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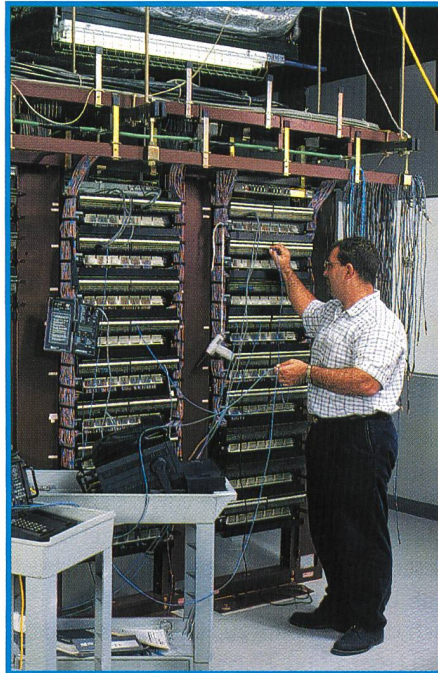
A North American Operating Presence for Swisscom

There are plenty of sound economic reasons for investing in improved telecommunications services between the United States and Switzerland. This may at first seem surprising, given the fact that Switzerland, with its population of 7 million, is about the size of the State of Missouri.

But look at these statistics: Switzerland is the seventh most important direct investor in the United States, and is the sixth most important destination country for American direct investment abroad. The most recent figures show that as of year-end 1997,

MARKUS LICKERT, WASHINGTON DC

U.S. firms have invested a total of \$ 38,6 billion in Switzerland, while Swiss companies have invested a total of \$ 35,2 billion here. U.S. companies in Switzerland total 623, and account for 56 000 jobs, while Swiss companies in the U.S. number 610 with 300 000 employees. In terms of trade, outside of Europe, the United States is the most important trading partner for Switzerland. In 1997, Switzerland imported goods worth \$ 6.2 billion, making the U.S. Switzerland's most important supplier after Germany,



France and Italy. That year, the U.S. was the second most important export market for Swiss goods, behind Germany but ahead of France.

Background

Swisscom's presence here dates from March 1990 when Swiss Telecom North America was established in Washington. The initial objectives were

- to provide increased marketing presence in the United States, Canada, the Caribbean and Mexico,
- to service existing clients more intensively, and
- to build new business between these regions and Switzerland.

Telecommunications in 1990 was in the midst of dramatic changes, to which, in part, Swisscom's presence here was a response. The U.S. had six years of experience as an open telecommunications market, following the breakup of AT&T in 1984. This signaled a "free-for-all" by allowing anyone to establish a phone company here. For example, today there are approximately 1300 local telephone companies and 700 long distance companies doing business in the United States.

Meanwhile, in 1990 Europe was preparing for "EU '92," the target date for introducing certain forms of competition into the various national networks. This



- ▲ Figure 1. An SCNA technician checks circuit quality at the switching site.
- ◀ Figure 2. The MAP (maintenance administration position) is the nerve center of the switching site. To the left in this view is the digital cross-connect (DAX) circuit management system featuring space matrix technology to support U.S. and European bandwidth standards.
- ▶ Figure 3. The first line of defense in the center's uninterrupted power supply system is a battery bank capable of running the switch site for 12 hours.



SWITCH SITE LAYOUT

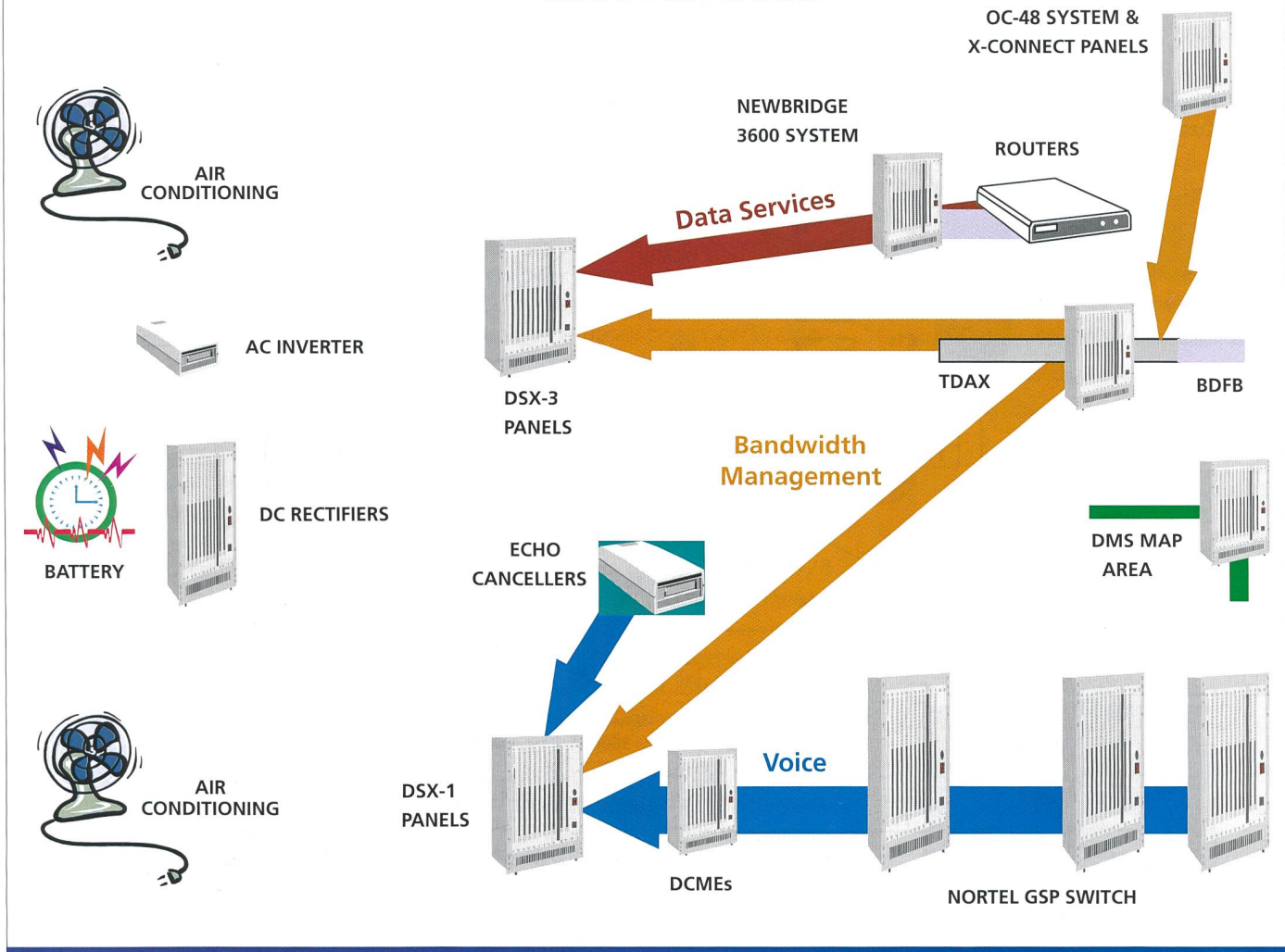


Figure 4. Our switch site lay out was designed for optimal usage of space and to streamline all working efforts.

initial activity culminated on January 1, 1998, when save for a few countries, all European telecom markets opened to competition. And the industry has responded in kind. In Switzerland, for example, already there are about 140 service providers and more than 20 companies offering carrier selection service (update as of publication). In the interim, two other significant developments occurred. These were the Telecom Act of 1996 in the United States and the World Trade Organization's Telecom Accord, which was signed by 69 member nations in February 1997. Of the two events, the WTO Telecom Accord was the event that signaled the breakdown of competitive barriers among signatory nations. Swisscom did not consider an operating presence in the U.S. in 1990. But it became more evident with passing time

that the changing regulatory environment on both continents was creating an opportunity for the company to enhance its presence here. Discussions with our North American customer base yielded valuable information on how to structure this presence, and the services – both telecom and support – that users find most attractive. Our customers were virtually unanimous in their recommendation that Swisscom become a facilities-based carrier in order to deliver end-to-end connectivity. Moreover, a facilities-based presence was seen as allowing Swisscom to increase its share of revenues and to lower cost regarding international switched voice traffic between Switzerland and the rest of the world. Having a switch here would allow us to tap into the wholesale (carrier's carrier) market to supplement retail (end user) service packages.

Finally a subsidiary in the U.S., the world's most liberalized and most innovative telecommunications market, would also be a ideal platform for know how exchange and knowledge transfer back to Swisscom.

The STAR Project

With the encouraging regulatory environment, positive customer feedback and equally promising traffic trends, Swisscom in December 1996 initiated its STAR (Swiss Telecom American Repositioning) project. The project, which is embodied in SCNA and its companion installations in Switzerland, was brought to fruition on June 30, 1998, with the inauguration of facilities-based services between Switzerland and the United States. Important intermediate dates included Swisscom's June 1996 application to the FCC for authorization to

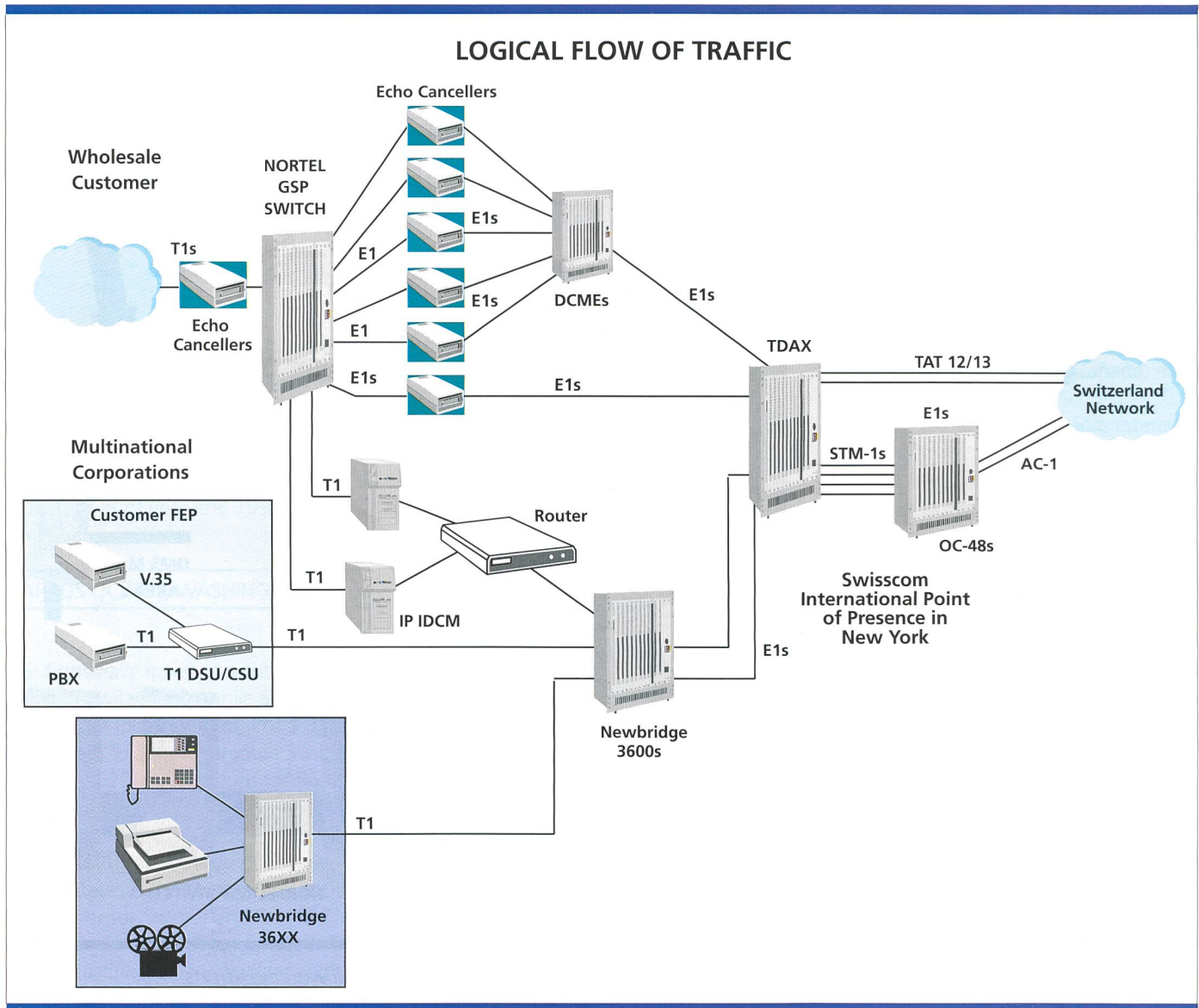


Figure 5. The network diagram shows the logical flow of traffic from the customer's premises into SCNA's international point of presence (I-PoP) and from there to Switzerland or any place in the world.

become a U.S. facilities-based carrier¹ and the granting of that authorization in February 1998. At that time, the company announced that it was the first foreign carrier to be granted a license under the FCC's Foreign Participation Order fulfilling the U.S. commitment to the WTO Telecom Accord.

The objectives of project were to better serve existing customers, develop new business opportunities for existing and new customer segments, open options in international traffic handling and build

an innovative bridge between Switzerland and the most alluring telecommunications market in the world.

In carrying out these objectives, Swisscom set itself to fulfilling certain basic service attributes gleaned from customer interviews. It has assembled an organization to deliver on the following:

- Faster service provisioning
- Administration and billing in English
- Direct settlement in U.S. currency
- Support during U.S. business hours/ customized escalation procedures
- Contracts with a U.S. legal entity
- A single point of contact for end-to-end circuit provisioning and quality control
- A 24-hour help desk

- A North American sales force
- Standards of quality through service level agreements

Touring the New York Switching Center

While STAR's objectives are simply stated, and the project was quickly executed, its coming to fruition was due in no small measure to the hours of dedicated labor put into the project by Swisscom personnel, both here and in Switzerland. From the inception of the project in 1996 to the present, SCNA has grown from 8 to 25, including employees at the new switching center in New York. If a key to success is location, SCNA has picked the right address. At 111 8th

¹ SCNA actually filed for and was granted three 214 authorizations: U.S. – Switzerland, U.S. – Germany, India and Malaysia, and U.S. – rest of the world.

Avenue, Swisscom is among the tenants of what is becoming New York's preferred switching center for international telecommunications. Formerly a Port Authority bus terminal and later a printing center, the Art Deco building covers a complete city block, features truck access on all floors and boasts floor weight limits of 200 pounds per square foot. The switch site is fully staffed and managed under the direction of SCNA's headquarters, which is based in Washington DC. SCNA's fully redundant, Y2K-compliant facilities on the 3rd floor comprise the most modern transmission and switching equipment currently available, and allow us to interconnect with virtually any switching platform in the world. Access to our air-conditioned site is strictly monitored and restricted to authorized personnel only.

Multiple STM-1 circuits from fully redundant transatlantic cable systems terminate at the demarcation point, an OC-48 terminal that can accommodate both SDH and SONET technologies. From there bandwidth is allocated via a Tadiran Telecom Networks cross-connect (DAX) management system featuring space matrix technology to support both US and European standards. The DAX provides extensive capabilities to monitor and manage all incoming circuits on a transmission level.

Our n/64 end-to-end seamless international private line services are implemented on a Newbridge platform, which is managed by Swisscom's 7/24-control center. Our multinational customers are using this service mostly to interconnect their own sites for corporate networking. The Northern Telecom DMS-300 Global Service Platform (DMS-GSP) is one of only four installed to-date in the United States. It puts Swisscom on the leading edge of technology as an international service provider. Its broad set of features and functionality guarantee outstanding performance as both, international gateway and local exchange. The DMS-GSP meets Swisscom's international long distance and enterprise service needs in a single package, accommodating global virtual private networks, international 800 services, calling card services and open intelligent network interfaces. Echo cancellers guarantee a high level of voice quality for all trunk lines. For bandwidth optimization we are also using digital compression equipment (DCME) which provides cost efficient use of international

capacity without compromising quality.

The center is controlled through its MAP (maintenance administration position) that allows hooking up protocol analyzer and test equipment. Other components include digital circuit management and clocking equipment, a total quality management system and AC/DC rectifiers. The first line of defense in the center's uninterrupted power supply system is a battery bank capable of running the site for 12 hours. This is supplemented by multiple emergency power generators that provide us and some other tenants in this building with power backup. In the event of fire a state of the art FM-200 fire protection system guarantees the fastest, most effective way of putting out a fire without causing water damage to our facilities.

All site alarms are monitored on a 7/24 basis and any event of failure is immediately addressed. In case of a service distracting event we have developed restoration procedures that assure Swisscom's high quality service levels at all times. SCNA has a desire to serve our customers and to provide the most creative and reliable solutions that will fully satisfy their international telecommunications service requirements. We have successfully made the transition from a representation office to a full-fledged international service provider, which was made possible by a devoted team effort in a gratifying work environment. ¹



Markus Lickert holds a Bachelor of Science degree in Electrical Engineering with a postgraduate degree in Business Management. He was the responsible

STAR (Swiss Telecom American Repositioning) project manager and joined Swisscom North America in September 1997. His overall responsibilities include corporate strategy, retail products marketing & sale, overall operations and coordination with Swisscom AG. Before joining Swisscom International's Strategy and Alliance Development group in Bern, he held network business and engineering positions in Switzerland and New York for SBC Warburg, one of Switzerland's leading international investment banks.

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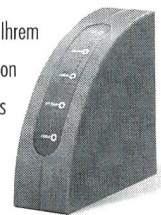
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