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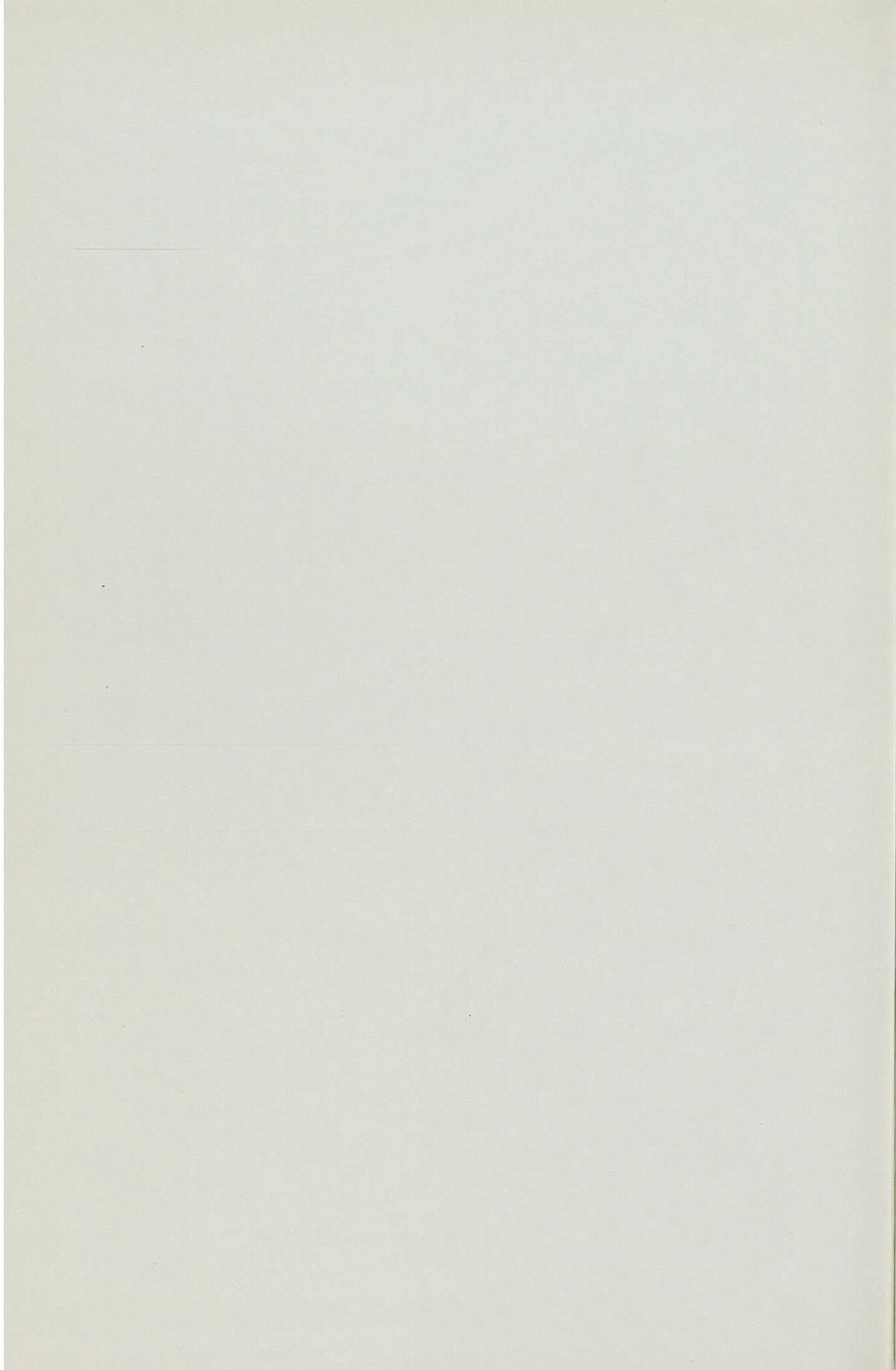
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Time to take stock.

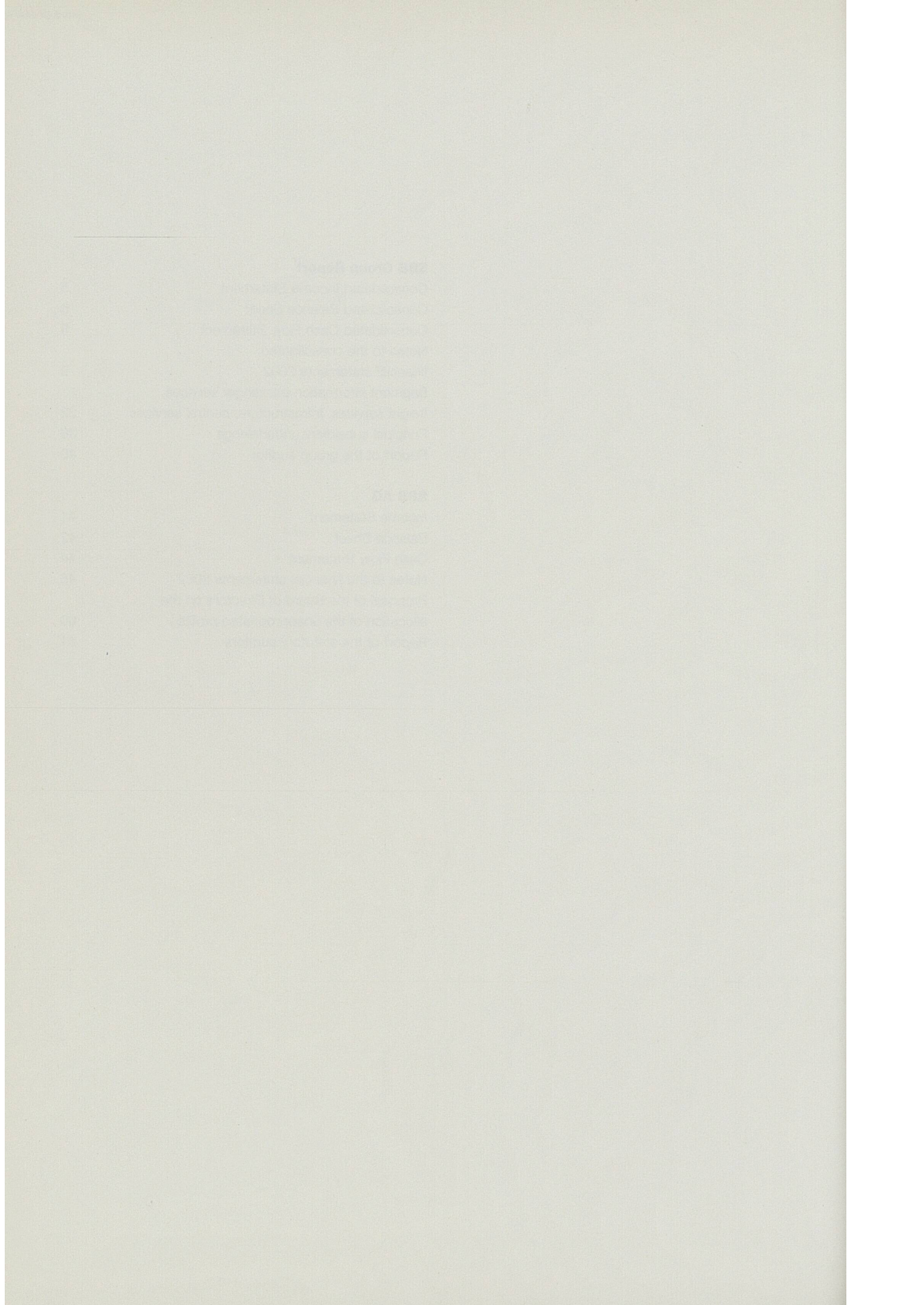


SBB Group Report

Consolidated Income Statement	5
Consolidated Balance Sheet	6
Consolidated Cash Flow Statement	8
Notes to the consolidated financial statements 2002	9
Segment information passenger services, freight services, infrastructure, central services	32
Principal subsidiary undertakings	38
Report of the group auditor	40

SBB AG

Income Statement	41
Balance Sheet	42
Cash Flow Statement	44
Notes to the financial statements 2002	45
Proposal of the Board of Directors on the allocation of the unappropriated profits	60
Report of the statutory auditors	61



Consolidated Income Statement SBB.

For the period from 1 January to 31 December.

CHF millions	Note	2002	2001
Operating revenues			
Traffic revenues	1	2,917.1	2,919.7
Federal and cantonal grants	2	617.6	637.4
Rental revenue from real estate	3	279.6	263.0
Other operating revenues	4	588.0	540.0
Other revenues	5	151.5	25.2
Own work capitalized	6	549.4	576.6
Federal government grants for infrastructure	7	1,306.9	1,225.4
Revenue reductions	8	-86.2	-155.9
Total operating revenues		6,323.9	6,031.4
Operating expenses			
Expenses for materials	9	-466.3	-445.0
Personnel expenses	10	-3,021.6	-2,855.2
Other operating expenses	11	-1,137.9	-1,193.5
Depreciation of tangible assets, write-offs of financial assets and amortisation of intangible assets	12	-1,179.7	-1,002.7
Non-capitalisable investment expenses	13	-324.4	-289.3
Total operating expenses		-6,129.9	-5,785.7
Operating income before appropriation to provisions as per FER 16		194.0	245.7
Staff provident scheme under FER 16	14	-183.0	0.0
Operating income after appropriation to provisions as per FER 16		11.0	245.7
Net proceeds from sale of assets	15	111.2	147.1
Extraordinary income	16	23.6	1,383.4
Extraordinary expenses	17	-6.5	-1,302.7
«Chance»	18	-17.3	-21.8
EBIT		122.0	451.7
Financial income	19	139.8	143.3
Financial expenses	20	-274.0	-278.9
Loss/profit before tax		-12.2	316.1
Taxes	21	-3.3	-2.1
Minority shareholdings		3.5	0.1
Net loss/profit		-12.0	314.1

¹ Disclosed in «extraordinary expense» in the previous year.

The notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet SBB.

Assets.

6

CHF millions	Note	31.12.2002	31.12.2001
Current assets			
Cash and cash equivalents	22	963.8	666.4
Securities		0.9	2.1
Trade accounts receivable	23	545.7	689.8
Other receivables	24	239.7	287.7
Inventories and work in progress	25	258.1	209.1
Accrued income	26	264.8	366.0
Total current assets		2,273.0	2,221.1
Fixed assets			
Financial investments	27	3,150.3	4,302.4
Tangible assets	28	16,941.5	16,298.1
Assets under construction	28	6,214.0	5,641.5
Intangible assets	29	203.8	83.4
Total fixed assets		26,509.6	26,325.4
Total assets		28,782.6	28,546.5

The notes are an integral part of these consolidated financial statements.

Liabilities and equity.

CHF millions	Note	31.12.2002	31.12.2001
Liabilities			
Current financial liabilities	30	31.1	133.8
Trade accounts payable	31	729.2	931.8
Other current liabilities	32	145.7	176.2
Deferred income and accrued charges	33	849.7	965.0
Current provisions	34	357.5	190.8
Total current liabilities		2,113.2	2,397.6
Non-current financial liabilities	35	4,626.7	3,750.0
Other non-current liabilities	36	8,025.7	8,134.3
Non-current provisions	34	2,364.4	2,600.6
Deferred tax		2.3	1.8
Total non-current liabilities		15,019.1	14,486.7
Total liabilities		17,132.3	16,884.3
Minority shareholdings		16.8	16.8
Equity			
	37		
Share capital		9,000.0	9,000.0
Capital reserves		2,069.1	2,076.8
Retained earnings		576.4	254.5
Net loss/profit		-12.0	314.1
Total equity		11,633.5	11,645.4
Total liabilities and equity		28,782.6	28,546.5

The notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement SBB.

8

CHF millions	2002	2001
Net loss/profit	-12.0	314.1
Depreciation of residual book values on asset disposals ¹	0.0	62.7
Depreciation on fixed assets	1,179.7	1,002.7
Non-capitalizable investment expenses	324.4	289.5
Change in non-current provisions	12.8	-128.8
Net proceeds from sale of assets	-111.2	-147.1
Own work capitalised	-549.4	-388.8
Equity valuation	5.3	-11.9
Cash flow	849.6	992.4
Change in securities	1.2	0.9
Change in trade accounts receivable	145.8	-136.6
Change in inventories and work in progress	-48.6	13.9
Change in other current receivables and accrued income	354.6	-234.9
Change in current liabilities	-166.2	275.5
Change in minority shareholdings	-3.6	0.0
Cash flow from operating activities	1,132.8	911.2
Change in scope of consolidation	-14.0	-22.3
Investments in financial assets	-122.9	-253.3
Disposals of financial assets	239.0	255.0
Investments in tangible assets and assets under construction	-2,496.9	-2,239.6
Disposals of tangible assets	106.7	271.2
Investments in intangible assets	-22.2	-7.5
Cash flow from investing activities	-2,310.3	-1,996.5
Change in current financial liabilities	-102.6	-12.0
Change in non-current financial liabilities	845.5	-316.2
Change in other non-current liabilities	732.7	700.2
Dividend payments to minority shareholders	-0.7	-0.7
Cash flow from financing activities	1,474.9	371.3
Overall change in funds	297.4	-714.0
Cash and cash equivalents at 1 January	666.4	1,380.4
Cash and cash equivalents at 31 December	963.8	666.4
Change in cash and cash equivalents	297.4	-714.0

¹ Disclosed in depreciation of fixed assets.

Notes to the consolidated financial statements 2002.

Consolidation principles.

General. The accounting principles applied to these consolidated financial statements meet the requirements of Swiss Company Law and the Swiss Accounting and Reporting Recommendations (Swiss GAAP FER), and give a true and fair picture of the consolidated annual accounts.

9

With the following exception, there was no change in the consolidation and valuation rules from the previous year:

Foreign currency translation. The foreign currency translation method for the consolidated income statement was changed in the 2002 financial year from the exchange rate on the reference date to the average rate.

Closing date. The reporting year is 12 months for all companies. With the exception of Kraftwerk Rapperswil-Auenstein AG (closing date: 30 September), the fiscal year is identical to the calendar year for all consolidated units.

Scope of consolidation. The consolidated financial statements include the annual accounts of Swiss Federal Railways (SBB AG) and those interests where SBB AG directly or indirectly holds the majority of voting shares.

The 100% holding in AlpTransit Gotthard AG has not been consolidated but is included by application of the equity method because – based on a special agreement between the Swiss Confederation and SBB AG – the federal government has a dominant influence. The uniform management criterion therefore does not apply.

Owing to the current and planned restructuring of SBB AG's warehouse interests, the 100% holding in CSC Basel AG continues to be accounted for by the equity method.

The companies in the scope of consolidation are listed on page 38.

Consolidation method. For all companies in which SBB AG has a direct or indirect holding of more than 50%, the full consolidation method is applied. Assets, liabilities, expenses and income are accounted for at 100%. Interests of third-party shareholders in the equity capital and profit are shown separately.

Equity has been consolidated in accordance with the Anglo-Saxon purchase method. Intra-group assets, liabilities, expenses and income have been offset against each other. Interim profits on intra-group accounts not yet realised by sales to third parties have been eliminated in consolidation.

Associated companies in which SBB AG has holdings of between 20% and 50% have been accounted for by the equity method.

Minority shareholdings. Published minority shareholdings in the Group's equity capital and profits correspond to the third-party holdings in the equity capital and profits of the respective companies established on the basis of the shareholder structure currently applicable.

10

Foreign currency translation. Assets and liabilities from balance sheets drawn up in foreign currencies are translated at the year-end exchange rate. The equity is translated at the historical exchange rate and income and expenditure at the average rate.

The following rates of exchange were applied in these financial statements:

	Average exchange rate 2002	Exchange rate on the reference date 31.12.2002	Exchange rate on the reference date 31.12.2001
EUR	1.48	1.47	1.48

Goodwill. On initial consolidation of a company, its assets and liabilities are revalued according to uniform principles. The difference between the resulting equity and the historical cost (goodwill) is capitalized as an asset and is normally amortized on a linear basis over 5 years.

Valuation principles applicable to the consolidated accounts.

General. The consolidated financial statements are based on the financial statements of the group companies, prepared according to uniform valuation principles in accordance with the principles of Swiss GAAP FER. The valuation and reporting principles correspond to the Swiss GAAP FER accounting standards:

11

Current assets. Liquid funds are composed of cash, balances on postal and bank accounts, and financial investments that can be realised in a short time.

Securities are in principle stated at their year-end market value.

Trade accounts receivable and **other receivables** are stated at their nominal value, less economically necessary valuation provisions. Actual credit risks are shown individually while a global valuation provision has been made for latent credit risks.

Materials and spare parts which are almost exclusively for the Group's own use were entered at purchase or manufacturing cost, observing the principle of the lower of cost and market value. Manufacturing costs are calculated on the basis of the material and production costs (full costs). Valuation provisions are made for slow-moving goods and items with reduced marketability. Discounts claimed are credited to financial income.

Fixed assets. Financial investments include holdings in associated companies in which 20% and more voting rights are held, consolidated according to the equity method, and the other unconsolidated holdings which are shown at historical cost less appropriate, commercially necessary depreciation. In addition, the financial assets contain non-current receivables from third parties, unconsolidated holdings and receivables from the shareholder. These are shown at their nominal value less valuation provisions for actual credit risks.

Tangible assets have been valued at the cost of purchase or manufacture, less the necessary depreciation. Linear depreciation has been provided over the anticipated useful life of the assets. The presumed useful life, i.e. depreciation period of the tangible assets, is as follows (in years):

Technical, electrical and mechanical installations	15-25
Tools, furniture, instruments	10
IT	4
Telecoms	2-20
Vehicles	
– Locomotives and power cars	25
– Passenger cars and freight wagons	20
– Service wagons	30
– Road and other wagons	10-25
– Railway installations	20-50
Site development, supply and disposal installations	15-25
Hydraulic engineering structures	80
Buildings	50-75

Leasing contracts which serve the same commercial purpose as the purchase of a tangible asset (financial lease) are capitalized as tangible assets and depreciated over the same useful life as similar assets. Leasing liabilities are included in financial liabilities. Profits from such transactions (financial lease) are deferred and written back over the contract period.

Assets under construction comprise the accrued overall costs of a project. Non-capitalizable portions of costs are taken into account with corresponding valuation provisions until completion of the project.

Intangible assets comprise non-material items (goodwill, water rights, rights of way, other rights and software) purchased. Linear amortisation has been applied over the corresponding useful life.

Liabilities. Contributions to the **staff provident institutions** are made in accordance with the requirements of the BVG (Swiss pension fund law). All major provident institutions of the Group operate primarily on the defined benefit principle. Benefits payable to qualifying members of staff are normally calculated as a percentage of the presumed salary in the years immediately preceding retirement and depend on the number of years of service.

Staff welfare at the SBB Group is, in principle, the responsibility of the SBB Pension Fund, which has been an independent foundation since 1 January 1999. Possible exceptions are subsidiaries which have contracts with other provident schemes.

The financial effects of pension commitments must be entered in accordance with Swiss GAAP FER 16, irrespective of the legal form of the pension plans and schemes. This financial approach requires the inclusion of staff provident schemes in the financial statement, although they constitute neither a credit balance nor a liability from a legal point of view. Assets and liabilities relating to the pension schemes are revalued periodically. ATAG Libera AG carries out the calculations in accordance with FER 16 for SBB using the «projected unit credit» method. The projected benefit obligations (PBO) towards employees covered by the plan are equivalent to the cash value of the pension benefits accrued on the reference date, taking account of assumed future salary and pension increases and the likelihood of the employees leaving. Provident scheme commitments to pensioners are expressed as the cash value of the current pensions, taking account of assumed future pension increases. The overall liability is compared with the market value of the assets. If this results in a deficit, at least the liability is entered (updating of the previous year's figure). Should the difference (between the liability and the actual deficit) exceed the range for which FER 16 makes provision (10% of the provident assets or 10% of the provident scheme commitments, whichever is higher), the difference is amortised over an average remaining period for the insured parties (15 years in the case of SBB), thus affecting the income statement.

Other provisions are set up and released in accordance with standard business management principles.

Deferred taxes, which relate solely to holdings, as SBB AG and SBB Cargo AG are exempt from tax, take account of all effects on taxes on income arising from the requirements of commercial or local law or from the internal valuation principles of the Group. The provision is set up according to the liability method and continuously adapted to any changes in local tax laws.

At present, no significant loss carryovers or tax credits are anticipated.

Derivatives. The financial strategy of SBB AG is geared to risk minimisation. Derivatives are therefore used exclusively for hedging underlying transactions. Events affecting the earnings situation are tracked continuously in the accounts. For risk management purposes, off-balance sheet transactions are valued regularly.

Notes to the consolidated financial statement.

13

0 Changes to the scope of consolidation

Since 1 January 2002, the scope of fully consolidated holdings has changed as follows:

Additions:

- Passaggio Rail AG, Olten: Purchase of a 60% interest (January 2002).
- Swiss Rail Cargo Köln GmbH, Cologne: 51% shareholding on establishment (June 2002).
- SBB GmbH, Lörrach: 100% shareholding on establishment (November 2002).
- MThB Deutschland GmbH, Constance: Purchase of a 100% interest (December 2002).

Disposals:

- None.

1 Traffic revenues

CHF millions	2002	2001
Passenger services	1,797.2	1,714.4
Freight services	985.4	1,049.3
Operation revenues	119.2	141.4
Infrastructure	15.3	14.6
Traffic revenues	2,917.1	2,919.7

Overall, the traffic revenues are practically unchanged. Revenues from passenger services increased by 4.8%. However, revenues from freight services fell by 6.1% due to the economic downturn in Europe and the disruptions to routes along the north-south axis. In general, there was a reduction in operation revenues in the year under review. On the other hand, income from infrastructure increased slightly.

2 Federal and cantonal grants

CHF millions	2002	2001
Grants for regional passenger services		
Confederation	317.1	324.7
Cantons	189.9	212.0
Third-party contributions	0.3	2.4
Total grants for regional passenger services	507.3	539.1
Train path charge subsidies for freight traffic (infrastructure)		
for intermodal transport	32.7	37.4
less difference from 2000	0.0	-17.0
for other freight traffic	59.3	61.9
Total train path charge subsidies	92.0	82.3
Grants to Cargo for intermodal transport	18.3	16.0
Federal and cantonal grants	617.6	637.4

14

The procedure for the entry of payments forwarded by the federal government for the benefit of the Zurich Transport Authority (ZVV) was amended in 2002, as specified by the Federal Office of Transport (FOT). Payment to the ZVV was previously made directly in the form of a reduction in the payments by the federal government for infrastructure (see note 7). The deduction is now disclosed in cantonal grants. The ZVV portion for the current financial year is CHF 30 million.

The federal government paid an additional grant of CHF 0.2 million for regional passenger traffic to cover the shortfall incurred for the transport of accompanied motor vehicles during the closure of the St. Gotthard road tunnel. The federal and cantonal grants to Cargo amounted to CHF 2.3 million.

3 Rental revenue from real estate

This figure includes the revenues from real estate in SBB's property portfolio.

4 Other operating revenues

CHF millions	2002	2001
Contract staff	1.4	1.6
Services to third parties	117.0	135.5
Maintenance and servicing work	50.2	31.4
Rental revenues	59.8	31.8
Power revenues	55.5	92.7
Foreign currency exchange	41.9	51.3
Commission	109.8	86.1
Sales of stationery and materials	34.8	14.0
Cost participations, contributions	75.9	61.2
Sundry income	41.7	34.4
Other operating revenues	588.0	540.0

In addition to the effects of normal business, the increase in other operating revenues is primarily attributable to the additional work carried out during Expo.02 (maintenance, commission, stationery and sundry additional income).

The rental revenues increased as a result of the general application of gross accounting for the use of railway vehicles. Vehicle costs also increased to the same extent (cf. note 11).

The energy figure was reduced due to the sale of interests in power plants, which resulted in lower sales of excess electricity.

The increase in shared costs includes higher charges for passengers travelling without a valid ticket and an increase in shared advertising and marketing costs for the sale of General Abonnement passes and Half-tax Cards.

5 Other revenues

The increase was mainly a result of the consolidation of Passaggio Rail AG, Olten. The power provision used to cover the power generation costs over and above the market price was reversed under this heading.

6 Own work capitalized

CHF millions	2002	2001
Investment orders	345.2	388.8
Stock orders	204.2	187.8
Own work capitalized	549.4	576.6

There was a reduction in own work capitalized for Rail 2000, which is reflected in the fall in investment orders. On the other hand, own work capitalized for stock orders increased by CHF 16.4 million, mainly as a result of an increase in work (Expo.02) for the servicing of rolling stock.

7 Federal government grants for infrastructure

CHF millions	2002	2001
Maintenance grants	810.0	777.0
Operating grants	494.0	484.0
Forwarded to ZVV	0.0	-35.6
Contribution for alternative SBB offer relating to St. Gotthard road tunnel closure	2.9	0.0
Federal government grants for infrastructure	1,306.9	1,225.4

The infrastructure maintenance grant covers write-offs and depreciation on existing installations and non-capitalizable investments. The increase in grants is partly attributable to the investment activity relating to Rail 2000. The grant for infrastructure maintenance was also increased.

The federal government paid SBB CHF 2.9 million for costs incurred during the closure of the St. Gotthard road tunnel. This included firstly a non-repayable contribution to cover non-capitalizable outlays for the Brunnen (Schwyz) – Lugano piggy-back service and, secondly, a grant to cover the shortfall in the operating costs for the transport of accompanied motor vehicles.

A payment was also made to SBB for forwarding to the Zurich Transport Authority (ZVV), through federal government grants for infrastructure. This amount is not directly connected with services performed by SBB AG and is forwarded direct to ZVV. Previously, this amount was deducted again from the federal government grants. The Federal Office of Transport (FOT) has now stipulated that it be deducted under «Cantonal grants».

8 Revenue reductions

The fall in revenue reductions is due to the lower balance of gains and losses from exchange rates and the change in the provisions for bad and doubtful debts.

9 Expenses for materials

The increased spare parts requirement for Expo.02 traffic and the use of more complex, more expensive spare parts for the new ICN and IC2000 fleet, especially materials for power cars, car parts and motor parts, entailed higher expenses for materials.

10 Personnel expenses

CHF millions	2002	2001
Wages and salaries	2,529.1	2,470.0
Social benefit costs	400.3	327.6
Other personnel expenses	92.2	57.6
Personnel expenses	3,021.6	2,855.2

The increase in wages and salaries was due firstly to the effects of the higher staffing level in the group, primarily as a result of the first-time consolidation of Passaggio Rail AG, Olten, and the increase in staff at SECURITRANS, and secondly to the increase in wages and salaries in 2002 and payment for staff overtime during Expo.02.

The costs for early retirement at SBB Cargo AG totalling CHF 20.5 million were charged to social benefit costs. The increase is also due to higher contributions to the occupational pension fund as a result of the increased earnings contributions, early retirements and pension fund purchases in 2002.

«Other personnel costs» include the costs of apprentice training, which was transferred to the SBB and BLS training association «login» at the beginning of 2002. All apprentices in OPET (Federal Office for Professional Education and Technology) occupations were transferred to «login». «Other personnel costs» also include the hire of additional staff during Expo.02 and the Expo bonus (in the form of Reka cheques) for SBB staff.

11 Other operating expenses

CHF millions	2002	2001
Lease of installations	26.3	19.9
Services for maintenance, repair and replacement	202.5	181.5
Vehicle costs	118.5	73.0
Property insurance, duties and fees	56.3	54.1
Power and waste disposal expenses	119.2	164.6
Administration and information system costs	224.7	218.7
Publicity expenses	59.4	50.5
Other operating expenses	19.2	95.1
Third-party operating costs	265.4	278.0
Flat-rate VAT charge/input tax reduction on grants	46.4	58.1
Other operating expenses	1,137.9	1,193.5

Additional maintenance work was required because of increased rolling stock use during Expo.02, which resulted in an increase in third-party services.

The increase in vehicle costs is primarily due to the hire of diesel locomotives from third parties for freight transport in Germany. It is also attributable to the across-the-board application of gross accounting to rail cars. By contrast, rental revenue also increased (cf. note 4).

The cost of power and waste disposal decreased because of reduced power purchases following the sale of interests in power plants. On the other hand, power revenues also fell (cf. note 4).

Depreciation of net book value on asset disposals is newly entered under «Write-offs and depreciation», which reduces the other operating expenses by CHF 74.8 million (cf. note 12).

The expenses entered under the heading «Flat-rate VAT charge / input tax reductions on grants» are mainly attributable to the VAT regulations applicable to public transport operators. SBB AG calculates a 2.7% input tax reduction on the payments it receives, instead of a reduction in proportion to the corresponding share of its total turnover. As the tax payable is contained in these amounts, this arrangement does not affect the SBB AG income statement.

12 Write-offs and depreciation

CHF millions	2002	2001
Write-offs of financial assets	11.6	8.7
Depreciation of tangible assets	1,034.4	987.4
Amortisation of intangible assets	58.9	6.6
Depreciation of net book values on disposals of tangible assets	74.8	0.0
Write-offs and depreciation	1,179.7	1,002.7

Write-offs of financial assets include the increase in the valuation provision for loans to railwaymen's housing associations amounting to CHF 9.5 million.

The increase in depreciation of tangible assets is due to the increase in tangible assets as a consequence of the investments in Rail 2000 and in new rolling stock.

Software was removed from tangible assets in the year under review and reclassified as intangible assets, which is reflected under the heading «Amortisation of intangible assets».

In the previous year, the net book value depreciation from disposals of tangible assets was entered under the heading «Other operating expenses» (cf. note 11).

13 Non-capitalizable investment expenses

The increase in non-capitalizable investment expenses is a result of the accelerated settlement of completed projects.

14 Staff provident scheme as per FER 16

Because of the pension fund deficit caused by the weakness of the financial markets, the provisions as per FER 16 have had to be increased by CHF 183 million (cf. details under note 34, «Pension plan» paragraph).

15 Net proceeds from sale of assets

The proceeds arise from both the sale of financial investments, particularly the sale of a further part of the investment in TDC Switzerland AG, and the sale of tangible assets.

16 Extraordinary income

CHF millions	2002	2001
Release of joint venture provision	0.0	101.0
Restructuring of power division – federal govt. waiver of claims	0.0	1,199.7
Other extraordinary income	23.6	82.7
Extraordinary income	23.6	1,383.4

The other extraordinary income arises from the release of provisions no longer required from prior periods.

17 Extraordinary expenses

CHF millions	2002	2001
Restructuring of power division (write-offs and depreciation, addition of provision)	0.0	1,199.7
Other extraordinary expense	6.5	103.0
Extraordinary expenses	6.5	1,302.7

The high extraordinary expense in the previous year is attributable to the power division restructuring, being stated in an addendum to the opening balance sheet with the same amount under extraordinary revenue, thus having no effect on the income statement.

18 «Chance»

The «Chance» project is for retraining staff made redundant due to rationalisation or restructuring. The lower figure is due to a reduction in the number of employees affected.

19 Financial income

CHF millions	2002	2001
Financial income from third parties	85.7	69.8
Financial income from associated companies	5.7	18.9
Financial income from the shareholder	3.0	13.9
Financial income from other shareholdings	5.2	3.1
Adjustment of book values of holdings in associated companies	9.9	12.0
Other financial income	30.3	25.6
Financial income	139.8	143.3

20 Financial expenses

CHF millions	2002	2001
Financial expenses third parties	189.8	168.8
Adjustment of book values of investments in associated companies	8.4	0.7
Financial expenses shareholder	51.6	95.9
Other financial expenses	24.2	13.5
Financial expenses	274.0	278.9

Interest and similar expenses payable to third parties consist primarily of interest payments on the commitments to EUROFIMA.

21 Taxes

CHF millions	2002	2001
Current income taxes and taxes on capital	3.1	2.1
Deferred income taxes	0.2	0.0
Taxes	3.3	2.1

SBB AG is exempt from tax under Article 21 of the SBB Act of 20 March 1998. The companies in which SBB AG has a holding are to some extent liable for taxes.

22 Cash and cash equivalents

CHF millions	31.12.2002	31.12.2001
Cash	39.1	35.9
Postal account	67.3	41.9
Banks	835.1	407.3
Term deposits	18.2	221.0
Cash in transit	4.1	-39.7
Cash and cash equivalents	963.8	666.4

Owing to the current provisions of budgetary law, SBB AG effects a large part of its monetary transactions through the Federal Finance Administration (FFA). The existing account credit balances of CHF 608.2 million (previous year CHF 20.4 million) with the EFV are entered under «Banks». The increase is primarily attributable to the investment of funds accruing from new leasing. There were no fixed term deposits at the FFA at the end of 2002 (previous year: CHF 150 million).

23 Trade accounts receivable

CHF millions	31.12.2002	31.12.2001
Trade accounts receivable		
– from third parties	557.6	706.2
– from unconsolidated holdings	20.1	39.1
Valuation provisions	–32.0	–55.5
Trade accounts receivable	545.7	689.8

The decrease in trade accounts receivable from third parties is due to more intensive management of accounts receivable.

24 Other receivables

Other receivables primarily include pre-tax VAT credits and withholding tax credits.

25 Inventories and work in progress

CHF millions	31.12.2002	31.12.2001
Inventories	429.2	371.6
Work in progress	24.7	24.7
Valuation provisions	–195.8	–187.2
Inventories and work in progress	258.1	209.1

The increase in inventories is mainly attributable to the increased warehousing requirement for rolling stock servicing.

The higher valuation provisions arise from the write-downs on obsolete stock due to the inventory increases.

26 Accrued income

The decrease in accrued income is mainly due to the fall in deferrals for rent settlements for rented property (turnover-related rents, statements of heating and incidental costs, etc.).

27 Financial investments

CHF millions	Long-term investments	Investments in associated companies	Other Investments	Non-current receivables from third parties	Non-current receivables from unconsolidated holdings	Non-current receivables from shareholder	Total
Historical costs							
As at 1.1.2002	533.5	125.6	66.5	601.8	414.9	2,606.8	4,349.1
Change in valuation	0.0	-5.3	0.0	0.0	0.0	0.0	-5.3
Additions	93.3	0.6	9.2	46.4	0.0	0.0	149.5
Disposals	0.0	-25.6	-23.7	-22.2	-365.0	-850.0	-1,286.5
As at 31.12.2002	626.8	95.3	52.0	626.0	49.9	1,756.8	3,206.8
Accumulated depreciation							
As at 1.1.2002	0.0	-7.3	-7.2	-32.2	0.0	0.0	-46.7
Additions	-0.1	-1.1	-0.9	-9.5	0.0	0.0	-11.6
Disposals	0.0	0.3	1.4	0.0	0.0	0.0	1.7
As at 31.12.2002	-0.1	-8.1	-6.7	-41.7	0.0	0.0	-56.5
Net book value 31.12.2002	626.7	87.2	45.3	584.3	49.9	1,756.8	3,150.3

The additions under long-term investments include the reinvested income accrued from the investment relating to the lease agreements. There are equivalent entries on the liabilities side of the balance sheet.

The reduction in investments in associated companies includes the sale of the interest in the ENAG power plant and the bonded warehouse facilities in Zurich and Basle.

The partial sale of the shareholding in TDC Switzerland AG is reflected in the disposals of other investments.

The reduction in non-current receivables from associated companies is due to elimination of the loan to ENAG when the shareholding in this company was sold.

The non-current receivables from the shareholder fell by CHF 850 million in connection with the agreed payment procedures for the refinancing of the SBB pension fund deficit (cf. note 36).

28 Tangible assets and assets under construction

CHF millions	Vehicles (incl. leasing)	Civil engineering, trackbed and railway install.	Other tangible assets	Property	Buildings	Total tangible assets	Assets under construction and down- payments	Total
Historical costs								
As at 1.1.2002	10,220.5	11,255.8	4,788.7	1,448.2	3,354.4	31,067.6	6,685.4	37,753.0
Investments	106.2	31.1	17.8	21.6	2.7	179.4	2,832.3	3,011.7
Change in scope of consolidation	10.7	5.2	14.2	0.0	13.5	43.6	0.3	43.9
Reclassification of assets								
under construction	432.5	936.0	218.5	5.8	104.5	1,697.3	-1,697.3	0.0
Investment subsidy	-1.0	-76.4	-14.6	0.0	-7.9	-99.9	0.0	-99.9
Disposals of tangible assets	-168.4	-330.8	-321.5	-13.1	-78.4	-912.2	-446.9	-1,359.1
Reclassifications	0.0	58.7	-272.9	0.0	0.0	-214.2	-14.1	-228.3
As at 31.12.2002	10,600.5	11,879.6	4,430.2	1,462.5	3,388.8	31,761.6	7,359.6	39,121.2
of which leasing	1,992.1					1,992.1		1,992.1
Accumulated depreciation								
As at 1.1.2002	-6,098.4	-3,867.6	-3,260.6	-22.2	-1,520.7	-14,769.5	-1,043.9	-15,813.4
Change in scope of consolidation	-4.5	-1.4	-10.2	0.0	0.0	-16.1	0.0	-16.1
Additions	-344.8	-358.9	-117.9	0.0	-58.7	-880.3	-154.1	-1,034.4
Disposals	163.0	277.5	284.7	0.3	58.7	784.2	52.4	836.6
Reclassifications	0.0	-58.7	120.3	0.0	0.0	61.6	0.0	61.6
As at 31.12.2002	-6,284.7	-4,009.1	-2,983.7	-21.9	-1,520.7	-14,820.1	-1,145.6	-15,965.7
of which leasing	-587.6					-587.6		-587.6
Net book value 31.12.2002	4,315.8	7,870.5	1,446.5	1,440.6	1,868.1	16,941.5	6,214.0	23,155.5
of which leasing	1,404.5					1,404.5		1,404.5

The increase in tangible assets is primarily due to the construction of Rail 2000 and the purchase of new rolling stock.

Other tangible assets include all installations, IT and telecommunications equipment, and supply and disposal plants.

29 Intangible assets

CHF millions	Goodwill	Rights	Software	Total
Historical costs				
As at 1.1.2002	7.5	99.4	0.0	106.9
Additions	9.2	5.1	17.1	31.5
Disposals	0.0	-0.9	-19.5	-20.5
Reclassifications	0.0	14.2	214.2	228.4
As at 31.12.2002	16.7	117.8	211.8	346.3
Accumulated depreciation				
As at 1.1.2002	-4.7	-18.8	0.0	-23.5
Additions	-2.6	-6.3	-50.0	-58.9
Disposals	0.0	0.0	1.4	1.5
Reclassifications	0.0	0.0	-61.6	-61.6
As at 31.12.2002	-7.3	-25.1	-110.1	-142.5
Net book value 31.12.2002	9.4	92.7	101.7	203.8

The software previously disclosed in «Other tangible assets» was reclassified as «Intangible assets» in the year under review.

The increase in goodwill is primarily attributable to the purchase of holdings in Passaggio Rail AG, Olten (CHF 7.4 million).

30 Current financial liabilities

CHF millions	31.12.2002	31.12.2001
Current liabilities to banks	0.3	3.4
Financial liabilities to third parties	30.8	130.4
Current financial liabilities	31.1	133.8

The Kraftwerk Amsteg AG bond for CHF 125 million was due for repayment in the spring. It was therefore entered in the previous year under «Current borrowings from third parties».

31 Trade accounts payable

CHF millions	31.12.2002	31.12.2001
Trade accounts payable		
- to third parties	532.5	615.1
- to railway companies	193.4	316.7
- to associated companies	3.3	0.0
Trade accounts payable	729.2	931.8

32 Other current liabilities

The heading includes liabilities for VAT, social benefit settlements, on-account payment liabilities for turnover-related rents, rent and incidental costs, etc.

33 Deferred income and accrued charges

CHF millions	31.12.2002	31.12.2001
Ticket deferrals	341.4	298.6
Accrued vacation and overtime	0.0	177.6
Accrued interest payable	44.2	44.6
Other accrued expenses	464.1	444.2
Deferred income and accrued charges	849.7	965.0

The ticket deferrals relate mainly to the General Abonnement, Half-tax Card and point-to-point season tickets. They do not extend to individual tickets.

Vacation and overtime entitlements are newly included in short-term provisions.

34 Provisions

CHF millions	31.12.2002	31.12.2001
Current provisions	357.5	190.8
Non-current provisions	2,364.4	2,600.6
Provisions	2,721.9	2,791.4

CHF millions	Staff provident scheme as per FER 16	Provisions for index-linking of pensions	Environmental provision	Power division restructuring	Vacation/ overtime	Other provisions	Total
As at 1.1.2002	650.0	329.5	104.9	958.3	0.0	748.6	2,791.4
Addition (net)	183.0	0.0	0.0	0.0	3.6	155.8	342.4
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	1.1	1.1
Utilisation	0.0	-88.9	-8.9	-270.6	-5.3	-181.4	-555.1
Reclassification	0.0	0.0	0.0	0.0	161.1	-19.0	142.1
As at 31.12.2002	833.0	240.6	96.0	687.7	159.5	705.1	2,721.9

Members of the SBB Pension Fund who retired before 1 January 2001 are entitled to the same treatment as retired members of the federal government pension fund. The SBB Pension Fund can only pay cost-of-living increases to pensioners if its finances and earnings permit. As the actuarial reserve of the SBB pension fund has failed to reach its specified level, the obligation to pay such cost-of-living increases to the beneficiaries has to be borne by the employer. CHF 88.9 million of the provisions was utilized for 2002.

The environmental remediation programme continued in the year under review. CHF 8.9 million has been utilized in the year under review for the measures taken.

The provision for the reduction in value of the interest in the ENAG 50-Hz power plants was released when it was sold. The provision for the reduction of the power generation costs over and above the market price was also released. The remaining provision of CHF 687.7 million for the restructuring of the power division is for annual balancing of the power generation costs over and above the market price for approximately 30 years.

Overtime and vacation entitlements were previously included in «Deferred income and accrued charges».

The other provisions relate mainly to the provision for maintenance of rolling stock, insurance provisions for claims, reserves for income from the sale of cable-laying rights, provisions for the decommissioning of infrastructure and other operationally-necessary provisions.

Pension plan

The weakness of the financial markets has resulted in considerable falls in pension fund reserves. The SBB pension fund has also been affected by the very unfavourable development of the financial markets. The deficit as at 31 December 2002 was determined on the basis of the «projected unit credit» method.

The difference determined on the balance sheet date resulted in an increase of CHF 145 million in the provision in accordance with FER 16. The additional increase of CHF 38 million was effected to cover the liabilities of CHF 833 million.

Development of the staff provident scheme provision	Provision as per FER 16	Non-current provision for index-linking of pensions	Current provisions for index-linking of pensions	Total
CHF millions				
As at 1.1.2002	650.0	240.6	88.9	979.5
Payment to pension fund	0.0	0.0	-88.9	-88.9
Addition	183.0	0.0	0.0	183.0
Reclassification	0.0	-84.3	84.3	0.0
As at 31.12.2002	833.0	156.3	84.3	1,073.6

26

The medium and long-term actuarial parameters used for calculating the provident scheme commitments in accordance with FER 16 can be summarised as follows:

Parameters applied to staff provident scheme provision

	2002	2001
Interest discount factor	4.0%	5.0%
Wage increases	2.0%	2.5%
Development of pensions to 31.12.2005	1.0%	1.75%
Development of pensions from 1.1.2006	0.5%	1.0%
Anticipated return on assets	5.0%	5.0%

Financial status of provident scheme commitments

CHF millions	31.12.2002	31.12.2001
Provident scheme assets	11,092.0	12,634.0
Provident scheme commitments	-15,499.0	-14,404.0
Deficit in provident scheme commitments	-4,407.0	-1,770.0
Difference	-3,574.0	-1,088.0
Liabilities at balance sheet date	833.0	682.0

The pension fund deficit as per FER 16 increased to CHF 4,407 million in the year under review. The shortfall as at 31 December 2002 prior to the posting of the amortisation instalment to cover the liability amounted to CHF 3,719 million (deficit of CHF 4,407 million less liabilities of CHF 688 million). The target corridor as at 31 December 2002 was CHF 1,550 million, leaving a shortfall not yet posted of CHF 2,169 million. This amount is apportioned across the average number of working years of the active employees covered by the plan (15 years), giving an amortisation instalment of CHF 145 million.

Net pension costs for the year

CHF millions	2002	2001
Annual service cost	229.0	328.0
Interest on provident scheme commitments (PBO)	720.0	679.0
Anticipated return on provident scheme assets	-632.0	-647.0
Contributions from employees	-134.0	-134.0
Amortisation of the difference	145.0	0.0
Pension costs for the year	328.0	226.0

35 Non-current financial liabilities

CHF millions	31.12.2002	31.12.2001
Bank liabilities	370.0	123.9
Leasing liabilities	2,527.8	1,888.8
Mortgages	58.6	65.6
Bonds	300.0	300.0
Staff savings accounts	1,370.3	1,371.7
Non-current financial liabilities	4,626.7	3,750.0

The increase in bank liabilities is attributable to the interests in Turbo AG and Kraftwerk Amsteg AG.

A financial lease amounting to CHF 550 million has been assumed for the purchase of new tilting trains. The further increase in leasing liabilities is due to capitalisation of the interest payable on existing leasing contracts.

The bond comprises three issues by Kraftwerk Amsteg AG (please refer to note 38.6 for details).

The liability to the staff savings accounts represents a savings credit balance of current and former employees of SBB.

36 Other non-current liabilities

CHF millions	31.12.2002	31.12.2001
Liabilities to third parties	40.4	19.0
Liabilities to the federal government as shareholder	7,985.3	8,115.3
Other non-current liabilities	8,025.7	8,134.3

Liabilities to the federal government as shareholder are made up as follows:

CHF millions	31.12.2002	31.12.2001
Variable-interest loans	1,741.1	1,683.1
Interest-bearing loans for refinancing the SBB Pension Fund	1,756.8	2,606.8
Interest-bearing loans for major rail projects fund	724.0	558.5
Variable-interest loans for major rail projects fund	3,763.4	3,266.9
Total	7,985.3	8,115.3

The interest-bearing loans for the refinancing of the SBB pension fund decreased by CHF 850 million in the reporting year. The receivable from the federal government as shareholder also decreased by the same amount, in accordance with the financing plan agreed when the SBB pension fund was established.

Investments in Rail 2000 are financed by loans from the major rail projects fund. The interest rates payable on interest-bearing loans are between 2.5 and 3.75%.

Net indebtedness

CHF millions	31.12.2002	31.12.2001
Current financial liabilities	31.1	133.8
Non-current financial liabilities	4,626.7	3,750.0
Other non-current liabilities	8,025.8	8,134.3
Total financial liabilities	12,683.6	12,018.1
less cash and cash equivalents, bonds and investment in securities	-1,591.4	-1,201.7
less receivables from the shareholder concerning the pension fund	-1,756.8	-2,606.8
Net indebtedness	9,335.4	8,209.6
Changes compared to the previous year	1,125.8	-869.0

The increase in net indebtedness by CHF 1,125.8 million is attributable firstly to the borrowing for the implementation of Rail 2000 and secondly to the increase in leasing commitments for the purchase of new tilting trains. However, the majority of the funds accruing from the leasing agreement are still included in cash and cash equivalents and thus do not affect the change in net indebtedness. The further increase in net indebtedness is attributable to higher non-current bank borrowings by the Turbo AG and Kraftwerk Amsteg AG consolidated holdings.

37 Equity

CHF millions	Share capital	Capital reserves	Retained earnings	Total
As at 1.1.2002	9,000.0	2,076.8	568.6	11,645.4
Net loss	0.0	0.0	-12.0	-12.0
Reclassification	0.0	-7.7	7.7	0.0
As at 31.12.2002	9,000.0	2,069.1	564.4	11,633.5

The share capital is divided up into 180 million fully paid registered shares with a nominal value of CHF 50 each.

The retained earnings contain a reserve in accordance with Article 64 of the Railways Act (EBG).

38 Statutory information

(Except where already disclosed in the respective headings.)

38.1 Sureties, guarantees and pledges in favour of third parties

CHF millions	31.12.2002	31.12.2001
Sureties and guarantees	113.2	127.4
Statutory liability clauses	138.7	138.7
Firm purchase and finance commitments	13.8	0.9
Liabilities from unpaid share capital	104.1	147.3
Total	369.8	414.3

The SBB Group also has interests in various civil partnerships with joint and several liability. These are primarily tariff associations/cooperatives, etc., collaborations and joint ventures for the management of fixed-term projects.

38.2 Assets pledged

CHF millions	31.12.2002	31.12.2001
Book value of assets pledged	118.4	89.3
Total	118.4	89.3

38.3 Fire insurance values of the tangible assets

The fire insurance values of the tangible assets correspond to their replacement or new values.

38.4 Liabilities towards staff provident schemes

CHF millions	31.12.2002	31.12.2001
Current liabilities	0.4	0.6
Non-current liabilities	0.4	0.4
Total	0.8	1.0

38.5 Off-balance-sheet leasing commitments

CHF millions	31.12.2002	31.12.2001
Total	72.6	67.1

38.6 Bonds

CHF millions	31.12.2002	31.12.2001
3.500% Kraftwerk Amsteg AG bond 2000 – 2002	0.0	125.0
4.375% Kraftwerk Amsteg AG bond 1996 – 2006	150.0	150.0
3.500% Kraftwerk Amsteg AG bond 1998 – 2007	50.0	50.0
3.750% Kraftwerk Amsteg AG bond 2001 – 2009	100.0	100.0
Total	300.0	425.0

39 Related parties

The federal government holds 100% of the equity in SBB AG. In the year under review, SBB Group received CHF 1,706.9 million in grants from its shareholder. These break down as follows:

CHF millions	2002	2001
Infrastructure maintenance grant	810.0	777.0
Infrastructure operating grant	494.0	484.0
Forwarded to ZVV	-30.0	-35.6
Grants for regional passenger services	317.1	324.7
Train path charge subsidies for intermodal transport	110.3	98.3
Grant relating to the closure of the St. Gotthard Tunnel	5.5	0.0
Total	1,706.9	1,648.4

For information on the liabilities towards the shareholder (federal government), please see the table under note 36.

Remuneration of the Board of Directors and the Management Board

The following remuneration was paid to SBB directors and Management Board members in the financial year:

CHF in thousand	constant	variable	2002 Total	constant	variable	2001 Total
Board of Directors						
Chairman	250	0	250	250	0	250
Vice Chairman	90	0	90	90	0	90
Members (7)	420	0	420	420	0	420
Total Board of Directors	760	0	760	760	0	760
Management Board SBB AG						
Chief Executive Officer	400	120	520	400	130	530
Members (5)	1,700	734	2,434	1,700	738	2,438
Total Management Board	2,100	854	2,954	2,100	868	2,968

In the Annual Report 2001, CHF 213,000 variable remuneration was posted as constant remuneration. This state of affairs has been corrected in the present annex.

There do not exist any share ownership or options plans, and no loans were granted to the Board of Directors and the Management Board.

40 Financial instruments

Various investments with fixed maturity counter-values of CHF 278.1 million were made to hedge liabilities arising from the US lease transactions. These investments are balanced by liabilities with a corresponding counter-value.

To hedge the foreign currency risks, the following derivatives were outstanding as at the balance sheet date:

CHF millions	Contract values	31.12.2002		Contract values	31.12.2001	
		Replacement values positive	Replacement values negative		Replacement values positive	Replacement values negative
Forward contracts	217.2	0.2	0.4	26.0	0.1	0.3
Total	217.2	0.2	0.4	26.0	0.1	0.3

41 Segment information

The reporting format comprises the business segments Passenger Services, Freight Services, Infrastructure and Central Services. As in previous years, operating activity is largely confined to Switzerland. For this reason, there is no geographical reporting format. The segments contain the group companies in accordance with the list of group holdings and associated companies on page 38. The freight service segment also includes the freight rolling stock servicing division, which is legally a component of SBB AG.

Segment information of consolidated income statement SBB Passenger services, freight services, infrastructure and central services segment information.

For the period from 1 January to 31 December.

32

CHF millions	Passenger services		Freight services		Infrastructure	
	2002	2001	2002	2001	2002	2001
Operating revenues						
Traffic revenues	1,936.8	1,850.9	1,075.8	1,151.5	604.2	705.4
Federal and cantonal grants	507.3	539.1	18.3	16.0	92.0	82.3
Rental revenue from real estate	3.0	2.0	4.5	1.1	325.4	308.2
Other operating revenues	425.8	317.4	119.4	128.0	393.5	407.5
Other revenues	82.3	12.5	27.1	6.0	46.8	6.5
Own work capitalized	119.2	94.7	69.2	67.7	345.9	373.4
Federal government grants for infrastructure	16.2	8.7	0.0	0.0	1,290.8	1,216.7
Revenue reductions	-99.4	-113.6	-20.7	-71.6	6.5	-7.1
Allocation of Central Services	0.0	0.0	0.0	0.0	0.0	0.0
Total operating revenues	2,991.2	2,711.9	1,293.6	1,298.7	3,105.0	3,092.9
Operating expenses						
Expenses for materials	-233.5	-191.6	-141.7	-115.7	-151.8	-142.9
Personnel expenses	-1,262.1	-1,154.9	-563.6	-539.4	-1,107.2	-1,076.4
Other operating expenses	-914.1	-876.5	-547.1	-618.6	-698.5	-788.8
Write-offs and depreciation of tangible, financial and intangible assets	-335.3	-315.3	-84.4	-82.4	-724.8	-599.4
Non-capitalisable investment expenses	-28.1	-6.6	-1.3	-1.5	-292.1	-260.3
Allocation of Central Services	-44.8	-29.8	-27.8	-17.4	-49.2	-34.9
Total operating expenses	-2,817.8	-2,574.6	-1,365.8	-1,375.0	-3,023.6	-2,902.7
Operating income	173.4	137.3	-72.2	-76.3	81.4	190.2
Net proceeds from sale of assets	2.3	0.4	0.9	0.1	47.7	28.7
Extraordinary income	10.0	25.9	0.0	8.6	22.5	1 230.4
Extraordinary expense	0.0	-6.1	-2.5	0.0	-2.0	-1 263.7
«Chance»	0.0	0.0	0.0	0.0	-5.9	-6.3
Allocation of Central Services	0.0	4.3	0.0	2.6	0.0	5.1
EBIT	185.7	161.8	-73.8	-65.0	143.6	184.4
Financial income	17.5	42.8	3.7	7.6	29.0	33.7
Financial expenses	-62.4	-115.9	-5.6	-5.0	-29.1	-75.2
Allocation of Central Services	-31.2	-8.9	-19.6	-5.2	-34.6	-10.4
Pre-tax profit/loss	109.6	79.8	-95.4	-67.6	108.9	132.5
Taxes	-0.2	0.0	-1.1	-0.2	-1.9	-1.8
Minority shareholdings	4.3	0.6	0.3	-0.2	-0.5	-0.6
Net loss/profit	113.7	80.4	-96.1	-68.0	106.5	130.1

¹ incl. CHF 183 millions transfer to provisions as per ARR 16

Central Services		Eliminations		SBB Total	
2002	2001	2002	2001	2002	2001
0.5	0.5	-700.3	-788.6	2,917.1	2,919.7
0.0	0.0	0.0	0.0	617.6	637.4
1.1	0.7	-54.3	-49.0	279.6	263.0
343.9	316.2	-694.5	-629.1	588.0	540.0
17.7	20.8	-22.4	-20.6	151.5	25.2
4.1	40.8	10.9	0.0	549.4	576.6
0.0	0.0	0.0	0.0	1,306.9	1,225.4
-3.2	-0.5	30.6	36.9	-86.2	-155.9
127.7	82.1	-127.7	-82.1	0.0	0.0
491.7	460.6	-1,557.7	-1,532.5	6,323.9	6,031.4
-4.4	-7.4	65.1	12.6	-466.3	-445.0
-330.9 ¹	-145.1	59.1	60.6	-3,204.6	-2,855.2
-288.7	-284.8	1,310.6	1,375.2	-1,137.9	-1,193.5
-35.2	-5.6	0.0	0.0	-1,179.7	-1,002.7
-4.5	-22.9	1.5	2.0	-324.4	-289.3
0.0	0.0	121.7	82.1	0.0	0.0
-663.6	-465.8	1,558.0	1,532.3	-6,312.9	-5,785.7
-171.9	-5.2	0.3	-0.3	11.0	245.7
60.3	117.9	0.0	0.0	111.2	147.1
1.1	126.6	-10.0	-8.1	23.6	1,383.4
-12.0	-41.0	10.0	8.1	-6.5	-1,302.7
-11.4	-15.5	0.0	0.0	-17.3	-21.8
0.0	-12.0	0.0	0.0	0.0	0.0
-133.8	170.8	0.3	-0.3	122.0	451.7
158.2	242.8	-68.6	-183.6	139.8	143.3
-245.6	-266.4	68.7	183.6	-274.0	-278.9
85.5	24.5	0.0	0.0	0.0	0.0
-135.7	171.7	0.3	-0.3	-12.2	316.1
-0.2	-0.1	0.0	0.0	-3.3	-2.1
-0.5	0.3	0.0	0.0	3.5	0.1
-136.4	171.9	0.3	-0.3	-12.0	314.1

Segment information of Consolidated Balance Sheet SBB.

Assets.

34

CHF millions	Passenger services		Freight services		Infrastructure	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Current assets						
Cash and cash equivalents	301.8	220.7	82.7	87.1	32.9	49.5
Securities	0.0	0.0	0.0	0.0	0.0	0.0
Trade accounts receivable	243.2	567.3	179.5	344.3	281.2	518.7
Other receivables	493.5	1,022.7	70.0	82.8	227.3	4,602.7
Inventories and work in progress	84.5	68.1	39.1	45.5	142.1	114.7
Accrued income	205.3	175.2	30.3	96.8	95.7	152.6
Total current assets	1,328.2	2,054.0	401.7	656.5	779.3	5,438.2
Fixed assets						
Financial investments	54.7	33.7	61.7	112.0	62.4	449.7
Tangible assets	3,792.5	3,604.2	721.8	773.2	12,396.1	11,843.8
Assets under construction	765.4	470.6	142.1	61.4	5,284.5	5,089.3
Intangible assets	20.0	1.1	19.4	0.0	126.7	82.2
Total fixed assets	4,632.6	4,109.7	945.0	946.6	17,869.6	17,465.0
Total assets	5,960.8	6,163.7	1,346.6	1,603.1	18,648.9	22,903.2

Central Services		Eliminations		SBB Total	
31.12.2002	31.12.2001	31.12.2002	31.12.2001	31.12.2002	31.12.2001
546.5	309.1	0.0	0.0	963.8	666.4
0.9	2.1	0.0	0.0	0.9	2.1
184.3	874.1	-342.5	-1,614.6	545.7	689.8
353.1	4,897.7	-904.1	-10,318.2	239.7	287.7
19.9	0.4	-27.5	-19.6	258.1	209.1
14.3	203.1	-80.9	-261.7	264.8	366.0
1,118.9	6,286.5	-1,355.1	-12,214.1	2,273.0	2,221.1
7,037.9	7,359.2	-4,066.5	-3,652.3	3,150.3	4,302.4
31.1	76.9	0.0	0.0	16,941.5	16,298.1
22.1	20.2	0.0	0.0	6,214.0	5,641.5
37.8	0.1	0.0	0.0	203.8	83.4
7,128.9	7,456.4	-4,066.5	-3,652.3	26,509.6	26,325.4
8,247.8	13,742.9	-5,421.6	-15,866.4	28,782.6	28,546.5

Segment information of Consolidated Balance Sheet SBB.

Liabilities and equity.

36

CHF millions	Passenger services		Freight services		Infrastructure	
	31.12.2002	31.12.2001	31.12.2002	31.12.2001	31.12.2002	31.12.2001
Liabilities						
Short-term financial liabilities	72.1	170.9	188.9	123.1	183.0	4,656.9
Trade accounts payable	458.0	1,294.4	134.4	352.1	384.1	587.0
Other current liabilities	38.5	66.6	25.8	25.9	17.2	30.8
Deferred income and accrued charges	701.7	711.2	65.3	156.1	89.0	268.2
Current provisions	118.9	0.3	60.1	8.0	73.3	54.4
Total current liabilities	1,389.2	2,243.4	474.4	665.2	746.6	5,597.3
Non-current financial liabilities	168.2	0.4	0.0	0.0	527.6	454.6
Other non-current liabilities	1,511.7	1,070.4	41.2	0.0	7,898.7	7,177.4
Non-current provisions	160.2	231.5	58.5	68.9	962.2	1,266.7
Deferred tax	0.3	0.0	0.0	0.0	1.8	1.8
Total non-current liabilities	1,840.3	1,302.3	99.7	68.9	9,390.3	8,900.5
Total liabilities	3,229.5	3,545.7	574.1	734.1	10,136.9	14,497.8
Minority shareholdings	3.5	3.9	0.3	0.5	11.0	10.9
Equity						
Share capital	1,800.0	1,800.0	670.0	670.0	7,000.0	7,000.0
Capital reserves	630.2	630.2	2.2	141.1	1,011.2	1,015.7
Retained earnings	183.9	103.6	196.3	125.4	383.2	248.7
Net loss/profit	113.7	80.4	-96.1	-68.0	106.5	130.1
Total equity	2,727.8	2,614.2	772.3	868.5	8,501.0	8,394.5
Total liabilities and equity	5,960.8	6,163.7	1,346.6	1,603.1	18,648.9	22,903.2

Central Services		Eliminations		SBB Total	
31.12.2002	31.12.2001	31.12.2002	31.12.2001	31.12.2002	31.12.2001
518.3	5,501.1	-931.0	-10,318.2	31.1	133.8
86.2	287.3	-333.6	-1,589.0	729.2	931.8
64.3	52.9	0.0	0.0	145.7	176.2
84.1	136.2	-90.5	-306.7	849.7	965.0
105.2	128.1	0.0	0.0	357.5	190.8
858.0	6,105.6	-1,355.1	-12,213.9	2,113.2	2,397.6
3,931.0	3,295.0	0.0	0.0	4,626.7	3,750.0
1,823.7	2,721.8	-3,249.6	-2,835.3	8,025.7	8,134.3
1,183.5	1,033.5	0.0	0.0	2,364.4	2,600.6
0.3	0.0	0.0	0.0	2.3	1.8
6,938.5	7,050.3	-3,249.6	-2,835.3	15,019.1	14,486.7
7,796.5	13,155.9	-4,604.7	-15,049.2	17,132.3	16,884.3
2.0	1.5	0.0	0.0	16.8	16.8
200.0	200.0	-670.0	-670.0	9,000.0	9,000.0
425.5	436.8	0.0	-147.0	2,069.1	2,076.8
-39.8	-223.2	-147.2	0.0	576.4	254.5
-136.4	171.9	0.3	-0.3	-12.0	314.1
449.3	585.5	-816.9	-817.3	11,633.5	11,645.4
8,247.8	13,742.9	-5,421.6	-15,866.4	28,782.6	28,546.5

Principal subsidiary undertakings.

Group companies and associated companies.

38

Company name		Share capital	Shareholding SBB	Shareholding SBB	Shareholding SBB	Seg
		millions	millions	%	%	
				2002	2001	
Power stations						
Etzelwerk AG, Einsiedeln	CHF	20.00	20.00	100.00	100.00	V I
Kraftwerk Amsteg AG, Amsteg	CHF	80.00	72.00	90.00	90.00	V I
Kraftwerk Ruppertswil-Auenstein AG, Aarau	CHF	12.00	6.60	55.00	55.00	V I
Kraftwerk Wassen AG, Wassen	CHF	16.00	8.00	50.00	50.00	E I
Kraftwerk Göschenen AG, Göschenen	CHF	60.00	24.00	40.00	40.00	E I
Warehouses and depots						
Silo AG Brunnen, Brunnen	CHF	0.65	0.35	53.85	53.85	V Z
CSC Cargo Service Center Basel AG, Basle	CHF	3.00	3.00	100.00	100.00	E I
Umschlags AG, Basle	CHF	6.00	2.12	35.33	35.33	E Z
Terzag Terminal Zürich AG, Zurich	CHF	0.20	0.06	30.00	30.00	E I
CTG-AMT Genève-La Praille SA, Lancy	CHF	0.20	0.05	25.00	25.00	E I
Lasag Schaffhausen, Schaffhausen	CHF	2.85	0.58	20.18	20.18	E Z
Real estate and car parks						
BLI Bahnhof Luzern Immobilien AG, Lucerne	CHF	18.00	18.00	100.00	100.00	V I
Immobilien-gesellschaft Casa Nostra AG, Berne	CHF	0.05	0.05	100.00	100.00	V Z
Parking Simplon-Gare SA Lausanne, Lausanne	CHF	2.20	1.10	50.05	50.05	V I
Parking de la Gare de Neuchâtel SA, Neuchâtel	CHF	0.10	0.05	50.00	50.00	E I
Frigosuisse Immobilien AG, Basle	CHF	0.26	0.11	42.31	34.62	E Z
cevanova AG, Berne	CHF	6.00	2.00	33.33	33.33	E I
Grosse Schanze AG, Berne	CHF	3.20	1.00	31.25	31.25	E I
Tiefgarage Bahnhofplatz AG, Lucerne	CHF	3.25	0.75	23.08	23.08	E I
I.B.O. Immobilien-gesellschaft Bahnhof Ost AG, Basle	CHF	3.00	0.60	20.00	20.00	E I
Parking de la Place de Cornavin SA, Geneva	CHF	10.00	2.00	20.00	20.00	E I
Shipping and forwarding						
Chemins de fer fédéraux suisses CFF Cargo SA, Basle	CHF	670.00	670.00	100.00	100.00	V G
S-Rail Europe GmbH, Singen	EUR	0.25	0.19	75.00	75.00	V G
ChemOil Logistics AG, Basle	CHF	0.25	0.13	51.00	51.00	V G
Swiss Rail Cargo Köln GmbH, Cologne	EUR	1.50	0.77	51.00	0.00	V G
Cargo SI S.p.A., Milan	EUR	0.10	0.05	50.00	50.00	E Z
Cisalpine SA, Berne	CHF	86.00	34.57	40.20	40.20	E P
RAAlpin AG, Berne	CHF	0.30	0.12	40.00	40.00	E G
Hupac SA, Chiasso	CHF	20.00	4.77	23.85	23.85	E G
Termi SA, Chiasso	CHF	0.50	0.10	20.00	20.00	E G

Company name	Share capital millions	Shareholding SBB millions	Shareholding SBB % 2002	Shareholding SBB % 2001	Seg
Private railway and shipping companies					
Schweizerische Bodensee-Schiffahrtsges. AG, Romanshorn	CHF 4.60	4.48	97.39	96.96	V P
Sensetalbahn AG, Laupen	CHF 2.89	1.89	65.47	65.47	V P
Thurbo AG, Kreuzlingen	CHF 45.00	45.00	100.00	60.00	V P
MThB Deutschland GmbH, Constance	EUR 0.05	0.05	100.00	0.00	V P
SBB GmbH, Lörrach	EUR 0.03	0.03	100.00	0.00	V P
Tourism					
RailAway SA, Lucerne	CHF 0.10	0.10	100.00	70.00	V P
Rail Europe Australasia SNC, Paris	EUR 0.92	0.46	50.00	50.00	E P
Rhealys SA, Luxembourg	EUR 0.05	0.01	25.00	25.00	E P
SwissAccessGroup AG, St. Gallen	CHF 0.40	0.10	25.00	25.00	E P
Miscellaneous					
SBB RE AG, Vaduz	CHF 12.50	12.50	100.00	100.00	V Z
Passaggio Rail SA, Olten	CHF 1.50	0.90	60.00	0.00	V P
RailLink AG, Berne	CHF 2.50	1.38	55.00	55.00	V P
Securitrans Public Transport Security AG, Berne	CHF 2.00	1.02	51.00	51.00	V Z
AlpTransit Gotthard AG, Lucerne	CHF 5.00	5.00	100.00	100.00	E I

Inclusion:

V = Consolidated

E = Accounted for by equity method

Seg = Segment

G = Freight services

I = Infrastructure

P = Passenger services

Z = Central services

Report of the group auditor.

40

To the general meeting of Swiss Federal Railways SBB, Berne.

As auditor of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows and notes) of Swiss Federal Railways SBB for the year ended 31 December 2002.

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 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 Swiss profession, which require that an audit be planned and performed 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with «Swiss GAAP FER» and comply with Swiss law except for the following qualification:

An external expert opinion established the need for a special provision for existing environmental pollution costs of CHF 393 million as at 1 January 1999. Because of the great uncertainties surrounding this special provision, an agreement was reached with the Federal authorities to the effect that a full reserve would not be set up in the opening balance sheet, but a special provision of CHF 110 million recognized for necessary improvement costs. Costs exceeding this amount will be covered by the Federal authorities according to the service agreement.

Despite the above qualification, we recommend that the consolidated financial statements submitted to you be approved since the financial consequences of the insufficient provision will be covered by the Federal authorities.

We also wish to draw your attention to the fact that the 100% investment in AlpTransit Gotthard AG has not been consolidated, but is accounted for under the equity method. On the basis of a special agreement between the Swiss Confederation and the SBB, the Federal authorities have a dominant influence over this investment. The requirement of a common management is therefore not met.

Berne, 18 March 2003
Ernst & Young Ltd

Bruno Chiomento
Certified Public Accountant
(In charge of the audit)

Rudolf Mahnig
Swiss Certified Accountant

Income Statement SBB AG.

For the period from 1 January to 31 December.

CHF millions	Note	2002	2001
Operating revenues			
Traffic revenues	1	2,106.3	2,111.5
Federal and cantonal grants	2	593.6	618.8
Rental revenue from real estate	3	282.4	267.2
Other operating revenues	4	778.5	693.8
Other revenues	5	80.1	55.8
Own work capitalized	6	548.0	576.6
Federal government grants for infrastructure	7	1,306.9	1,225.4
Revenue reductions	8	-65.3	-84.1
Total operating revenues		5,630.5	5,465.0
Operating expenses			
Expenses for materials	9	-433.8	-419.8
Personnel expenses	10	-2,488.7	-2,405.7
Other operating expenses	11	-1,084.5	-1,158.5
Depreciation of fixed assets, write-offs of financial assets and amortisation of intangible assets	12	-1,227.6	-903.5
Non-capitalisable investment expenses	13	-322.9	-287.0
Total operating expenses		-5,557.5	-5,174.5
Operating income before appropriation to provisions as per FER 16		73.0	290.5
Staff provident scheme as per FER 16	14	-183.0	0.0
Operating income after appropriation to provisions as per FER 16		-110.0	290.5
Net proceeds from sale of assets	15	112.9	146.7
Extraordinary income	16	82.6	1,325.8
Extraordinary expenses	17	-4.0	-1,304.8
«Chance»	18	-17.3	-21.8
EBIT		64.2	436.4
Financial income	19	155.9	141.6
Financial expenses	20	-238.5	-253.9
Loss/profit before tax		-18.3	324.1
Taxes	21	0.0	0.0
Net loss/profit for the year	22	-18.3	324.1

¹ Disclosed in «Extraordinary expenses» in the previous year.

The notes are an integral part of these financial statements.

Balance Sheet SBB AG.

Assets.

42

CHF millions	Note	31.12.2002	31.12.2001
Current assets			
Cash and cash equivalents		835.9	541.3
Securities		0.6	1.3
Trade accounts receivable	23	478.7	885.2
Other receivables		232.2	246.6
Inventories and work in progress	24	259.3	215.4
Accrued income		239.3	297.6
Total current assets		2,046.0	2,187.4
Fixed assets			
Financial investments	25	4,022.8	5,179.1
Tangible assets	26	15,568.5	14,976.8
Assets under construction	26	5,929.3	5,582.2
Intangible assets	27	168.0	73.6
Total fixed assets		25,688.6	25,811.7
Total assets		27,734.6	27,999.1

The notes are an integral part of these financial statements.

Liabilities and equity.

CHF millions	Note	31.12.2002	31.12.2001
Liabilities			
Current financial liabilities		3.1	43.9
Trade accounts payable	28	674.3	1,059.0
Other current liabilities		119.8	152.6
Deferred income and accrued charges	29	782.9	851.7
Current provisions	32	298.2	183.3
Total current liabilities		1,878.3	2,290.5
Non-current financial liabilities	30	3,931.0	3,295.0
Other non-current liabilities	31	8,049.5	8,231.0
Non-current provisions	32	2,303.5	2,592.0
Total non-current liabilities		14,284.0	14,118.0
Total liabilities		16,162.3	16,408.5
Equity			
Share capital		9,000.0	9,000.0
Legal reserves			
– General legal reserves		2,000.0	2,000.0
Retained earnings	33		
– Profit carried forward		590.6	266.5
– Loss/profit for the year		–18.3	324.1
Total equity		11,572.3	11,590.6
Total liabilities and equity		27,734.6	27,999.1

Cash Flow Statement SBB AG.

44

CHF millions	2002	2001
Loss/profit for the year	-18.3	324.1
Depreciation of net book values on asset disposals ¹	0.0	62.5
Depreciation on fixed assets	1,227.6	903.5
Non-capitalizable investments	322.9	287.2
Change in non-current provisions	-39.5	-109.7
Net proceeds from sale of assets	-112.8	-146.7
Own work capitalised	-548.0	-388.8
Cash flow	831.9	932.1
Change in securities	0.7	0.9
Change in trade accounts receivable	406.5	-315.8
Change in inventories and work in progress	-43.9	7.1
Change in other current receivables and accrued income	276.8	-132.7
Change in current liabilities	-347.8	272.0
Cash flow from operating activities	1,124.2	763.6
Investments in financial assets	-268.6	-269.7
Disposals of financial assets	239.8	255.7
Investments in tangible assets and assets under construction	-2,125.1	-2,230.1
Disposals of tangible assets	103.1	301.3
Investments in intangible assets	-16.8	0.0
Cash flow from investing activities	-2,067.6	-1,942.8
Change in current financial liabilities	-40.8	20.7
Change in non-current financial liabilities	610.3	-299.0
Change in other non-current liabilities	668.5	646.7
Cash flow from financing activities	1,238.0	368.4
Overall change in funds	294.5	-810.8
Cash and cash equivalents at 1 January	541.3	1,352.1
Cash and cash equivalents at 31 December	835.9	541.3
Change in cash and cash equivalents	294.6	-810.8

¹ Disclosed in depreciation of fixed assets.

Notes to the financial statements 2002.

Notes to the financial statements.

0 General

45

Pension commitments. The financial effects of pension commitments must be presented in accordance with FER 16, irrespective of the legal form of the pension plans and schemes. This financial approach requires the inclusion of staff pension schemes in the financial statements, although they constitute neither a credit balance nor a commitment from a legal point of view. Assets and liabilities relating to the pension schemes are revalued periodically. ATAG Libera AG carries out the calculations in accordance with FER 16 for SBB using the «projected unit credit» method. The projected benefit obligations (PBO) towards employees covered by the plan are equivalent to the cash value of the pension benefits accrued on the reference date, taking account of assumed future salary and pension increases and the likelihood of the employees leaving. Pension obligations to pensioners are expressed as the cash value of the current pensions, taking account of assumed future pension increases. The overall obligation is compared with the market value of the assets. If this results in a deficit, at least the debit amount is entered (updating of the previous year's figure). Should the difference (between the debit amount and the actual deficit) exceed the range for which FER 16 makes provision (10% of the assets of the scheme or 10% of the pension commitments, whichever is higher), the difference over an average remaining period for the insured parties (15 years in the case of SBB) is amortised, thus affecting the income statement.

Restructuring of the power division. The power division was restructured in 2001 as part of the programme for the elimination of SBB AG debt as at 1 January 1999 and in connection with conversion of the former state agency to a joint-stock company (AG) under special legislation. By agreement with the federal government, the following strategy was decided for the energy division:

- a) SBB AG to retain and upgrade the railway power business (16 ²/₃ Hz power stations).
- b) Sale of the holdings in 50 Hz power stations.

The restructuring was carried out by the federal government, taking account of the anticipated sale proceeds and the possibilities for upgrading railway power supplies. The investments in the Leibstadt AG and Gösigen-Däniken AG nuclear power stations and in Elektra-Massa AG, Naters were sold in 2001, in accordance with the strategy. The investment in ENAG (Energiefinanzierungs AG, Schwyz) was sold in the year under review. The remaining provision of CHF 687.7 million for power restructuring is being used to cover the difference for the year between the actual costs of generating energy and the lower market price over an estimated time frame of around 30 years.

Site contamination commitments. An expert report prepared by external consultants identified the need for SBB AG to set aside an environmental provision amounting to CHF 393 million as at 1 January 1999. In view of major uncertainties regarding the size of these provisions, it was agreed with the federal government that the total amount of the provisions should not be entered in the opening balance sheet but that an initial provision totalling CHF 110 million for cleanup costs in the years 1999 to 2002 be entered. Further costs will be assumed after full write-back of said provision by the federal government within the scope of the performance agreements.

1 Traffic revenues

CHF millions	2002	2001
Passenger services	1,799.2	1,713.4
Freight services	0.7	1.0
Operation revenues	148.7	202.0
Infrastructure	157.7	195.1
Traffic revenues	2,106.3	2,111.5

At CHF 2.1 billion, traffic revenues were practically the same as in the previous year. Passenger services increased by around 5%, with sales of CHF 1.8 billion. The number of passengers rose by 5.3%, largely due to the 3.5 million passengers visiting Expo.02. The year under review saw a reduction in the operating income from third parties and from group companies. The falls in infrastructure payments are mainly a result of lower train-path sales to SBB Cargo AG, which experienced a reduction in freight traffic due to the economic downturn in Europe and various disruptions to routes along the north-south axis.

2 Federal and cantonal grants

CHF millions	2002	2001
Grants for regional passenger services		
Confederation	313.4	322.8
Cantons	188.1	211.3
Third-party contributions	0.1	2.4
Total grants for regional passenger services	501.6	536.5
Train path charge subsidies for freight traffic (infrastructure)		
for intermodal transport	32.7	37.4
less difference from 2000	0.0	-17.0
for other freight traffic	59.3	61.9
Total train path charge subsidies	92.0	82.3
Federal and cantonal grants	593.6	618.8

Regional passenger services offered rose by 1.5 million train kilometres compared to the previous year. However, there was a reduction in federal and cantonal grants by a total of CHF 4.9 million, taking account of reclassification of the payments forwarded to the Zurich Transport Authority (ZVV) (cf. note 3). The grant per train kilometre thus decreased from CHF 9.95 in 2001 to CHF 9.60 in 2002.

The federal government paid an additional grant of CHF 0.2 million for regional passenger traffic, to cover the costs incurred in transporting accompanied motor vehicles during closure of the St. Gotthard road tunnel.

The procedure for the entry of payments forwarded by the federal government to the ZVV was amended in 2002, as specified by the Federal Office of Transport (FOT). Payment to the ZVV was previously made directly in the form of a reduction in the payments by the federal government for infrastructure (see note 7). The change reduces the entry for cantonal grants for regional passenger transport. The ZVV portion for 2002 is CHF 30 million.

3 Rental revenue from real estate

This figure includes the revenues from real estate in SBB's property portfolio.

4 Other operating revenues

CHF millions	2002	2001
Contract staff	4.7	4.4
Services	152.0	187.2
Maintenance and servicing work	171.8	139.4
Rental revenues	50.3	16.9
Power revenues	53.5	89.7
Foreign currency exchange	41.9	50.6
Commission	106.8	84.1
Sales of stationery and materials	42.4	21.1
Cost participations, contributions	76.9	40.5
Sundry income	78.2	59.9
Other operating revenues	778.5	693.8

The increase in sundry operating revenues is due not only to the effects of ordinary business but also primarily to special influences such as Expo.02, for which additional services were provided (services, maintenance, commissions, printed material and other operating revenues).

The increase in rental revenues is a result of the general application of gross accounting for the use of railway cars. Vehicle costs also rose to the same extent (cf. note 11).

The reduction in power revenues is attributable to the lower figure for power sold, which was due in turn to the sale of holdings in power stations.

The increase in shared costs includes higher charges for passengers travelling without a valid ticket and an increase in shared advertising and marketing costs for the sale of General Abonnement passes and Half-tax Cards.

5 Other revenues

Other revenues include the charging of group services to SBB Cargo AG and also the write-back of the power provision, which covers the power generation costs over and above the market price.

6 Own work capitalized

CHF millions	2002	2001
Investment orders	343.9	388.8
Stock orders	204.1	187.8
Own work capitalized	548.0	576.6

48

The reduction in investment orders is due to the reduction in own work for the first phase of Rail 2000. On the other hand, additional work was required for Expo.02 for the servicing of rolling stock, which is reflected in the increase in own work for stock orders.

7 Federal government grants for infrastructure

CHF millions	2002	2001
Maintenance grants	810.0	777.0
Operating grants	494.0	484.0
Forwarded to ZVV	0.0	-35.6
Contribution for alternative SBB offer relating to St. Gotthard road tunnel closure	2.9	0.0
Federal government grants for infrastructure	1,306.9	1,225.4

The maintenance grant covers depreciation of existing infrastructure and non-capitalizable investments in new infrastructure. The total rose by CHF 33 million, as a result of the high investment activity (including Rail 2000). The operating grant, which is also used for current maintenance and operation of the infrastructure, also increased.

The piggy-back service between Brunnen (Schwyz) and Lugano and the car-carrying service between Göschenen and Airolo were operated by SBB during the closure of the St. Gotthard road tunnel. The resulting shortfall of CHF 2.9 million was met by the federal government, which latter made a non-repayable contribution for the non-capitalizable expense of modifying the loading facilities (CHF 2.2 million) and operation of the car-carrying service (CHF 0.7 million). A further contribution of CHF 0.2 million was to cover staff costs (cf. note 2).

The power cars used for permanent way trains also had to be converted due to the planned introduction of ETCS (European Train Control System) on the new sections of track. The Federal government paid a non-repayable amount of CHF 15.2 million (net of VAT) in 2002 for conversion on the basis of the financing agreement under Article 56 of the Railways Act (EBG).

The federal grants also include sums earmarked for infrastructure work by the Zurich Transport Authority (ZVV). These payments, which are not directly connected with services performed by SBB AG, are forwarded to ZVV. The payment to ZVV was made in the form of cantonal grants (cf. note 2) as specified by the Federal Office of Transport (FOT).

8 Revenue reductions

The fall in revenue reductions is due to the lower balance of exchange rate gains and losses and the change in provisions for bad and doubtful debts.

9 Expenses for materials

The increase is due to the increased spare parts requirement for Expo.02 traffic and the use of more complex, more expensive spare parts for the new ICN and IC2000 fleet, especially materials for power cars, car parts and motor parts.

10 Personnel expenses

CHF millions	2002	2001
Wages and salaries	2,107.5	2,091.2
Social benefit costs	301.4	265.6
Other personnel expenses	79.8	48.9
Personnel expenses	2,488.7	2,405.7

Wages and salaries increased by CHF 16.3 million compared to the previous year. The increase is mainly due to the increase in wages and salaries in 2002 and payment for staff overtime during Expo.02. The workforce remains practically unchanged.

The increase in social benefit costs is due to higher contributions to the occupational pension fund as a result of the increased earnings contributions, early retirements and the pension fund purchases in 2002.

Apprentice training was transferred to the training association «login» of SBB and BLS at the beginning of 2002. For this reason, apprentices in OPET (Federal Office for Professional Education and Technology) occupations also transferred to «login». The «login» expenses are included under «Other personnel costs». «Other personnel costs» also include the hire of additional staff during Expo.02 and the Expo bonus (in the form of Reka cheques) for SBB staff.

11 Other operating expenses

CHF millions	2002	2001
Lease of installations	23.1	17.3
Services for maintenance, repair and replacement	196.4	176.3
Vehicle costs	62.9	37.2
Property insurance, duties and fees	55.6	53.4
Power and waste disposal costs	181.9	229.1
Administration and information system costs	211.8	216.3
Publicity costs	52.8	43.1
Other operating expenses	21.5	102.5
Operating costs	232.8	225.7
Flat-rate VAT charge/input tax reductions on grants	45.7	57.6
Other operating expenses	1,084.5	1,158.5

The reduction in «Other operating expenses» is partly due to the reclassification of the net book value depreciation from «Disposals of fixed assets». For the first time, it is entered under «Write-offs and depreciation» (cf. note 12) instead of «Other operating expenses».

Additional maintenance work was required because of increased rolling stock use during Expo.02, which resulted in an increase in third-party services.

The increased vehicle costs are a result of the general application of gross accounting for the use of railway cars. On the other hand, rental revenues increased (cf. note 4).

The reduction in power and waste disposal costs is due to the sale of holdings in power stations, which resulted in reduced power purchases and thus lowered the total cost of power. On the other hand, power revenues also fell (cf. note 4).

The expenses entered under the heading «Flat-rate VAT charge/input tax reductions» are mainly attributable to the VAT regulations applicable to public transport operators. SBB AG calculates a 2.7% input tax reduction on the payments it receives, instead of a reduction in proportion to the corresponding share of its total turnover. As the tax payable is contained in these amounts, this arrangement does not affect the SBB AG income statement.

12 Write-offs and depreciation

CHF millions	2002	2001
Write-offs of financial assets	168.4	9.2
Depreciation of tangible assets	943.1	892.9
Amortisation of intangible assets	42.6	1.4
Depreciation of net book values from disposals of tangible assets	73.5	0.0
Write-offs and depreciation	1,227.6	903.5

The write-offs of financial assets includes the valuation provisions on the holdings in SBB Cargo AG (CHF 156 million) and RailLink AG (CHF 2 million) and the increase in the valuation of loans to the railwaymen's housing associations (CHF 9.5 million).

The increase in depreciation of tangible assets is due to the higher depreciation base because of the investments in Rail 2000 and new rolling stock.

Software was removed from tangible assets in the year under review and reclassified as intangible assets, which is reflected under the heading «Amortisation of intangible assets».

In the previous year, the residual book value write-off from disposals of fixed assets was entered under the heading «Other operating expenses» (cf. note 11).

13 Non-capitalizable investment expenses

The increase in non-capitalizable investments is a result of the accelerated settlement of completed projects.

14 Staff provident scheme under FER 16

Due to the marked increase in the pension fund deficit resulting from the weakness of the financial markets, the provisions under FER 16 have had to be increased by CHF 183 million, this amount being charged to the income statement (cf. note 0 and note 34 to the Consolidated Income Statement regarding the Staff Provident Scheme).

15 Net proceeds from sale of assets

These proceeds arose from both the sale of financial assets, particularly the sale of another part of the holding in TDC Switzerland AG, and the sale of tangible assets.

16 Extraordinary income

CHF millions	2002	2001
Write-back of joint venture provision	0.0	42.0
Write-back of the provision for the divestment of Cargo AG	59.0	0.0
Restructuring of power division – federal govt. waiver of claims	0.0	1,199.7
Other extraordinary income	23.6	84.1
Extraordinary income	82.6	1,325.8

The provision of CHF 59 million for the divestment of SBB Cargo AG is no longer operationally necessary and has been written back. The Equity method has been used to calculate the valuation provision of CHF 156 million for the investment in SBB Cargo AG (cf. note 12).

The remaining extraordinary income is due to the release of other provisions from prior periods no longer required.

17 Extraordinary expenses

CHF millions	2002	2001
Restructuring of power division (depreciation, addition of provision)	0.0	1,199.7
Other extraordinary expenses	4.0	105.1
Extraordinary expenses	4.0	1,304.8

The previous year's high amount is attributable to the power division restructuring mentioned above; this took the form of an addendum to the opening balance sheet, with the same amount as extraordinary revenue, thus having no effect on the income statement.

18 «Chance»

The «Chance» project heading reflects expenditure undertaken by SBB AG for retraining staff made redundant due to rationalisation or restructuring. The lower figure is due to a reduction in the number of employees affected.

19 Financial income

CHF millions	2002	2001
Interest income and income from investment third parties	90.0	69.6
Interest income and income from investment group companies	21.2	10.5
Interest income and income from investment associated companies	12.1	24.0
Financial income shareholder	3.0	13.9
Other financial income	29.6	23.6
Financial income	155.9	141.6

20 Financial expenses

CHF millions	2002	2001
Financial expenses third parties	167.8	146.9
Financial expenses group companies	1.5	1.4
Financial expenses associated companies	0.0	0.4
Financial expenses to the shareholder	51.6	95.9
Other financial expenses	17.6	9.3
Financial expenses	238.5	253.9

Interest and similar expenses payable to third parties consist primarily of interest due on the commitments to EUROFIMA. The increase is attributable to new loans and leasing.

The continuing fall in commitments to the federal government on the basis of the agreed plan to finance the deficit in the SBB pension fund arising from its establishment have brought about a reduction in financial outlays payable to the federal government as shareholder.

21 Taxes

SBB AG is exempt from taxes under Article 21 of the SBB Act of 20 March 1998.

22 Loss/profit for the year

CHF millions	2002	2001
Profit for the year from operations eligible for grants under Art. 64 of the Railways Act (EBG)		
– Infrastructure	82.4	132.7
– Regional passenger traffic (RPV)	3.6	10.5
Loss/profit for the year from operations which are not eligible for grants	–104.3	180.9
Loss/profit for the year	–18.3	324.1

23 Trade accounts receivable

CHF millions	31.12.2002	31.12.2001
Trade accounts receivable		
– from third parties	408.4	505.1
– from group companies	91.5	384.6
– from associated companies	7.0	27.4
Valuation provisions	–28.2	–31.9
Trade accounts receivable	478.7	885.2

The trade accounts receivable from third parties have decreased as a result of more intensive management of accounts receivable. The fall in accounts receivable from group companies can be ascribed to the periodic settling of payments.

24 Inventories and work in progress

CHF millions	31.12.2002	31.12.2001
Inventories	424.3	370.6
Work in progress	30.6	24.8
Valuation provisions	–195.6	–180.0
Inventories and work in progress	259.3	215.4

The higher figure for inventories and work in progress is mainly attributable to increased inventory production for rolling stock servicing.

The higher valuation provisions arise from write-downs on obsolete stock due to higher inventories.

25 Financial investments

CHF millions	Long-term investments	Shareholdings	Non-current receivables from third parties	Non-current receivables from Group companies	Non-current receivables from associated companies	Non-current receivables from shareholder	Total
Historical cost							
As at 1.1.2002	533.5	1,105.5	601.7	10.9	414.9	2,606.8	5,273.3
Additions	86.2	69.8	46.1	93.3	0.0	0.0	295.4
Disposals	0.0	–49.5	–22.3	–3.5	–365.0	–850.0	–1,290.2
As at 31.12.2002	619.7	1,125.9	625.5	100.7	49.9	1,756.8	4,278.5
Accumulated depreciation							
As at 1.1.2002	0.0	–60.6	–32.1	–1.5	0.0	0.0	–94.2
Additions	0.0	–158.9	–9.5	0.0	0.0	0.0	–168.4
Disposals	0.0	5.4	0.0	1.5	0.0	0.0	6.9
As at 31.12.2002	0.0	–214.1	–41.6	0.0	0.0	0.0	–255.7
Net book value 31.12.2002	619.7	911.7	583.9	100.7	49.9	1,756.8	4,022.8

The addition under long-term investments includes the reinvested income accrued from the investment relating to the lease agreements. There are equivalent entries on the liabilities side of the balance sheet.

The addition of CHF 69.8 million under shareholdings includes the capital increase at Turbo AG, the purchase of the holding in Passaggio Rail AG and the RailAway AG share swap. The disposals include the sale of part of the interest in TDC Switzerland AG and the disposal of interests in bonded warehouse facilities in Zurich and Basle. The restructuring of the power division also included the sale of the ENAG power station investment.

The disposal of non-current receivables from affiliated companies amounting to CHF 365 million includes the receivable from ENAG. The loan also ceases to exist with the sale of the holding.

The decrease in non-current receivables from the shareholder is related to the payment plan agreed with the federal government upon establishment of the SBB pension fund in 1999 (cf. note 31).

26 Tangible assets and assets under construction

CHF millions	Vehicles (incl. leasing)	Civil engineering, trackbed and railway installations	Other tangible assets	Property	Buildings	Total tangible assets	Assets under construction and down- payments	Total
Historical costs								
As at 1.1.2002	7,616.8	11,252.3	4,014.1	1,430.1	3,190.7	27,504.0	6,626.1	34,130.1
Investments	76.2	31.1	11.8	21.7	2.7	143.5	2,483.4	2,626.9
Reclassification of assets								
under construction	326.0	936.0	213.2	5.8	106.7	1,587.6	-1,587.6	0.0
Investment subsidy	-1.0	-76.5	-14.6	-0.1	-7.9	-100.0	0.0	-100.0
Disposals of tangible assets	-93.9	-330.7	-320.5	-13.1	-77.7	-835.9	-433.2	-1,269.2
Reclassifications	0.0	58.7	-236.3	0.0	0.0	-177.6	-13.8	-191.3
As at 31.12.2002	7,924.2	11,871.0	3,667.6	1,444.4	3,214.5	28,121.7	7,074.9	35,196.5
of which leasing	1,992.1					1,992.1		1,992.1
Accumulated depreciation								
As at 1.1.2002	-4,070.7	-3,865.3	-3,069.9	-22.1	-1,499.2	-12,527.2	-1,043.9	-13,571.2
Additions	-276.6	-358.8	-97.5	0.0	-56.2	-789.1	-154.1	-943.1
Disposals	90.5	277.6	283.6	0.3	58.0	710.0	52.4	762.4
Reclassifications	0.0	-58.7	111.9	0.0	0.0	53.1	0.0	53.1
As at 31.12.2002	-4,256.8	-4,005.3	-2,771.8	-21.8	-1,497.3	-12,553.2	-1,145.6	-13,698.8
of which leasing	-587.6					-587.6		-587.6
Net book value 31.12.2002	3,667.4	7,865.7	895.7	1,422.5	1,717.2	15,568.5	5,929.3	21,497.8
of which leasing	1,404.5					1,404.5		1,404.5

The software previously disclosed in fixed assets was reclassified as intangible assets in the year under review.

Interest paid on loans with a variable rate of interest for financing Rail 2000 has been capitalized. Capitalized interest expenses amounted to CHF 22 million in the year under review (previous year: CHF 16.7 million).

Other fixed assets include all installations, IT and telecommunications equipment, and supply and disposal plant.

27 Intangible assets

CHF millions	Rights	Software	Total
Historical costs			
As at 1.1.2002	87.8	0.0	87.8
Additions	0.0	16.8	16.8
Disposals	0.0	-19.5	-19.5
Reclassifications	13.8	177.6	191.3
As at 31.12.2002	101.6	174.8	276.4
Accumulated depreciation			
As at 1.1.2002	-14.1	0.0	-14.1
Additions	-1.7	-40.8	-42.6
Disposals	0.0	1.4	1.4
Reclassifications	0.0	-53.2	-53.1
As at 31.12.2002	-15.8	-92.5	-108.4
Net book value 31.12.2002	85.8	82.3	168.0

The increase in intangible assets is primarily due to the reclassification of the software from tangible assets.

28 Trade accounts payable

CHF millions	31.12.2002	31.12.2001
Trade accounts payable		
- to third parties	649.6	875.8
- to group companies	21.5	183.2
- to associated companies	3.2	0.0
Trade accounts payable	674.3	1,059.0

Trade accounts payable also includes accounts payable to domestic and foreign railway enterprises amounting to CHF 165 million.

The decrease in trade accounts payable to group companies is attributable to periodic settlement (cf. note 22).

29 Deferred income and accrued charges

CHF millions	31.12.2002	31.12.2001
Ticket deferrals	341.4	298.6
Accrued interest payable	34.3	43.8
Accrued vacation and overtime	0.0	132.6
Other accrued expenses	407.2	376.7
Deferred income and accrued charges	782.9	851.7

Ticket deferrals relate mainly to General Abonnements (all-line season tickets), Half-tax Cards, Railbon coupons and point-to-point season tickets. The increase in deferrals is attributable to the recently-launched 3-year Half-tax Cards and the increase in General Abonnements. The deferrals do not extend to individual tickets.

Vacation and overtime entitlements are disclosed in current provisions for the first time (cf. note 32).

30 Non-current financial liabilities

CHF millions	31.12.2002	31.12.2001
Liabilities to banks	32.8	34.5
Leasing liabilities	2,527.9	1,888.8
Staff savings accounts	1,370.3	1,371.7
Non-current financial liabilities	3,931.0	3,295.0

The EUROFIMA loans are included in liabilities to banks.

Leasing liabilities have increased due to the assumption of a financial lease (CHF 550 million) for the procurement of new tilting trains, and because the interest payable on existing leasing agreements has been capitalised.

31 Other non-current liabilities

CHF millions	31.12.2002	31.12.2001
Liabilities to third parties	11.8	12.5
Liabilities to group companies	52.4	103.2
Liabilities to the federal government as shareholder	7,985.3	8,115.3
Other non-current liabilities	8,049.5	8,231.0

The SBB received additional loans totalling CHF 720 million from the federal government during the year under review for Rail 2000 construction work (CHF 662 million) and for basic infrastructure investments (CHF 58 million). On the other hand, the liabilities due to the federal government under the finance plan agreed at the establishment of the SBB pension fund have fallen by CHF 850 million. A detailed schedule of liabilities to the federal government as shareholder can be found in the consolidated report (cf. note 36).

Net indebtedness

CHF millions	31.12.2002	31.12.2001
Current financial liabilities	3.1	43.9
Non-current financial liabilities	3,931.0	3,295.0
Other non-current liabilities	8,049.5	8,231.0
Total financial liabilities	11,983.6	11,569.9
less cash and cash equivalents, bonds and investment in securities	-1,456.2	-1,075.8
less receivables from the shareholder concerning the pension fund	-1,756.8	-2,606.8
Net indebtedness	8,770.6	7,887.3
Changes compared to the previous year	883.3	-874.4

The net indebtedness of SBB AG increased by CHF 883.3 million in the year under review. The increase was mainly due to the aforementioned additional loans from the federal government (CHF 720 million). Most of the funds received under the new leasing agreement (cf. note 30) are included in the cash and cash equivalents and therefore are not yet having a full effect on the change in net indebtedness.

32 Provisions

CHF millions	31.12.2002	31.12.2001
Current provisions	298.2	183.3
Non-current provisions	2,303.5	2,592.0
Provisions	2,601.7	2,775.3

CHF millions	Staff provident scheme as per FER 16	Provision for index-linking of pension	Environmental provision	Power division restructuring	Vacation/overtime	Other provisions	Total
As at 1.1.2002	650.0	329.5	104.9	958.3	0.0	732.5	2,775.3
Addition (net)	183.0	0.0	0.0	0.0	2.5	35.2	220.7
Utilisation	0.0	-88.9	-8.9	-270.6	-2.8	-140.5	-511.8
Reclassification	0.0	0.0	0.0	0.0	137.7	-20.2	117.5
As at 31.12.2002	833.0	240.6	96.0	687.7	137.4	607.0	2,601.7

Notes on the provisions for employee provident plans under FER 16 are contained in the consolidated financial statements. The provision of CHF 833 million in the SBB AG accounts is identical to the provision in the consolidated accounts (cf. also note 0).

Members of the SBB Pension Fund who retired before 1 January 2001 are entitled to the same treatment as retired members of the federal government pension fund. The SBB Pension Fund can only pay cost-of-living increases to pensioners if its finances and earnings permit. As the premium reserve of the SBB pension fund has failed to reach its specified level, the obligation to pay such cost-of-living increases to the beneficiaries has to be borne by the employer. CHF 88.9 million of the provisions were used for 2002.

The environmental remediation measures have been continued in the year under review. CHF 8.9 million was charged against the provision in the year under review. Note 0 contains further information on environmental remediation measures.

A corresponding release of the provision was also done for the sale of the ENAG (Energiefinanzierungs AG, Schwyz) 50 Hz power station holding. A release also took place for the reduction of the power generation costs over and above the market price. The remaining provision of CHF 687.7 million for the restructuring of the power division is used to balance the power generation costs of the 16 ²/₃ Hz power stations at the lower market price.

Holiday and overtime entitlements were previously included in deferred income and accrued charges (cf. note 29).

The other provisions relate mainly to provisions for maintenance of rolling stock, insurance provisions for claims, provisions from earnings from the sale of cable-laying rights, provisions for the decommissioning of infrastructure and other operationally-necessary provisions.

33 Retained earnings

CHF millions	31.12.2002	31.12.2001
Profit carried forward		
Reserved under Art. 64 of the Railways Act (EBG)	446.7	303.5
Not reserved under Art. 64 of the Railways Act (EBG)	143.9	-37.0
Total profit carried forward	590.6	266.5
Loss/profit for the year		
Reserved under Art. 64 of the Railways Act (EBG)	86.0	143.2
Not reserved under Art. 64 Railways Act (EBG)	-104.3	180.9
Total loss/profit for the year	-18.3	324.1
Total retained earnings in accordance with Art. 64 EBG	572.3	590.6

The retained earnings of CHF 572.3 million, consisting of the loss for the year of CHF 18.3 million and profit carried forward of CHF 590.6 million, includes reserves of CHF 532.8 million in accordance with Article 64 of the Railways Act (EBG).

34 Statutory information

(Except where already disclosed in the respective headings.)

34.1 Sureties, guarantees and pledges in favour of third parties

CHF millions	31.12.2002	31.12.2001
Sureties and guarantees	332.2	127.4
Statutory liability clauses	130.0	130.0
Firm purchase and finance commitments	15.7	1.1
Liabilities from unpaid share capital	147.3	147.3
Total	625.2	405.8

In addition, SBB AG has interests in a number of civil partnerships with joint and several liability. These are primarily tariff associations/cooperatives, etc., collaborations and joint ventures for the management of fixed-term projects.

34.2 Fire insurance values of the tangible assets

The fire insurance values of the tangible assets correspond to their replacement or new values.

34.3 Liabilities towards staff provident schemes

CHF millions	31.12.2002	31.12.2001
Current liabilities	0.0	0.5
Total	0.0	0.5

34.4 Off-balance-sheet leasing commitments

CHF millions	31.12.2002	31.12.2001
Total	69.0	66.0

SBB AG has outsourced a substantial volume of IT services (computer centre/hardware/software/maintenance and service) to third parties.

34.5 Major holdings

Group holdings and affiliated companies are listed on page 38 of the Notes to the consolidated financial statement.

35 Post balance sheet events

None.

Proposal of the Board of Directors on the appropriation of retained earnings.

60

The Board of Directors proposes to the Annual General Meeting that the retained earnings for 2002, be appropriated as follows:

CHF millions	2002	2001
Loss/profit for the year	-18.3	324.1
Profit carried forward	590.6	266.5
Total unappropriated profit in accordance with Art. 64 of the Railways Act (EBG)	572.3	590.6
Appropriation of the profit for 1999 from operations eligible for grants to reserves in accordance with Art. 64 EBG		
- Infrastructure	-78.4	
- Passenger services	-17.6	
Appropriation of the profit for 2000 from operations eligible for grants to reserves in accordance with Art. 64 EBG		
- Infrastructure	-162.1	
- Passenger services	-45.4	
Appropriation of the profit for 2001 from operations eligible for grants to reserves in accordance with Art. 64 EBG		
- Infrastructure	-132.7	
- Passenger services	-10.5	
Appropriation of the profit for 2002 from operations eligible for grants to reserves in accordance with Art. 64 EBG		
- Infrastructure	-82.4	
- Passenger services	-3.6	
Retained earnings at the disposal of the General Meeting	39.6	590.6
Retained earnings carried forward	39.6	590.6

Report of the statutory auditors.

To the general meeting of Swiss Federal Railways SBB, Berne.

61

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement, statement of cash flows and notes) of Swiss Federal Railways SBB for the year ended 31 December 2002.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements 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 Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with «Swiss GAAP FER» and comply, as well as the proposed allocation of available earnings, with Swiss law and the company's articles of incorporation except for the following qualification:

An external expert opinion established the need for a special provision for existing environmental pollution costs of CHF 393 million as at 1 January 1999. Because of the great uncertainties surrounding this special provision, an agreement was reached with the Federal authorities to the effect that a full reserve would not be set up in the opening balance sheet, but a special provision of CHF 110 million recognized for necessary improvement costs. Costs exceeding this amount will be covered by the Federal authorities according to the service agreement.

Despite the above qualification, we recommend that the financial statements submitted to you be approved since the financial consequences of the insufficient provision will be covered by the Federal authorities.

We further draw your attention to the fact that the Federal Office of Transportation as the supervisory authority according to Art. 70 of the Swiss Railway Act (Eisenbahngesetz) has approved, in a letter dated 17 March 2003, the financial statements 2002 with the following qualification: «The operational costs and performance calculation for the passenger traffic area do not yet comply with the requirements of the ordinance of accounts (REVO). The result 2002 for the regional passenger traffic of CHF 3.6 millions, based on recalculation, is however approved for the posting of earnings according to Art. 64 of the Swiss Railway Act».

Berne, 18 March 2003
Ernst & Young Ltd

Bruno Chiomento
Certified Public Accountant
(In charge of the audit)

Rudolf Mahnig
Swiss Certified Accountant

Report of the Board of Directors on the activities of the company during the year ended 31st December 1954

The Board of Directors has pleasure in presenting to you the following report on the activities of the company during the year ended 31st December 1954.

The company has during the year been engaged in the production and sale of various types of machinery and equipment, and has also been engaged in the construction of various types of buildings and structures.

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