

SWISSCOM AG
Form 20-F
April 24, 2006

Table of Contents

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F

**o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE
SECURITIES EXCHANGE ACT OF 1934**

or

**þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

or

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from to

or

**o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Date of event requiring this shell company report _____

Commission file number: 1-14860

Swisscom AG

(Exact name of Registrant as specified in its charter)

Switzerland

(Jurisdiction of incorporation or organization)

**Alte Tiefenastrasse 6,
3050 Bern, Switzerland**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one-tenth of one Registered Share, Nominal Value CHF 1 per share	New York Stock Exchange
Registered Shares, Nominal Value CHF 1 per share*	New York Stock Exchange

* Listed, not for trading or quotation purposes, but only in connection with the registration of American

Depository
Shares pursuant
to the
requirements of
the Securities
and Exchange
Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2005: 61,482,761 Registered Shares, Nominal Value CHF 1 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Act of 1934.

Yes

No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Table of Contents**TABLE OF CONTENTS**

	Page
<u>INTRODUCTION</u>	1
<u>ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	3
<u>ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE</u>	3
<u>ITEM 3: KEY INFORMATION</u>	4
<u>Selected Financial Data</u>	4
<u>Risk Factors</u>	10
<u>ITEM 4: INFORMATION ON THE COMPANY</u>	21
<u>Overview</u>	21
<u>Fixnet</u>	25
<u>Mobile</u>	37
<u>Solutions</u>	43
<u>Other</u>	48
<u>Corporate</u>	51
<u>Other Participations</u>	51
<u>Divestments/Discontinued Operations</u>	52
<u>Networks and Technology</u>	53
<u>Property, Plant and Equipment</u>	57
<u>Research and Development</u>	58
<u>Regulation</u>	59
<u>ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	70
<u>Introduction</u>	70
<u>Summary of Results</u>	72
<u>Critical Accounting Policies</u>	72
<u>Results of Group Operations</u>	75
<u>Fixnet</u>	80
<u>Mobile</u>	87
<u>Solutions</u>	92
<u>Other</u>	98
<u>Corporate</u>	102
<u>Liquidity and Capital Resources</u>	104
<u>ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	111
<u>Directors and Senior Management</u>	111
<u>Compensation</u>	116
<u>Employees</u>	116
<u>Share Ownership</u>	119
<u>ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	121
<u>Major Shareholders</u>	121
<u>Relationship and Transactions with the Swiss Confederation</u>	121
<u>ITEM 8: FINANCIAL INFORMATION</u>	125
<u>Financial Statements</u>	125
<u>Legal Proceedings</u>	125
<u>Dividend Policy</u>	130
<u>ITEM 9: THE OFFER AND LISTING</u>	131
<u>Markets</u>	131
<u>Price History</u>	132
<u>ITEM 10: ADDITIONAL INFORMATION</u>	133

<u>Memorandum and Articles of Association</u>	133
<u>Corporate Governance</u>	136
<u>Exchange Controls</u>	138
<u>Taxation</u>	139
<u>Documents on Display</u>	142
<u>ITEM 11: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	143
<u>ITEM 12: DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	144
<u>ITEM 13: DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	145
<u>ITEM 14: MATERIAL MODIFICATIONS</u>	145
<u>ITEM 15: CONTROLS AND PROCEDURES</u>	145
<u>ITEM 16A: AUDIT COMMITTEE FINANCIAL EXPERT</u>	145
<u>ITEM 16B: CODE OF ETHICS</u>	145
<u>ITEM 16C: PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	146

Table of Contents

	Page
<u>ITEM 16D: EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	147
<u>ITEM 16E: PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	147
<u>ITEM 17: FINANCIAL STATEMENTS</u>	148
<u>ITEM 18: FINANCIAL STATEMENTS</u>	148
<u>ITEM 19: EXHIBITS</u>	149
<u>SIGNATURE</u>	150
<u>EX-1</u>	
<u>EX-12</u>	
<u>EX-13</u>	

Table of Contents

INTRODUCTION

Presentation of financial and other information

Swisscom publishes its financial statements in Swiss francs (CHF). Unless otherwise indicated, all amounts in this annual report are expressed in Swiss francs. Solely for the convenience of the reader, certain amounts denominated in foreign currencies appearing primarily under the headings *Item 4: Information on the Company*

Divestments/Discontinued Operations and *Item 5: Operating and Financial Review and Prospects* have been translated into Swiss francs. These translations should not be construed as representations that the amounts referred to actually represent such translated amounts or could be converted into the translated currency at the rate indicated.

Swisscom's annual audited consolidated financial statements for the years ended December 31, 2005, December 31, 2004 and December 31, 2003, included in this annual report, are prepared in accordance with International Financial Reporting Standards (IFRS), which differ in certain respects from U.S. generally accepted accounting principles (US GAAP). For a reconciliation of the material differences between IFRS and U.S. GAAP as they relate to Swisscom, see Note 44 to the consolidated financial statements.

As used in this annual report, the term *Swisscom*, unless the context otherwise requires, refers to Swisscom AG and its consolidated subsidiaries. The term *Confederation* refers to the Swiss Confederation.

Cautionary statement regarding forward-looking statements

This annual report contains statements that constitute forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. In addition, other written or oral statements, which constitute forward-looking statements have been made and may in the future be made by or on behalf of Swisscom. In this annual report, such forward-looking statements may be found, in particular, in *Item 4: Information on the Company* and *Item 5: Operating and Financial Review and Prospects* and include, without limitation, statements relating to:

the implementation of strategic initiatives;

the development of revenue overall and within specific business areas;

the development of operating expenses;

the anticipated level of capital expenditures and associated depreciation expense; and

other statements relating to Swisscom's future business development and economic performance.

The words *anticipate*, *believe*, *expect*, *estimate*, *intend*, *plan* and similar expressions identify certain of these forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements because actual events and results may differ materially from the expected results described by such forward-looking statements.

Many factors may influence Swisscom's actual results and cause them to differ materially from expected results as described in forward-looking statements. Such factors include:

general market trends affecting demand for telecommunications services;

developments in the interpretation and application of existing telecommunication regulations in Switzerland and the possibility that additional regulations may be imposed in the future;

developments in technology, particularly the timely rollout of equipment;

the evolution of Swisscom's strategic partnerships and acquisitions, including costs associated with possible future acquisitions and dispositions;

Table of Contents

the effects of tariff reductions and other marketing initiatives;

the outcome of litigation in which Swisscom is involved; and

macroeconomic trends, governmental decisions and regulatory policies affecting businesses in Switzerland generally, including changes in the level of interest or tax rates.

Swisscom disclaims any intention or obligation to update and revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

PART I

ITEM 1: IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2: OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

3

Table of Contents**ITEM 3: KEY INFORMATION****Selected Financial Data****Selected Consolidated Financial and Statistical Data**

The selected consolidated financial data below have been extracted or derived from, and are qualified by reference to, the audited consolidated financial statements of Swisscom. The consolidated financial statements were prepared in accordance with IFRS, which differ in certain significant respects from U.S. GAAP. For a reconciliation of the significant differences between IFRS and U.S. GAAP as they relate to Swisscom, see Note 44 to the consolidated financial statements.

CHF in millions	Year Ended December 31,				
	2001	2002	2003	2004	2005
Consolidated Income Statement Data:					
<i>Amounts in accordance with IFRS:</i>					
Net revenue	10,366	10,415	10,026	10,057	9,732
Other income	193	228	231	195	260
Total	10,559	10,643	10,257	10,252	9,992
Goods and services purchased	2,056	2,073	1,706	1,847	1,831
Personnel expenses	2,224	2,329	2,266	2,194	2,173
Other operating expenses	2,070	2,004	1,798	1,823	1,817
Depreciation	1,669	1,546	1,537	1,542	1,286
Amortization	62	114	142	151	108
Total operating expenses	8,081	8,066	7,449	7,557	7,215
Gain on sale of real estate	675 ⁽¹⁾				
Gain on partial sale of Swisscom Mobile AG	3,837 ⁽²⁾				
Operating income	6,990	2,577	2,808	2,695	2,777
Financial expense	(760)	(495)	(226)	(272)	(160)
Financial income	416	197	213	138	242
Equity in net income (loss) of affiliated companies	32	94	(9)	22	13
Income before income taxes, equity in net income of affiliated companies and minority interest	6,678	2,373	2,786	2,583	2,872
Income tax (expense) benefit ⁽³⁾	48	(313)	(467)	(392)	(535)
Net income from continuing operations	6,726	2,060	2,319	2,191	2,337
Discontinued operations ^{(4) (5)}	(1,433)	(933)	(408)	(243)	9
Net income	5,293	1,127	1,911	1,948	2,346
Net income attributable to equity holders of Swisscom AG	5,067	826	1,571	1,596	2,022
Net income attributable to minority interest	226	301	340	352	324

Table of ContentsCHF in millions except per Share and
ADS amounts

	Year Ended December 31,				
	2001	2002	2003	2004	2005
Basic earnings per share⁽⁶⁾					
-from continuing operations	88.38	26.00	29.89	28.42	33.64
-from discontinued operations ⁽⁵⁾	(19.48)	(13.79)	(6.16)	(3.76)	0.15
-net income	68.90	12.21	23.73	24.66	33.79
Diluted earnings per share⁽⁶⁾					
-from continuing operations	88.33	25.98	29.88	28.42	33.64
-from discontinued operations ⁽⁵⁾	(19.47)	(13.78)	(6.16)	(3.76)	0.15
-net income	68.86	12.20	23.72	24.66	33.79
Basic and diluted earnings per ADS ⁽⁶⁾	6.89	1.22	2.37	2.47	3.38
<i>Amounts in accordance with U.S. GAAP:</i>					
Net revenue	10,384	10,424	10,057	10,113	9,767
Net income from continuing operations	6,070	1,780	2,066	1,968	2,066
Net income (loss) from discontinued operations ⁽⁵⁾	(368)	(994)	(8)	145	263
Cumulative effect of a change in accounting policy		(1,649)	38		
Net income (loss)	5,702	(863)	2,096	2,113	2,329
Basic earnings (loss) per share					
-from continuing operations	82.53	26.31	31.21	30.41	34.52
-from discontinued operations ⁽⁵⁾	(5.00)	(14.69)	(0.12)	2.24	4.40
Cumulative effect of a change in accounting policy		(24.38)	0.57		
-net income	77.53	(12.76)	31.66	32.65	38.92
Diluted earnings (loss) per share					
-from continuing operations	82.49	26.29	31.19	30.41	34.52
-from discontinued operations ⁽⁵⁾	(5.00)	(14.68)	(0.12)	2.24	4.40
Cumulative effect of a change in accounting policy		(24.35)	0.57		
-net income	77.49	(12.74)	31.64	32.65	38.92
Basic earnings per ADS ⁽⁶⁾	7.75	(1.28)	3.17	3.27	3.89
Diluted earnings per ADS ⁽⁶⁾	7.75	(1.27)	3.16	3.27	3.89

Table of Contents

CHF in millions	Year Ended December 31,				
	2001	2002	2003	2004	2005
Consolidated Balance Sheet Data:					
<i>(end of period)</i>					
<i>Amounts in accordance with IFRS:</i>					
Cash and cash equivalents	3,565	1,512	3,104	2,387	1,023
Other current assets	5,807	2,871	2,815	3,818	4,226
Property, plant and equipment	7,837	7,274	6,760	6,190	6,000
Investments in affiliated companies	589	682	41	58	191
Other non-current assets	3,017	2,256	1,913	1,779	1,969
Assets from discontinued operations ⁽⁵⁾	3,300	2,135	1,685		
Total assets	24,115	16,730	16,318	14,232	13,409
Short-term debt	1,694	958 ⁽⁷⁾	514 ⁽⁷⁾	373	173
Trade accounts payable and other current liabilities	2,569	2,170	2,219	2,314	2,562
Long-term debt and finance lease obligations	3,490	2,451 ⁽⁷⁾	2,187	1,941	2,130
Accrued pension cost	1,218	1,101	1,113	1,118	805
Accrued liabilities and other long-term liabilities	1,148	979	984	1,033	1,115
Liabilities from discontinued operations ⁽⁵⁾	1,055	886	794		
Total liabilities	11,174	8,545	7,811	6,779	6,785
Minority interest	769	781	731	663	623
Shareholders equity	12,172	7,404	7 776	6,790	6,001
Total equity	12,941	8,185	8,507	7,453	6,624
<i>Amounts in accordance with U.S. GAAP:</i>					
Assets continuing operations	24,049	18,654	18,360	17,734	17,549
Assets discontinued operations ⁽⁵⁾	4,049	1,165	1,012		
Total assets	28,098	19,819	19,372	17,734	17,549
Long-term debt and finance lease obligations continuing operations	7,255	6,415	5,856	5,394	6,090
Long-term debt and finance lease obligations discontinued operations ⁽⁵⁾	28	23	36		
Total long-term debt and finance lease obligations	7,283	6,438	5,892	5,394	6,090
Shareholders equity	12,294	5,587	6,523	5,863	5,191
Consolidated Cash Flow Data:					
<i>Amounts in accordance with IFRS:</i>					

Edgar Filing: SWISSCOM AG - Form 20-F

Net cash provided by operating activities	3,208	3,698	4,708	4,066	3,432
Capital expenditures:					
Fixed-line networks	470	479	497	360	353
Mobile networks	258	295	381	434	238
Other intangibles	125	70	98	103	189
Buildings	28	2	6	13	104
Other	287	281	183	226	203
Total capital expenditures	1,168	1,127	1,165	1,136	1,087
Investments in affiliated companies	2	37	11		101
	6				

Table of Contents

	Year Ended December 31,				
	2001	2002	2003	2004	2005
Statistical Data:					
Fixed-line access lines ⁽⁸⁾ (<i>end of period, in thousands</i>)					
PSTN lines	3,240	3,163	3,086	3,007	2,922
ISDN lines	857	911	924	924	900
Total fixed-line access lines	4,097	4,074	4,010	3,931	3,822
Traffic (<i>in millions of minutes</i>):					
National fixed-line telephony ⁽⁹⁾	14,317	12,316	10,957	10,211	9,483
Outgoing international fixed-line telephony ⁽¹⁰⁾	1,399	1,394	1,341	1,316	1,282
Mobile telephony ⁽¹¹⁾	3,296	3,331	3,335	3,404	3,688
Retail Internet subscribers (<i>end of period, in thousands</i>) ⁽¹²⁾	734	860	944	1,013	1,118
Swisscom Mobile subscribers ⁽¹³⁾ (<i>end of period, in thousands</i>)	3,373	3,605	3,796	3,908	4,281
Number of full-time equivalent employees (<i>end of period</i>)	17,784	17,171	16,079	15,477	16,088

Notes to Selected Consolidated Financial and Statistical Data

- (1) In 2001, Swisscom entered into two agreements for the sale of real estate and recorded a gain of CHF 675 million.
- (2) In 2001, Swisscom sold 25% of the shares of Swisscom Mobile AG to Vodafone and recorded a gain of CHF 3,837 million on disposal.
- (3) Prior to 2002, Swisscom was

subject to a weighted average statutory income tax rate of 25%. Swisscom's effective tax rate for the year ended December 31, 2001 was reduced by three one-time effects: (1) the gain on the sale of Swisscom Mobile was, in effect, not subject to tax; (2) the gain on the sale of real estate, which was only partially subject to tax; and (3) the impairment charge of debitel for tax purposes exceeded that recorded in the consolidated financial statements. In 2002, Swisscom transferred its operations from Swisscom AG to newly formed subsidiaries, which are each subject to individual tax rates. This resulted in a decrease in the weighted average statutory tax rate from 25% to 23%. For

2004 and 2005, the weighted average statutory tax rate was further reduced to 22.3%. See Note 14 to the consolidated financial statements.

- (4) Swisscom sold debitel in June 2004 and granted the purchaser vendor loan notes amounting to EUR 210 million in connection therewith. The vendor loan notes were initially recognized at fair value and in the following period using the effective interest rate method. See Note 37 to the consolidated financial statements. The purchaser prematurely repaid the entire loan in the first six months of 2005 and made a payment of CHF 351 million, representing the nominal value of the loan and the contractually agreed interest. The difference

of CHF
59 million
between the
recoverable
value of th