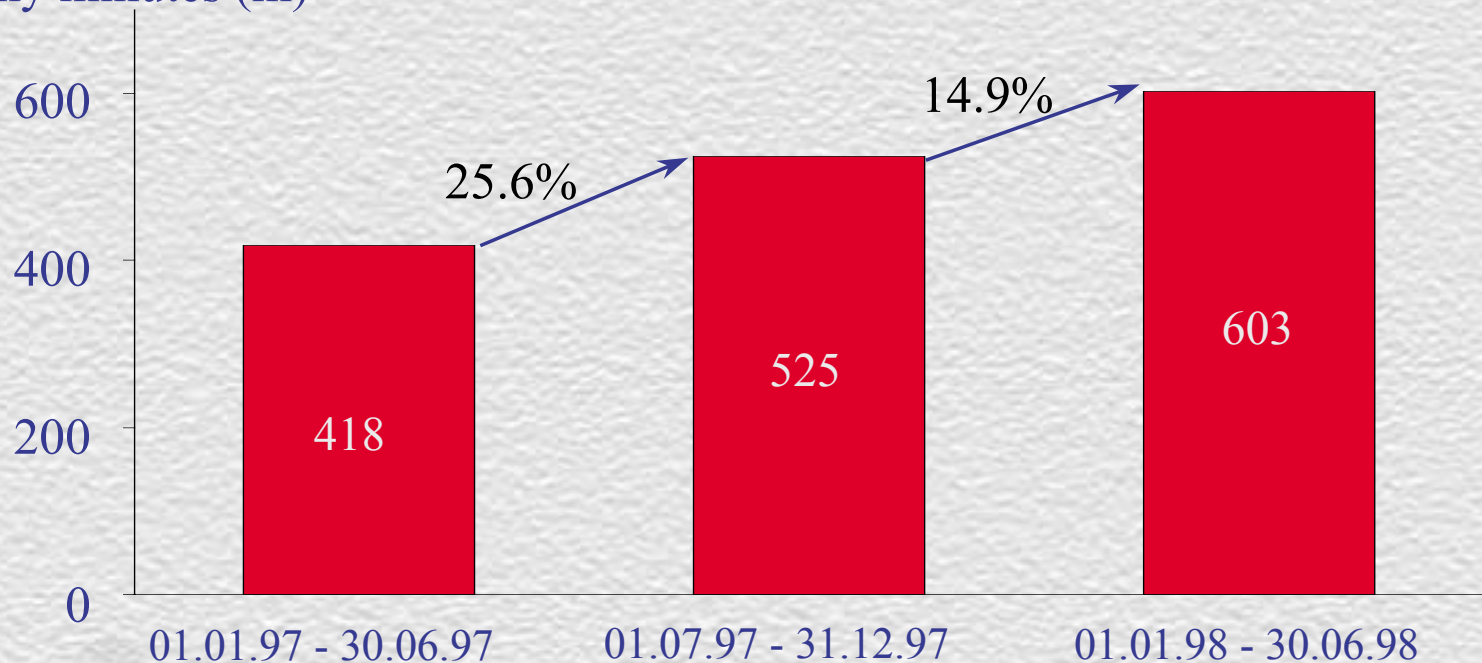
Penetration (%)

| | | |
|---------------|-------------|---------------------------|
| PSTN lines | 57.3 | 56.0 |
| ISDN channels | <u>8.6</u> | <u>10.4</u> |
| Total | 65.9 | 66.4⁽¹⁾ |

Note: (1) Based on population of 7.1m

Mobile traffic continues to increase rapidly

Total outbound mobile telephony minutes (m)



Average monthly minutes of use ⁽¹⁾

Per mobile telephony customer
- excluding Natel Easy

95

101

94

107

86

107

Note: (1) Management estimates. Excludes traffic minutes generated by customers

Swisscom is confident of retaining its MNC customer base

- The recently announced BT/AT&T venture does not endanger Swisscom's ability to provide global services to its MNCs
- AUCS is only one of several options available to provide Swiss MNCs with global services
- Infonet is well placed to offer global data services to Swisscom's MNC customer base
- AUCS agreements in place until 1 July 2000
- Our HME and Hot Spot strategy enhances our ability to serve our MNCs



Swisscom remains the leading telecoms service provider for Swiss MNCs and is well placed to distribute global services in Switzerland



Half year results

David Schnell

CFO

Swisscom - historic performance

According to IAS (all numbers in CHF except employees)

| (CHFm) | 1995 | 1996 | 1997 | CAGR |
|--------------------------|--------|--------|----------------------|---------|
| Net revenues | 9,515 | 9,532 | 9,842 | 1.7% |
| Total operating expenses | 6,813 | 7,345 | 8,079 ⁽¹⁾ | 8.9% |
| EBITDA | 4,798 | 4,232 | 3,779 ⁽¹⁾ | (11.2%) |
| Net income | 2,415 | 1,830 | 1,311 ⁽¹⁾ | (26.3%) |
| Capital expenditure | 2,173 | 2,278 | 2,374 | 4.5% |
| Employees (end of year) | 20,557 | 21,951 | 22,170 | 3.9% |

Need for turnaround

Note: (1) Excludes restructuring charge of CHF 1.7bn

Swisscom - first half performance

According to IAS (all numbers in CHF except employees)

| (CHFm) | <u>Six months ended June 30</u> | | |
|---------------------------|---------------------------------|----------------------|----------|
| | 1997 | 1998 | % change |
| Net revenues | 4,859 | 5,106 | 5.1% |
| Total operating expenses | 3,695 | 3,703 ⁽¹⁾ | 0.2% |
| EBITDA | 2,166 | 2,294 | 5.9% |
| Net income | 995 | 1,133 | 13.9% |
| Capital expenditure | 1,098 | 393 | (64.2%) |
| Employees (end of period) | 22,129 | 21,806 | (1.5%) |

Achieving the turnaround

Note: (1) Including one-off incorporation tax charge of CHF 260m

Net revenues - breakdown by source

| (CHFm) | Six months ended June 30 | | |
|--------------------------|--------------------------|-------|----------|
| | 1997 | 1998 | % change |
| Voice | 3,406 ⁽¹⁾ | 3,303 | (3.0%) |
| Mobile | 610 | 823 | 34.9% |
| Data and multimedia | 383 | 433 | 13.1% |
| Carrier services | 354 | 400 | 13.0% |
| Total telephony revenues | 4,753 | 4,959 | 4.3% |
| Other revenues | 106 | 147 | 38.7% |
| Total net revenues | 4,859 | 5,106 | 5.1% |

Strong overall revenue growth as full impact of competition not yet felt

Note: (1) Prior to tariff reduction in local and national long distance calling

Voice revenues have benefited from increased marketing activities stimulating the telecoms market

| (CHFm) | <u>Six months ended June 30</u> | | |
|----------------------------------|---------------------------------|-------|----------|
| | 1997 | 1998 | % change |
| Access | 640 | 668 | 4.4% |
| National calling | 1,365 | 1,217 | (10.8%) |
| Local | 508 | 322 | (36.6%) |
| National long distance | 774 | 816 | 5.4% |
| Payphones | 83 | 79 | (4.8%) |
| Outgoing international calling | 675 | 707 | 4.7% |
| VAS | 217 | 228 | 5.1% |
| Voice value added | 136 | 148 | 8.8% |
| Information services | 81 | 80 | (1.2%) |
| CPS/CPE/CS | 509 | 483 | (5.1%) |
| Total fixed-line voice telephony | 3,406 | 3,303 | (3.0%) |

Uptake of residential ISDN

Decline due to August 1997 tariff decline

Data revenues

| (CHFm) | Six months ended June 30 | | |
|------------------------------------|--------------------------|------|----------|
| | 1997 | 1998 | % change |
| Leased lines | 235 | 232 | (1.3%) |
| Data transmission | 102 | 94 | (7.8%) |
| X25, Frame Relay, ATM | 77 | 83 | 7.8% |
| Telex and other | 25 | 11 | (56%) |
| Corporate communications solutions | 26 | 48 | 84.6% |
| Multimedia and content | 20 | 59 | 195.0% |
| Total data revenues | 383 | 433 | 13.1% |

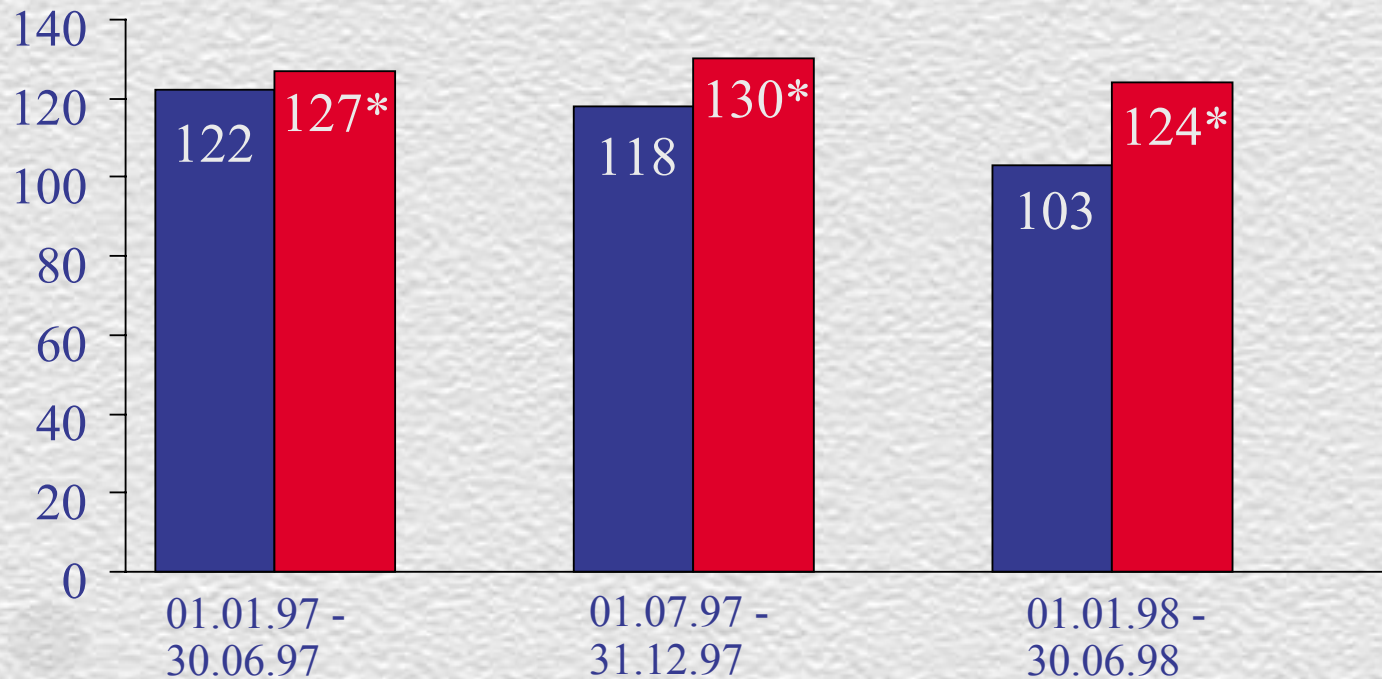
**Decline in X25
offset by growth
in Frame Relay
and ATM**

**Includes CHF 30m
revenue from
directories**

Recently introduced services have contributed significantly to growth

Mobile revenues

Monthly outgoing revenue
per subscriber (CHF) ⁽¹⁾



Mobile revenues
(CHFm)

610

761

823

* Excluding Natel Easy

Note: (1) Excludes revenue generated from customers of other mobile operators roaming

Carrier services revenue

| (CHFm) | <u>Six months ended June 30</u> | | |
|--|---------------------------------|------|----------|
| | 1997 | 1998 | % change |
| National interconnection | - | 12 | n/a |
| International carriers' carrier services | 243 | 281 | 15.6% |
| Mandated services | 111 | 107 | (3.6%) |
| Total carrier services revenue | 354 | 400 | 13.0% |

Competition slow in commencing

Unusually strong growth in hubbing revenues

Margin analysis

| (CHFm) | Six months ended June 30 | | |
|---|--------------------------|-------|---|
| | 1997 | 1998 | % change |
| Net revenues | 4,859 | 5,106 | 5.1% |
| Capitalised cost and change in inventories | 144 | 96 | (33.3%) |
| Total | 5,003 | 5,202 | 4.0% |
| Goods and services purchased | 838 | 750 | (10.5%) |
| Personnel expenses | 1,274 | 1,175 | (7.8%) |
| Other operating expenses | 725 | 723 | (0.3%) |
| Depreciation and amortisation | 858 | 795 | (7.3%) |
| Total operating expenses | 3,695 | 3,443 | (6.8%) |
| Incorporation tax | - | 260 | n/a |
| EBIT | 1,308 | 1,499 | 14.6% |
| EBIT margin | 26.9% | 29.4% | Significantly above full year expectations |
| EBITDA margin | 44.6% | 44.9% | |
| EBITDA margin excl. incorporation tax | - | 50.0% | |

Personnel expenses

| (CHFm) | Six months ended June 30 | | |
|-----------------------------|--------------------------|--------|----------|
| | 1997 | 1998 | % change |
| Salaries and wages | 949 | 975 | 2.7% |
| Social security expenses | 78 | 66 | (15.4%) |
| Pension cost | 134 | 84 | (37.3%) |
| Other personnel expenses | 113 | 50 | (55.8%) |
| Total personnel expenses | 1,274 | 1,175 | (7.8%) |
| <i>as % of net revenues</i> | 26.2% | 23.0% | |
| Period end FTEs | 22,129 | 21,806 | (1.5%) |
| Weighted average FTEs | 22,154 | 21,928 | (1.0%) |

Lower pension cost following contribution of CHF 2.1bn in 1997

Cost relating to former early retirement programme fell away

Note: Severance payments for voluntary redundancies would not be shown as personnel

Goods and services purchased

| (CHFm) | <u>Six months ended June 30</u> | | | |
|--|---------------------------------|--------------|----------------|---|
| | 1997 | 1998 | % change | |
| Raw material and supplies | 94 | 45 | (52.1%) | Reduced construction projects and restrictive procurement |
| Customer premises equipment for resale | 241 | 193 | (24.9%) | |
| International traffic fees | 339 | 346 | 2.1% | Includes one-off inventory write down of CHF 30m |
| Services purchased | 164 | 166 | 1.2% | |
| Total | 838 | 750 | (10.5%) | |
| <i>as % of net revenues</i> | <i>17.2%</i> | <i>14.7%</i> | | |

Other operating expenses

| (CHFm) | Six months ended June 30 | | |
|--|--------------------------|--------------|----------|
| | 1997 | 1998 | % change |
| Rent | 52 | 54 | 3.8% |
| Repairs and maintenance | 183 | 124 | (32.2%) |
| Loss on disposal of fixed assets (net) | 61 | 12 | (80.3%) |
| Energy | 37 | 31 | (16.2%) |
| Insurance | 14 | 24 | 71.4% |
| EDP | 143 | 119 | (16.8%) |
| Advertising and promotion | 23 | 85 | 269.9% |
| General and administration | 66 | 99 | 50.1% |
| Miscellaneous | 146 | 175 | 19.9% |
| Total | 725 | 723 | (0.3%) |
| <i>as % of net revenues</i> | <i>14.9%</i> | <i>14.2%</i> | |

Key cost drivers going forward

Other operating expenses relatively low due to deferrals to second half

Note: Excludes one-off incorporation tax charge of CHF 260m

Capital expenditures and depreciation

| (CHFm) | Six months ended June 30 | | |
|---------------------|--------------------------|------------|------------------|
| | 1997 | 1998 | % of 1998 budget |
| Depreciation | 858 | 795 | |
| Capital expenditure | | | |
| Fixed-line networks | 597 | 208 | 21.8% |
| Mobile networks | 96 | 42 | 10.1% |
| Buildings | 147 | 27 | 14.2% |
| Other | 258 | 116 | 22.7% |
| Total | 1,098 | 393 | 19.0% |

Upgrade
of mobile
switching
capacity in 2nd
half 1998

| | | |
|--------|----------|----------|
| (CHFm) | 31.12.97 | 30.06.98 |
|--------|----------|----------|

Net PP&E

| | | |
|---------------------|---------------|---------------|
| Land and buildings | 2,376 | 2,358 |
| Technical equipment | 8,347 | 8,007 |
| Vehicles and other | 730 | 665 |
| Total | 11,453 | 11,030 |

Swisscom net income

| (CHFm) | Six months ended June 30 | | |
|--|--------------------------|----------------------|----------|
| | 1997 | 1998 | % change |
| EBITDA | 2,166 | 2,294 ⁽¹⁾ | 5.9% |
| EBIT | 1,308 | 1,499 ⁽¹⁾ | 14.6% |
| Interest expense | (204) | (189) | (7.4%) |
| Financial income | 11 | 44 | 300% |
| EBT | 1,115 | 1,354 ⁽¹⁾ | 21.4% |
| Income tax | 1 | 103 | n/a |
| Income before equity in net loss of affiliated companies | 1,114 | 1,251 | 12.3% |
| Equity in net loss of affiliated companies | (119) | (118) | (1.0%) |
| Net income | 995 | 1,133 | 13.9% |
| Net margin | 20.5% | 22.2% | |

Gain from sale
of securities

Tax charge not
representative

Reflects low
tax charge

Note: (1) After one-off incorporation tax charge of CHF 260m

Tax calculation

(CHFm)

Six months ended
June 30, 1998

Income before income taxes and
equity in net loss of affiliated companies

1,354

Effective tax rate

25%

Income tax expense at effective tax rate

339

Reduction in income tax resulting from:

Sale of securities available for sale

(6)

Deferred tax asset recorded on incorporation⁽¹⁾

(230)

Income tax expense

103

Note: (1) Relating to IAS pension gap of CHF 920m at 1 January 1998

First half result was exceptional

- Strong operating margins in first half 1998 reflect:
 - lower impact of competition on revenues than expected
 - positive impact from restructuring measures taken in 1997
 - operating expenses biased towards second half
- Effective tax rate in first half of only 7.6%

Investments in affiliated companies

| <u>Balance Sheet (CHFm)</u> | <u>31 December 97</u> | <u>30 June 98</u> |
|------------------------------------|---------------------------------|-------------------|
| <i>Net book value</i> | | |
| Equity in affiliates | 935 | 914 |
| Goodwill | 237 | 198 |
| Total investments in affiliates | 1,172 | 1,112 |
| | | |
| | <u>Six months ended June 30</u> | |
| <u>Profit and loss (CHFm)</u> | <u>1997</u> | <u>1998</u> |
| Share in net income/(loss) | (74) | (80) |
| Goodwill amortisation | (45) | (38) |
| Equity in net loss from affiliates | (119) | (118) |

Investments in affiliated companies:
carrying values at 30 June 1998

| | (CHFm) |
|-------------------|--------|
| SPT | 712 |
| Mutiara | 183 |
| Sterling Cellular | 122 |
| Unisource | 20 |
| Others | 75 |
| Total | 1,112 |

Swisscom balance sheet

| Consolidated balance sheet | 31 December 97 | 30 June 98 |
|--|----------------|---------------|
| Cash, cash equivalents and securities | 307 | 494 |
| Other current assets | 2,255 | 2,534 |
| Property, plant and equipment | 11,453 | 11,030 |
| Investments | 1,238 | 1,181 |
| Other non-current assets | 220 | 324 |
| Total assets | 15,473 | 15,563 |
| Short term debt | 1,178 | 1,786 |
| Trade accounts payable and other current liabilities | 3,102 | 2,254 |
| Long-term debt and capital lease obligations | 6,639 | 6,233 |
| Accrued pension cost | 2,277 | 1,880 |
| Accrued liabilities and other long-term liabilities | 1,047 | 1,014 |
| Total liabilities | 14,243 | 13,167 |
| Shareholders' equity | 1,230 | 2,396 |
| Working capital ⁽¹⁾ | (847) | 280 |

Note: (1) Other current assets less trade accounts payable and other current liabilities

Financing structure

| (CHFm) | 31 December 97 | 30 June 98 |
|--|----------------|------------|
| Short-term debt | 1,178 | 1,786 |
| Long-term debt | 6,200 | 5,700 |
| Interest bearing debt | 7,378 | 7,486 |
| Finance leases | 449 | 556 |
| less: cash, cash equivalents and securities | 307 | 494 |
| Net debt excluding pension liability | 7,520 | 7,548 |
| Pension liability | 2,277 | 1,880 |
| Curtailment benefits | 1,206 | 930 |
| Pension liability under Swiss law | 151 | 0 |
| Pension liability under IAS | 920 | 950 |

**Payment
of CHF 276m
relating to early
retirement
programme**

**Payment
of CHF 151m in
March 1998**

Consolidated cash flow

| (CHFm) | Six months ended June 30 | | |
|--|--------------------------|---------|----------|
| | 1997 | 1998 | % change |
| Net cash provided by operating activities | 1,613 | 1,528 | (5.3%) |
| Capital expenditures | (1,098) | (393) | |
| Purchases of investments in affiliates | (4) | (9) | |
| Other investing activities | (40) | 128 | |
| Net cash used in investing activities | (1,142) | (274) | (76%) |
| Free cash flow | 471 | 1,254 | 166% |
| Net cash used in financing activities | (912) | (1,036) | |
| Net increase (decrease) in cash and cash equivalents | (441) | 218 | |
| Cash and cash equivalents at end of period | 244 | 474 | |

After
payments of
CHF 151m and
CHF 276m to
Swiss pension
fund

Dividends and number of shares

DIVIDENDS

| | |
|----------------------------|------------------------------------|
| Dividend for 1998 | CHF 800m |
| Payment of 1998 dividend | June 1999 |
| Future target payout ratio | Approximately 50% of net income |

NUMBER OF SHARES

| | |
|--|-------------------|
| Number of shares pre-offering | 66 million |
| Nominal value per share | CHF 25 |
| Expected capital increase through primary offering ⁽¹⁾ | CHF 2.8bn (gross) |

Note: (1) All shares to rank for full year dividend



Tony Reis
CEO

Management is highly incentivised to deliver

- Approximately 700 managers and board of directors eligible for Leveraged Executive Asset Plan (“LEAP”)
- Combination of shares and options
- No downside protection
- Substantial personal investments
- Executive board up to one years salary
- Long term commitment ensured

Employees will be able to buy Swisscom shares at a discount and/or invest in SuperShares

- Allowed to invest a maximum of CHF 4,000 and a minimum of CHF 1,000
- Employees will be offered shares at a 20% discount
- Discount will not be subject to Swiss federal income tax
- Employees must hold shares for a minimum of 4 years to realise tax benefits
- Employees eligible for SuperShares plan up to CHF 1,000

Priority retail campaign

- All priority retail subscribers guaranteed a share allocation
- Shares allocated equitably in line with one, transparent allocation policy
- Preference in allocation over general retail investors
- Slight discount to the definitive issue price

Conclusion

- Strong macroeconomic environment
- Turnaround is being achieved
- Outperforming mobile business
- Focused international strategy
- Low interest and tax rates



Swisscom is ready for increased competition

swisscom

The logo consists of the word "swisscom" in a bold, dark blue, sans-serif font. Below the text, there are six red rectangular bars of varying heights, each aligned under a specific letter: 's', 'w', 'i', 's', 'c', and 'o'. The bars increase in height from left to right, with the bar under the final 'o' being the tallest and widest.

Net debt - key effects in second half 1998

| | |
|---|--------|
| Net debt as of 30 June 1998 : | 7,525 |
| - less capital increase (net of IPO costs) | [] |
| + less release of pension provision in second half 1998 | +362 |
| + payment of incorporation tax payable | +260 |
| <hr/> | |
| + cashflow from operating activities | [] |
| - cashflow from investing activities ⁽¹⁾ | [] |
| <hr/> | |
| | [] |

Note: (1) Investment in UTA; only 20% of budgeted capex spent in first six months

Shareholders' equity

| | 31.12.97 | Charges | 30.06.98 | Charges | 31.12.98 |
|--|----------|---------|----------|--|----------|
| Share capital | 1,650 | - | 1,650 | | 1,650 |
| – Share split pre-offering | | | | From 33m shares at CHF50 to 66m at CHF25 | |
| – Nominal capital increase for primary offering | | | | [# of new shares x CHF25] | [] |
| Retained earnings | (298) | | | | |
| – Plus net income 1st half 1998 | | 1,133 | 835 | | |
| – Plus capital increase of about CHF 2.8bn gross, less | | | | 2,800 | |
| – Nominal capital increase | | | | [] | |
| – IPO costs | | | | [] | |
| – Plus net income 2nd half 1998 | | | | [] | |
| – Less dividends payable for 1998 | | | | -800 | |
| Unrealised market value adjustment on securities | 39 | (24) | 15 | [] | |
| Cumulative transaction adjustment | (161) | 57 | (104) | [] | |

Pension provision

| | 31.12.97 | Charges | 30.06.98 | Expected release of provision of CHF 930m | |
|--------------------------------------|--------------|---------------------------------|--------------|--|---|
| Curtailment benefits | 1,206 | (276) | 930 | Cash payment in period | Remaining provision end of period |
| | | | | 2nd half 1998 | 362 |
| | | | | 1999 | 252 |
| | | | | 2000 | 316 |
| | | | | | 568 |
| | | | | | 316 |
| | | | | | 0 |
| IAS pension gap | 920 | 30 (due to recalculation) | 950 | Broadly stable | |
| Remaining Swiss pension liability | 151 | 151 (paid in March 1998) | 0 | Fully funded under Swiss law | |
| | <u>2,277</u> | | <u>1,880</u> | | |

Cash flow statement - one-off effects

First six months 1998

Profit distribution for 1997 paid to Swiss confederation of CHF 1,144m

Payment of CHF 151m remaining Swiss pension liability in March 1998

Release of curtailment benefits of CHF 276m

Increase in other current liabilities due to income tax payable and incorporation tax payable

Second six months 1998

No dividend payment in 1998.
First dividend expected to be paid in June 1998

Capital increase of about CHF 2.8bn (less IPO costs)

Payment of incorporation tax, currently estimated at CHF 260m

Release of curtailment benefits of CHF 362m

swisscom

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Timetable

- Submission of draft research reports
 - Monday, 24 August 1998

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- Feedback from Joint Global Co-ordinators
 - Wednesday/Thursday, 26/27 August 1998

- Start of Blackout period
 - Sunday, 30 August 1998

swisscom

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