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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.

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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.

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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:

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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.

0 Changes to the scope of consolidation

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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 |

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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 unconsoli- dated holdings | Non-current receivables from share- holder | 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 |

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.