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## Corporate Governance.

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### Introduction.

Since its transformation into a joint-stock company on 1 January 1999, the SBB has been orienting itself by the demands of the different entitled interest groups. These are the Confederation as sole shareholder, the clients, the employees, the business partners, the general public, the body politic and the financial backers. The organisation and structure, the principles of governance and controlling of the SBB take these entitlements into account.

Already in 2000, the Board of Directors passed progressive company principles (Code of Conduct) for the SBB and its group companies. Therein, the SBB fully engages to respect ethical principles, to observe the law and the regulations, to offer transparency, to promote open external and internal communication, and to be committed to the protection of health, safety and the environment. All these principles shall be recognised and promoted as genuine values and success factors of the SBB.

Corporate Governance was systematically expanded in the past years, and adapted to the developments. By doing so, the Board of Directors actively accepts the responsibility imposed on it towards the political authorities, towards society and the economy.

With a comprehensive and open communication, the SBB wants to meet the justified expectations and needs of the interest groups for more transparency and more information. The present report on corporate governance is an expression of this conception of itself. Although the SBB's shares are not negotiable, reporting orients itself on the guidelines of the Swiss Stock Exchange concerning information on corporate governance.

In view of the special characteristics of the SBB, however, certain adaptations are made. Also, appropriate reference is made to points that are described in detail in the Annual Report or in the Financial Report.



### Legal form of the SBB.

The company «SBB, The Swiss Railway» is a joint-stock company under special public law. It is based on the federal law on the Swiss Federal Railways (SBBG) of 20 March 1998. The SBBG defines the purpose and certain company principles of the SBB and contains regulations of special law concerning the circle of shareholders, the organisation, the employment of staff, and accounting. Ultimately, the SBBG also provides the legal basis for the Performance Agreement and for the frame of payment for the SBB infrastructure.

Insofar as the SBBG does not contain divergent provisions, the prescriptions of the Code of Obligations applying to the joint-stock company, apply also to the SBB by analogy.

### Structure and management of the Group.

The organisation chart of the SBB is shown on the inside cover of the Annual Report.

SBB Cargo AG, the 100 percent subsidiary, is an independent legal person, but is managed like a division. All the three divisions, the central services as a whole, and since 1 January 2003 also the business unit Real Estate, render separate accounts. The rendering of accounts is done according to the Swiss GAAP AAR.

The group companies and associated companies belonging to the circle of consolidated companies of the SBB are listed in a detailed overview on the pages 38/39 of the Financial Report. Without exception, they are private-law companies not admitted to official quotation.

The managing divisions and business units are responsible for the companies attributed to them, and manage these in consideration of the directives valid for the whole Group. The fully consolidated 100 percent subsidiaries are managed directly, the others through a representation of the SBB in their respective boards of directors and general meetings. The representatives of the SBB in the Group companies and in partner companies are appointed by the SBB Board of Directors.

### Capital structure and shareholder.

The share capital is CHF 9 billion, divided into 180 million registered shares with a nominal value of CHF 50 each. The shares are fully paid up. There is no authorized or conditional capital, there are no participation or dividend-right certificates, nor are there convertible bonds nor options. Each share gives the right to one vote in the general meeting.

Since the foundation of the SBB, the Confederation has owned 100 percent of the share capital. According to Art. 7 paragraph 3 of the SBBG, the Confederation must at any time hold the majority of the capital and of the votes. Further restrictions for the transmission of shares, statutory or otherwise, do not exist.



## Board of Directors.

### Members of the Board of Directors.

Since the foundation of the SBB on 1 January 1999, the Board of Directors has been composed of the following members:

#### Thierry Lalive d'Epinay (1944, CH)

Chairman since 1999, Dipl. Ing. ETH, Dr. sc. techn., Managing Partner of the business consultancy firm HPO AG, Freienbach. Directs the working group Remuneration/Nomination and is a member of all the other working groups of the Board of Directors.

Seats in boards of directors, and other mandates:

- von Roll AG, Gerlafingen
- Océ (Schweiz) AG, Zurich/Glattbrugg
- Member of the advisory council of unique zurich airport AG.

#### Ulrich Sinzig (1943, CH)

Vice-Chairman since 1 January 2002. Advocate, Director of Aare Seeland mobil AG, Langenthal. Directs the working group Infrastructure and is a member of the working group Passenger Traffic.

Seats in boards of directors, and other mandates:

- Vice President of Switzerland Tourism
- Vice President of the World Association of Public Transport (UITP)
- Bernische Kraftwerk AG, BKW, Bern (electrical power plants).

#### Hans Bieri (1953, CH, staff representative)

Skilled electro-mechanician, Secretary at the Swiss Association of Railway and Transport Personnel (SEV). Member of the working groups Personnel and Freight Traffic. Cantonal Councillor in the socialist fraction of the Cantonal Parliament of Bern.

#### Hanspeter Brändli (1938, CH)

Dr. dipl. Physiker ETH, Managing Partner of Top Fifty AG, Zug. Directs the working group Freight and is a member of the working group Remuneration/Nomination.

Seats in boards of directors:

- Power-One AG, Uster (Chairman of the Board)
- Power-One Inc., Camarillo, USA.

#### Mario M. Fontana (1946, CH)

Dipl. Ing., Master of Science in Industrial Engineering. Directs the working group Information Systems and is a member of the working group Real Estate.

Seats in boards of directors:

- Leica Geosystems AG, Heerbrugg (Chairman of the Board)
- Swissquote Holding AG, Gland (Chairman of the Board)
- Bon appétit Group, Moosseedorf (until 31 December 2002 Chairman of the Board)
- Sulzer AG, Winterthur
- Büro Furrer, Dietikon.

#### Beth Krasna (1953, CH)

Dipl. Chem.-Ing. ETH, Master's degree in Management, MIT, Cambridge MA, CEO of Albert-Inc. SA, Lausanne. Member of the working groups Infrastructure and Finances/Audit.

Seats in boards of directors:

- Banque Cantonale Vaudoise, Lausanne, (since October 2002)
- Raymond Weil SA, Geneva.

#### Yvette Jaggi (1941, CH, staff representative)

Docteur ès sciences politiques, President of the cultural foundation Pro Helvetia. Directs the working group Real Estate and is a member of the working group Remuneration/Nomination.

#### Paul E. Otth (1943, CH)

Certified Auditor, until 31 December 2002 CFO of Unaxis Corporation. Directs the working group Finances/Audit and is a member of the working group Freight.

Seats in boards of directors:

- Ascom Holding AG, Bern (Vice President and Non-executive Lead Director)
- EAO Holding AG, Olten
- Esec Holding AG, Cham
- Inficon Holding AG, Bad Ragaz (Vice President)
- Swissquote Holding AG, Gland.

#### Paul Reutlinger (1943, CH)

Business Consultant. Directs the working groups Personnel and Passenger Traffic.

Seats in boards of directors:

- Bon appétit Group, Moosseedorf
- Edipresse Groupe, Lausanne
- Büro Schoch, Winterthur
- Nagra Public Access, Zug
- SkiData, Gartenau (A) (Chairman of the Board).



### **Representation of interests.**

The members of the Board of Directors and the Management Board must disclose their commitments to other companies and institutions. The secretary of the Board of Directors periodically asks the members for pertinent information. A special committee of the Board of Directors, composed of Mrs. Beth Krasna and Mr. Hanspeter Brändli, watches that the commitments entered into are disclosed, that potential conflicts of interest are identified at an early stage, and that the recusancy rules are observed.

### **Cross-representation of interests.**

There is no mutual representation in the respective boards of directors of the SBB and another company (cross representation).

### **Nomination and term of office.**

The Board of Directors of the SBB is composed of nine members at most, whereby two are staff representatives. The members of the Board of Directors may not exercise executive functions within the SBB.

The Board of Directors and its Chairman are elected by the General Meeting for a term of four years. They can be re-elected maximally for two further terms. The term of office ends at the latest upon reaching the 70<sup>th</sup> year of age.

The present Board of Directors was elected by the Federal Council in the scope of the preparations for the foundation, for a term of office of four years. A complete renewal election is planned for the General Meeting 2003. It is planned to renew the Board of Directors in an echeloned way in the course of the two coming terms of office.

### **Tasks of the Board of Directors.**

The Board of Directors has the tasks that according to the Swiss company law (Art. 716a Code of Obligations) are non-transferable and non-deprivable. Its main tasks namely are the strategic orientation and governance of the SBB, the determination of the organisation, the arrangement of accounting, the financial control and the financial planning, the elaboration of the budget for the hands of the Federal Council, the elaboration of the medium-term plans, the nomination and removal of the members of the Management Board and their remuneration, the general supervision over the persons entrusted with the conduct of the business, the drawing up of the

Annual Report, and the preparation of the General Meeting and the execution of its decisions.

### **Internal organisation.**

The Chairman of the Board of Directors is elected by the General Meeting. Apart from that, the Board of Directors organises itself by appointing from its midst the Vice Chairman, the Heads of the working groups of the Board of Directors and their members. The Board of Directors appoints a secretary who does not have to be a Board member.

Decisions are always made by the whole Board. For the preparation of the decisions and for a more in-depth treatment of strategic issues and special projects, the Board of Directors has formed permanent working groups for the following fields of tasks:

- Passenger traffic
- Freight traffic
- Infrastructure
- Personnel
- Finances/Audit
- Real estate
- IT
- Remuneration/Nomination.

The working groups are normally composed of two to three members of the Board of Directors. The Chairman of the Management Board (CEO) and the responsible head of division or business unit attend the meetings. Minutes are drawn up of each meeting of a working group, for the hands of all the members of the Board of Directors. If at a plenary session of the Board of Directors, an issue is treated which already had been the subject of deliberations in a working group, a recommendation is delivered by the head of the respective working group.

In the business year 2002, the Board of Directors held eleven ordinary meetings. In addition, the individual working groups held their meetings as required by the business at hand. The agenda for the meetings of the Board of Directors is determined by the Chairman of the Board, upon proposition of the Management Board, the agendas of the working groups by the respective head in cooperation with the head of the division or business unit concerned. Each member of the Board of Directors can propose that an item be included in the agenda. The agenda, together with the necessary documents, is sent



to the members at least 5 working days prior to the meeting.

The Chairman of the Management Board normally attends the meeting of the Board of Directors over its whole duration. The heads of the divisions and business units concerned present their items of business themselves. If required, the Board of Directors can call in further executives and specialists.

Once every year, the Board of Directors assesses the performances of the members of the Management Board. The Board of Directors and the individual working groups also regularly proceed to a self-assessment.

#### **Allocation of competences between Board of Directors and Management Board.**

According to Art. 12 para 1 SBBG and the statutes, the Board of Directors has delegated its authority for the business management to the Management Board. The competences of both organs of governance are defined in the Organisation Rules. Therein, the legally non-transferable and non-deprivable tasks of the Board of Directors are described and those matters are determined for which the Board of Directors expressly reserves itself the right of decision.

#### **Instruments of information and control of the Management Board.**

The Board of Directors has installed an integrated planning and reporting system. Mainly, it has at its disposal the following instruments for the supervision of the conduct of the business:

- Monthly reporting: Standardised written and verbal reporting at the meetings of the Board of Directors on the results of the SBB Group, the divisions and business fields;
- Strategic planning;
- Budgeting and medium-term planning;
- Forecast on the attainment of budget goals (is regularly updated in the course of the business year);
- Approval of the annual statement of accounts;
- Approval of the half-year report and the yearly report on the attainment of the owner's objectives of the Confederation;
- Determination of the yearly auditing plan for the internal audit;

- Audit reports of the internal and external auditors, and Management Letter of the external auditors;
- Risk management system and regular risk reports;
- Annual reporting on the group holdings of the SBB group;
- Annual safety report.

By commission of the Board of Directors, the working group Finances/Audit forms an independent opinion on the external and internal audits and their combined results. It approves the annual audit plan of the internal auditors and supervises the implementation by the Management Board of the measures proposed in the Management Letter and the audit reports. It judges the workability of the internal control system, including the risk management and gains a picture of the state of compliance with the norms. It supervises the whole financial reporting system and if necessary, proposes measures to the Board of Directors.

The internal auditing assists the Board of Directors and its working group Finances/Audit in the assumption of its supervisory and control tasks. Organisationally, it is subordinated to the Chairman of the Management Board, but it is placed under the general supervision of the working group Finances/Audit.



## Management Board.

### Members of the Management Board.

The Management Board is composed of the following members:

#### **Benedikt Weibel** (1946, CH)

Chief Executive Officer (since 1999), Dr. rer. pol. With the SBB since 1978 in the positions of Secretary General and Head of Traffic Department, among others. Since 1993 President of the General Direction of the former state agency SBB.

- President of the International Union of Railways (UIC), Paris (since 1 January 2003)
- Member of the Board of Directors of French National Railways SNCF (since 1 March 2003)

#### **Pierre-Alain Urech** (1955, CH)

Deputy Chief Executive Officer and Head of Infrastructure Division (since 1999), Dipl. Ing. ETH with additional diploma in railway technology. With the SBB since 1980, among others in the positions of Delegate Rail 2000, Director of the Area Management Lausanne, Head of Infrastructure Department and since 1995 member of the General Direction of the former state agency SBB.

#### **Paul Blumenthal** (1955, CH)

Head of the Passenger Traffic Division (since 1999), lic. rer. pol. With the SBB since 1981, first as Junior University Graduate, then Member of Marketing Staff. Head of Passenger Traffic since 1993.

#### **Claude Alain Dulex** (1949, CH)

Head of Corporate Finance and Controlling (since 2000), Dr. oec. publ. With the SBB since March 2000. Before, assignments as Corporate Finance Officer (CFO) at the Knorr-CPC and the Siegfried groups, as well as at Novartis Corporation with seat in New York.

#### **Daniel Nordmann** (1955, CH)

Member of the Management Board since 1999, first as Head of Personnel and since 2001 as Head of Freight Traffic Division (SBB Cargo AG), Dipl. Psychologe HAP (Academy for applied psychology). Entered the SBB in 1998 as Head of Personnel. Before, Managing Secretary of the Swiss Federation of Trade Unions (SGB).

#### **Hannes Wittwer** (1958, CH)

Head of Personnel (since September 2002), lic. Phil. I. With the SBB since 1989, held, among others, the following assignments: Deputy Head of the Training Centre Löwenberg, Business Field Manager International Passenger Traffic, Personnel Manager of Passenger Traffic Division, and Production Manager Passenger Traffic.

On account of their functions, the members of the Management Board are active in various Boards of Directors of subsidiaries and companies in which the SBB holds stakes.

### Organisation and tasks of the Management Board.

The Management Board consists of the Chairman of the Management Board (Chief Executive Officer), the heads of the divisions Passenger Traffic, Freight Traffic, Infrastructure, and of the central services Personnel and Corporate Finance and Controlling. The Chairman heads the Management Board and is responsible towards the Board of Directors for the overall success of the enterprise. The members of the Management Board are subordinated to him.

The Management Board manages all the affairs of the SBB, insofar as according to the Organisation Rules, these are not within the purview of the Board of Directors. The Management Board, for its part, has delegated a part of its tasks by regulations (rules of procedure and terms of reference) to the divisions and business fields.

As a rule the Management Board meets once a week. The Secretary General, the Manager IT and the Manager Communications always participate in the meetings in an advisory capacity. If required, further executives and specialists are called in. Decisions of the Management Board are passed by consent. If it is not possible to come to an agreement, the decision lies with the Chief Executive Officer.

The SBB and its group companies have not concluded management contracts with third parties.



## Remunerations.

### **Types of remunerations and procedure for their determination.**

At the start of its term of office in 1999, the Board of Directors determined the remuneration of its members. This consists of a fixed remuneration based on an average workload in days during a year, and a lump sum for expenses. Additionally, each member of the Board of Directors receives a General Abonnement 1<sup>st</sup> class of the Swiss Transport Companies.

The remuneration of the members of the Management Board is broken up into a fixed basic salary, a performance-related variable part of the salary (bonus), and a lump sum for expenses. Additionally, each member receives a contribution to his pension fund account once a year. Each year, the working group Remuneration submits a proposition to the Board of Directors concerning the structure of the bonus, the definition of the criteria and the standards to apply. At the same time, the Board of Directors approves the calculation of the bonus for the previous business year.

### **Emoluments of the officiating members of the company organs.**

In the business year 2002, the combined constant emoluments of the members of the Board of Directors amounted to CHF 760,000. The emolument of the Chairman of the Board was CHF 250,000.

The combined emoluments of the members of the Management Board totalled CHF 2,954,000. The emolument of the Chief Executive Officer was CHF 520,000 (for more information, we refer to the Financial Report, page 30). The indicated total of emoluments of the Management Board includes also the pro-rata remuneration of Walter Hofstetter who resigned from the position of Head of Personnel per end of August.

### **Allocation of shares, share ownership, options.**

All the shares are in the ownership of the Confederation. A share options plan is not envisaged.

### **Additional fees and remunerations, loans paid by the company organs.**

The members of the Board of Directors and of the Management Board or persons associated with them have not received any fees or other reimbursements for additional services in favour of the SBB or a group company. Neither have loans, advance payments or credits been granted.



## Participation rights of the shareholders/relations with the Confederation.

### Guidance of the SBB.

The rights of the General Meeting are governed by the prescriptions of the obligations law. As long as the Confederation remains the sole shareholder, the Federal Council exercises the powers of the General Meeting (Art. 10 para 2 SBBG). The Federal Council on its side has commissioned the Federal Department for the Environment, Transport, Energy and Communication (UVEK) and the Federal Department of Finance (EFD) with the exercise of the shareholders' rights.

In the guidance of the SBB, the Confederation limits itself to setting political and financial standards. It has the following steering instruments at its disposal:

- Performance Agreement: The Federal Council agrees a Performance Agreement with the SBB, each time valid for four years, and has it passed by the two chambers of the federal government;
- Framework of payments: For the same period of time, and harmonised with the Performance Agreement, the Federal Meeting decides the framework of payment for the infrastructure;
- Owner strategy: Based on the Performance Agreement and for the same period of time it is valid, the Federal Council lays down the strategic goals for the SBB that it has previously worked out together with the Board of Directors;
- Annual report on the attainment of the strategic goals: Approbation by the Federal Council;
- Budget: Approbation by the Federal Council (Art. 18 para. 2 SBBG);
- Annual Report, Annual Financial Report and group statement of accounts, Allocation of profit: Approbation by the Federal Council (Art. 17 para 2 SBBG), or General Meeting;
- Nomination of the Board of Directors or voting it out of office;
- Discharge given to the Board of Directors.

At regular intervals, discussions are held between the managing federal departments UVEK and EFD and the Federal Transport Office (BAV) on the one side, and the Chairman of the Board of Directors and the Chief Executive Officer on the other. At these discussions, the reports on the attainment of the strategic goals of the Confederation are discussed in detail, needs for further information are satisfied, and general information is given on planned projects or projects under construction which have a high strategic significance or a big political effect.

### Financial performances of the Confederation.

The Confederation orders services from the SBB for the maintenance and development of the infrastructure and makes the necessary financial means available in a payment framework limited to four years. It further orders services in combined freight traffic and, together with the Cantons, in regional passenger traffic, and compensates the SBB for the uncovered costs calculated on the basis of standard costing (more information on the pages 13/15 of the Financial Report). Based on the law on finance control, the Federal Financial Control Office has the right to supervise the use of the means. The Federal Transport Office as supervisory authority examines if the annual statement of accounts and the balance sheet of the SBB conform to railway legislation (Art. 70 Railways Act).



**Statutory auditor.****Duration of the mandate and term of office of the auditor in charge.**

The General Meeting elects the auditing office and the group auditor each time for a year. Since the foundation of the SBB on 1 January 1999, Ernst & Young, Bern, has been performing these duties. Normally, Ernst & Young also performs the auditor's duties at group companies. The auditor in charge has been responsible for the audits at the SBB since 2001.

**Mandates and fees.**

The basic mandate concerns the auditing of the individual reports of SBB AG, SBB Cargo AG and of other companies of the SBB Group, the auditing of the Group Report, the review of the interim account, as well as further direct auditing mandates. In the business year 2002, a fee of CHF 877,000 was charged for this. For consulting mandates in the areas of accountancy, taxes, organisation and management, Ernst & Young received an additional fee of CHF 1,083,000.

The working group Finances/Audit has thoroughly dealt with the complex of problems of consultancy mandates to external auditors and has decided that all the planned placings of orders to the external auditor must be advised to internal auditing. If there are conflicts of goals, this office can, after consultation with the CFO, appeal against the placing of the order.

**Supervisory and control instruments for the examination of the external auditors.**

The working group Finances/Audit assesses the performance, the independence and the remuneration of the external auditors. It informs itself on the auditing process, the auditing plan and the extent of the annual auditing works. It discusses the results of the auditing with the auditors, puts itself in the picture about the distribution of tasks between the external and the internal auditing offices, and, as the case may be, proposes to the Board of Directors, in coordination with the managing federal departments UVEK and EFD, to newly put the auditing mandate out to tender.