



Dear Fellow Shareholder,

During the last year, General DataComm made progress toward our primary goal of achieving profitability. We set aggressive targets for expense reduction and for revenue enhancement. With respect to expense reduction, we met our goals, and then exceeded them. Our efforts to grow revenues were less successful, however, due to events in Asia and the ongoing consolidation in the North American carrier market, which created strong headwinds that impeded our progress.

But progress was made, notably in our most strategic area. Sales of our flagship GDC APEX broadband switching products—which we see as the primary engine of our growth—advanced by 50 percent on a year-over-year basis in each of the last three fiscal quarters, and finished the year up 30 percent over 1997. As this fast-growing segment comes to represent a greater percentage of our total business, it will have an even more positive impact on our overall performance.

Continuing to expand our broadband access and switching business is one element of a new, comprehensive strategy for growth in fiscal 1999. We call this direction *Millennium Thirty* in recognition of our company's 30<sup>th</sup> anniversary and the upcoming year 2000. A hallmark of *Millennium Thirty* is to grow our business based on proven strengths.

For instance, during fiscal 1998 we made major realignments within GDC to give greater autonomy to specific business segments, such as our VITAL Network Services unit. Now, in fiscal 1999, we are replicating that business unit success with four operational strategies designed to build on our strengths, sharpen our focus and improve our results. They are:

- Create Broadband Systems and Network Access business units as profit centers;
- Reorganize worldwide marketing and sales channels;
- Expand the scope of our VITAL Network Services' offerings; and
- Divest or partner selected operations.

While we undertake these bold steps, we will continue to streamline our other business operations. These efforts will draw upon our traditional strengths in carrier-class, high-speed access systems; broadband switching technologies; and worldwide network services and support for our broad spectrum of communications products and services.

Perhaps most prominent among these four strategies is the creation of the Broadband Systems and Network Access business units. We will empower these two organizations with a higher level of independence and accountability.

Throughout these efforts, our goal is to intertwine entrepreneurial vigor with traditional engineering expertise.

Among our worldwide marketing and sales channels, we will become more applications focused with a keen eye toward satisfying unique market needs. In doing so, we will become increasingly entrepreneurial in spirit with metrics-driven accountability. Individual sales and marketing responsibilities will be expanded, the force consolidated and individuals' focus refined.

We will broaden the scope of our VITAL Network Services' range of products and services. During the life of the VITAL organization, we have recognized that their unique market strength is their ability to efficiently and economically support a broad range of multi-vendor system components deployed in a wide variety of industries. This unique market capability will be expanded and strengthened.

While the industry and our customers' interests have broadened over the years, our focus on their behalf has remained strategic: design, build and market highly capable and highly efficient telecommunications network and access capabilities.

In this process, we have embraced areas that can expand beyond our core business, thus leading to over-diversification. These include the computing software element of the Technology Alliance Group (TAG), the sale of which was completed in December 1998.

In addition, we are pursuing partnering arrangements to support new product development activities. The completion of these actions will allow us to retain goal-oriented focus, reduce operating expenses and generate operating capital while allowing GDC to retain access to the products and technologies useful to support our primary market targets.

As we take these and other thoughtful steps, we intend to secure General DataComm's position as a global leader providing broadband solutions to businesses worldwide. Ultimately, though, our single and most important goal is to deliver enhanced value to you, our shareholders.

Charles R. Johnson  
Chairman and Chief Executive Officer  
General DataComm, Inc.