

- (ii) otherwise, in whole or in part upon certification as to non-U S beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the applicable Pricing Supplement, for Definitive Notes,

provided that purchasers in the United States and certain U S persons will not be able to receive Definitive Notes in bearer form.

Each Temporary Global Note that is also an Exchangeable Bearer Note will be exchangeable for Registered Notes in accordance with the Conditions in addition to any Permanent Global Note or Definitive Notes for which it may be exchangeable and, before its Exchange Date, will also be exchangeable in whole or in part for Registered Notes only.

2 Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under “Partial Exchange of Permanent Global Notes”, in part for Definitive Notes or, in the case of (iii) below, Registered Notes:

- (i) unless principal in respect of any Notes is not paid when due, by the Issuer giving notice to the Noteholders and the Fiscal Agent of its intention to effect such exchange;
- (ii) if the applicable Pricing Supplement provides that such Global Note is exchangeable at the request of the holder, by the holder giving notice to the Fiscal Agent of its election for such exchange;
- (iii) if the Permanent Global Note is an Exchangeable Bearer Note, by the holder giving notice to the Fiscal Agent of its election to exchange the whole or a part of such Global Note for Registered Notes; and
- (iv) otherwise, (1) if the Permanent Global Note is held on behalf of Euroclear, Clearstream, Luxembourg, Euroclear France or an Alternative Clearing System, and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so or (2) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

3 Partial Exchange of Permanent Global Notes

For so long as a Permanent Global Note is held on behalf of a clearing system and that clearing system so permits, such Permanent Global Note will be exchangeable in part on one or more occasions (1) for Registered Notes if the Permanent Global Note is an Exchangeable Bearer Note and the part submitted for exchange is to be exchanged for Registered Notes, or (2) for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the applicable Pricing Supplement) relating to Partly-paid Notes.

4 Delivery of Notes

On or after any due date for exchange the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes or Registered Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes and/or Certificates, as the case may be. In this Offering Circular, “Definitive Notes” means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

5 Exchange Date

“Exchange Date” means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue and, in relation to a Permanent Global Note, a day falling not less than 60 days, or in the case of failure to pay principal in respect of any Notes when due, 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located

Modification of the Conditions of the Notes while in Global Form

The Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions.

1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes or Registered Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes.

2 Prescription

Claims against the Issuer in respect of principal and interest in respect of Notes that are represented by a Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

3 Meetings

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall (unless such Permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and at any such meeting, as having one vote in respect of each minimum Specified Denomination of Notes for which such Global Note may be exchanged. (All holders of Registered Notes are entitled to one vote in respect of each Note comprising such Noteholder's holding, whether or not represented by a Global Certificate.)

4 Cancellation

Cancellation of any Note represented by a Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Global Note.

5 Purchase

Notes represented by a Permanent Global Note may only be purchased by the Issuer if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

6 Events of Default

Each Global Note and Global Certificate provides that the holder may cause such Global Note, or a portion of it, or Registered Notes represented by such Global Certificate, as the case may be, to become due and repayable in the circumstances described in Condition 10 by stating in the notice to the Fiscal Agent the nominal amount of such Global Note or Registered Notes which is becoming due and repayable. If principal in respect of any Note is not paid when due, the holder of a Global Note or Registered Notes represented by a Global Certificate may elect for direct enforcement rights against the Issuer under the terms of a Deed of Covenant executed as a deed by the Issuer on 17th July, 2002 (as supplemented from time to time) to come into effect in relation to the whole or a part of such Global

Note or such Registered Notes, as the case may be, as accountholders with a clearing system. Following any such acquisition of direct rights, the Global Note or, as the case may be, the Global Certificate and the corresponding entry in the register kept by the Registrar will become void as to the specified portion or Registered Notes, as the case may be. However, no such election may be made in respect of Notes represented by a Global Certificate unless the transfer of the whole or a part of the holding of Notes represented by that Global Certificate shall have been improperly withheld or refused.

7 Issuer's Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. If any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system or an Approved Intermediary in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, Luxembourg, Euroclear France or other relevant clearing system (as the case may be).

8 Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note and such Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg, may be exercised by the holder of the Global Note giving a notice of exercise in relation to the principal amount of the Notes in respect of which such option is exercised within the time limits set forth in that Condition and/or as required by the relevant clearing system and at the same time presenting or procuring the presentation of the Global Note to the Principal Paying Agent for notation accordingly. Whilst all of the Notes are represented by a Permanent Global Note and such Global Note is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices of exercise shall be given in accordance with the standard procedures of Euroclear and/or Clearstream, Luxembourg (which may include notice being given on the instruction of the relevant holder by the relevant clearing system or any common depository therefor to the Principal Paying Agent by electronic means) in a form acceptable to the relevant clearing system from time to time.

9 Notices

Notices to the holders of Registered Notes will be valid (i) if sent by mail to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing (ii) in addition, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, if published in a daily newspaper with general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and (iii) (in respect of any Notes listed on Euronext Paris and so long as the rules of that exchange so require), if published in a daily newspaper with general circulation in Paris (which is expected to be *La Tribune*). Notices to the holders of Bearer Notes shall be valid if published (i) in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*), (ii) so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in a daily newspaper with general circulation in Luxembourg, (which is expected to be the *Luxemburger Wort*) and (iii) (in respect of any Notes listed on Euronext Paris and so long as the rules of that exchange so require) in a daily newspaper of general circulation in Paris (which is expected to be *La Tribune*). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe and so long as the Notes are listed on Euronext Paris and the rules of that exchange so require, in a French language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with Condition 14. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange (or other relevant authority) on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in each such newspaper.

Except in the case of Notes listed on the Luxembourg Stock Exchange or Euronext Paris, until such time as any definitive Notes are issued, there may (provided that in the case of Notes listed on any stock exchange, the rules of such stock exchange (or other relevant authority) so permit), so long as the global Note(s) is or are held in its/their entirety on behalf of Euroclear and Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to the Noteholders. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and Clearstream, Luxembourg.

Notices to be given by any holder of the Notes shall be in writing and given by lodging the same, together with the relative Note or Notes, with the Fiscal Agent. Whilst any of the Notes are represented by a global Note, such notice may be given by any holder of a Note to the Fiscal Agent via Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

10 Partly-Paid Notes

The provisions relating to Partly-Paid Notes are not set out in this Offering Circular, but will be contained in the applicable Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly-Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a Permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly-Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

11 Redenomination and Consolidation

A Global Note or Global Certificate may be amended or replaced by the Issuer (in such manner as it considers necessary after consultation with the Redenomination Agent and/or the Consolidation Agent, as the case may be) for the purposes of taking account of the redenomination and/or consolidation of the Notes pursuant to Conditions 1(b) and 12. Any consolidation may, in such circumstances, require a change in the relevant common depositary or central depositary or custodian or nominee, as the case may be.

Form of Registered Notes

Registered Notes offered and sold outside the United States in reliance on Regulation S under the Securities Act will be represented by interests in an Unrestricted Global Certificate, in registered form, without interest coupons attached, which will be deposited on or about the Issue Date (i) in the case of a Tranche intended to be cleared through Euroclear and/or Clearstream, Luxembourg with, and registered in the name of, BT Globenet Nominees Limited, as nominee for, the Common Depositary and (ii) in the case of a Tranche intended to be cleared through Euroclear France, with, and registered in the name of Euroclear France or as otherwise agreed with Euroclear France. A beneficial interest in the Unrestricted Global Certificate may at all times be held only through Euroclear and Clearstream, Luxembourg or the Approved Intermediaries.

Registered Notes offered and sold to qualified institutional buyers as defined in, and in reliance on, Rule 144A will be represented by interests in a Restricted Global Certificate, in registered form, without interest coupons attached, which will be registered in the name of Cede & Co., as nominee for, and which will be deposited on or about the Issue Date with Deutsche Bank Trust Company Americas as custodian (the "Custodian") for, DTC. The Restricted Global Certificate (and any definitive Registered Notes issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of such Note described under "Transfer Restrictions in respect of Registered Notes".

Each Unrestricted Global Certificate will have an ISIN and each Restricted Global Certificate will have a CUSIP number.

Transfer Restrictions in respect of Registered Notes

On or prior to the expiry of the distribution compliance period applicable to each Tranche of Notes, a beneficial interest in the Unrestricted Global Certificate may be transferred to a person who wishes to take delivery of such beneficial interest through the Restricted Global Certificate only upon receipt by the Registrar of a written certification from the transferor (in the applicable form provided in the Agency

Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. After the expiry of the distribution compliance period, such certification requirements will no longer apply to such transfers, but such transfers will continue to be subject to the transfer restrictions contained in the legend appearing on the face of such Notes, as set out below.

Distribution compliance period shall mean the period that ends (40) forty days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue)

A beneficial interest in the Restricted Global Certificate may also be transferred to a person who wishes to take delivery of such beneficial interest through the Unrestricted Global Certificate only upon receipt by the Registrar of a written certification from the transferor (in the applicable form provided in the Agency Agreement) to the effect that such transfer is being made in accordance with Regulation S or Rule 144 (if available) under the Securities Act

Any beneficial interest in either the Restricted Global Certificate or the Unrestricted Global Certificate that is transferred to a person who takes delivery in the form of a beneficial interest in the other Global Certificate will, upon transfer, cease to be a beneficial interest in such Global Certificate and become a beneficial interest in the other Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other Global Certificate for so long as such person retains such an interest.

Each person purchasing Notes from a Dealer or its affiliate (the "Vendor") pursuant to Rule 144A acknowledges that (i) it has not relied on the Vendor in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision and (ii) no person has been authorised to give any information or to make any representation concerning the Issuer or the Notes other than those contained in this Offering Circular, and, if given or made, such other information or representation should not be relied upon as having been authorised by the Issuer or the Vendor. This Offering Circular has been prepared by the Issuer solely for use in connection with the offer and sale of the Notes outside the United States to non-U.S. persons and for resales of the Notes to qualified institutional buyers in the United States and for the listing of the Notes on the Luxembourg Stock Exchange and Euronext Paris. The Issuer and the Vendor reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than the number of Notes which may be offered pursuant to Rule 144A. This Offering Circular does not constitute an offer to any person in the United States or to any U.S. person other than a qualified institutional buyer within the meaning of Rule 144A under the Securities Act to whom an offer has been made directly by the Vendor.

Each prospective purchaser of Notes offered in reliance on Rule 144A (a "144A Offeree"), by accepting delivery of this Offering Circular, will be deemed to have represented and agreed with respect to such Notes as follows:

- 1 such 144A Offeree acknowledges that this Offering Circular is personal to such 144A Offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Notes other than pursuant to Rule 144A or in offshore transactions in accordance with Regulation S. Distribution of this Offering Circular, or disclosure of any of its contents, to any person other than such 144A Offeree and those persons, if any, retained to advise such 144A Offeree with respect thereto and other persons meeting the requirements of Rule 144A or Regulation S is unauthorised, and any disclosure of any of its contents, without the prior written consent of the Issuer, is prohibited; and
- 2 such 144A Offeree agrees to make no photocopies of this Offering Circular or any documents referred to therein and, if such 144A Offeree does not purchase Notes or the offering is terminated, to return this Offering Circular and all documents referred to herein to the Vendor.

Because of the following restrictions, purchasers of Notes offered in the United States in reliance on Rule 144A are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such Notes.

Each purchaser of Registered Notes or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to represent, agree

and acknowledge as follows (terms used herein that are defined in Rule 144A or Regulation S are used herein as defined therein):

- 1 It is either (X) (A) a qualified institutional buyer within the meaning of Rule 144A, (B) acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (C) aware, and each beneficial owner of such Notes has been advised, that the sale of the Notes to it is being made in reliance on Rule 144A, or (Y) outside the United States and is not a U.S. person
- 2 It understands that the Notes are being offered and sold only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act or other applicable securities laws of any state of the United States and may not be reoffered, resold, pledged or otherwise transferred within the United States or to, or for the account or benefit of U.S. persons except in accordance with the applicable legend set forth below.
- 3 It understands that the Restricted Global Certificate and any Definitive Notes issued in exchange for an interest in any Restricted Global Certificate, unless the Issuer determines otherwise in compliance with applicable law, will bear a legend to the following effect:

“THE NOTES IN RESPECT OF WHICH THIS CERTIFICATE HAS BEEN ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (4) TO THE ISSUER, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATIONS CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THE NOTES IN RESPECT OF WHICH THIS CERTIFICATE HAS BEEN ISSUED.”
- 4 It understands that the Unrestricted Global Certificate and any Definitive Notes issued in exchange for an interest in any Unrestricted Global Certificate, unless the Issuer determines otherwise in compliance with applicable law, will bear a legend to the following effect.

“THE NOTES IN RESPECT OF WHICH THIS CERTIFICATE HAS BEEN ISSUED HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, RESOLD PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. THIS LEGEND SHALL CEASE TO APPLY UPON THE EXPIRY OF 40 DAYS AFTER THE COMPLETION OF THE DISTRIBUTION OF ALL THE NOTES OF THE TRANCHE OF WHICH THIS NOTE FORMS PART.”
- 5 The Issuer, the Registrar, and the Dealers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If any purchaser of Notes offered in reliance on Rule 144A is acquiring any Restricted Notes for the account of one or more qualified institutional buyers it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

- 6 It will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in the applicable legend above, if then applicable.
- 7 It understands that the Restricted Notes offered in reliance on Rule 144A will be represented by a Restricted Global Certificate and the Unrestricted Notes offered outside the United States in reliance on Regulation S will be represented by one or more Unrestricted Global Certificate. Before any interest in a Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Certificate, it will be required to provide the Issuer and the Registrar with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Exchange of Interests in Global Certificates

Registration of title to Notes initially represented by a Restricted Global Certificate in a name other than DTC or a successor depositary or one of their respective nominees will not be permitted unless (i) DTC or such successor depositary notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Restricted Global Certificate or ceases to be a “clearing agency” registered under the Exchange Act, or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of such depositary, (ii) principal in respect of any Notes is not paid when due (provided that the rules of DTC so permit) or (iii) the applicable Pricing Supplement specifies that the Restricted Global Certificate is exchangeable for definitive Registered Notes, and in any such case the Fiscal Agent has received a notice from the registered holder of the Restricted Global Certificate requesting exchange of the Restricted Global Certificate in full for individual definitive certificates (the “Certificates”).

Registration of title to Notes initially represented by an Unrestricted Global Certificate in a name other than the nominee of the Common Depositary or the name of Euroclear France (or its nominee), as the case may be, will not be permitted unless (i) Euroclear, Clearstream, Luxembourg or Euroclear France, as the case may be, is closed for business for a continuous period of 14 days (other than by reason of holidays statutory or otherwise) or announces an intention permanently to cease business or in fact does so, (ii) principal in respect of any Notes is not paid when due (provided that the rules of Euroclear, Clearstream, Luxembourg or Euroclear France, as the case may be, so permit) or (iii) the applicable Pricing Supplement specifies that the Unrestricted Global Certificate is exchangeable for definitive Registered Notes, and in any such case the Registrar or any Transfer Agent has received a notice from the registered holder of a specified amount of the Unrestricted Global Certificate requesting exchange of the Unrestricted Global Certificate for individual Certificates.

In such circumstances, the relevant Global Certificate shall be exchanged in full or in part, as the case may be, for Certificates and the Issuer will, at the cost of the Issuer (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Notcholders. A person having an interest in a Global Certificate must provide the Registrar with (i) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Certificates and (ii) in the case of the Restricted Global Certificate only, a fully completed, signed certificate substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, that the transfer is being made in compliance with the provisions of Rule 144A. Certificates issued in exchange for a beneficial interest in the Restricted Global Certificate shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under “Transfer Restrictions”.

The holder of a Registered Note may transfer such Registered Note in accordance with the provisions of Condition 2. Certificates may not be eligible for trading in the clearing systems.

Upon the transfer, exchange or replacement of a Certificate bearing the Rule 144A legend referred to under “Transfer Restrictions”, or upon specific request for removal of the Rule 144A legend on a Certificate, the Issuer will deliver only Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory

evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer to ensure that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act

The Registrar will not register the transfer of or exchange of interests in a Global Certificate for Certificates for a period of three business days ending on the due date for any payment of principal. For the purposes hereof and for payment of interest, “business day” means a day on which commercial banks and foreign exchange markets are open for business in London and New York City

Euroclear, Clearstream, Luxembourg, Euroclear France and DTC Arrangements for Registered Notes

So long as DTC or its nominee or Euroclear, Clearstream, Luxembourg or the nominee of the Common Depositary or Euroclear France (or its nominees) is the registered holder of a Global Certificate, DTC, Euroclear, Clearstream, Luxembourg, Euroclear France or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Certificate for all purposes under the Agency Agreement and the Notes. Payments of principal, interest and additional amounts, if any, in respect of the Global Certificates will be made to DTC, Euroclear, Clearstream, Luxembourg, Euroclear France or such nominee, as the case may be, as the registered holder thereof. None of the Issuer, any Agent or any Dealer or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests

Distributions of principal and interest with respect to book-entry interests in the Notes held through Euroclear, Clearstream, Luxembourg or Euroclear France, as the case may be, will be credited, to the extent received by, or on behalf of, Euroclear, Clearstream, Luxembourg or Euroclear France, as the case may be, from the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg customers or the accounts of Approved Intermediaries, as the case may be, in accordance with the relevant clearing system’s rules and procedures.

Holders of book-entry interests in the Notes through DTC will receive, to the extent received by DTC from the Fiscal Agent, all distributions of principal and interest with respect to book-entry interests in the Notes from the Fiscal Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

Interest on the Notes (other than interest payable on redemption) will be paid to the holder shown on the Register on the third business day before the due date for such payment so long as the Notes are represented by a Global Certificate, instead of on the fifteenth day before the due date for such payment (as provided by Condition 2(f)) so long as the Notes are in definitive form (the “Record Date”). Trading between a Restricted Global Certificate and a related Unrestricted Global Certificate will therefore be net of accrued interest from the relevant Record Date to the relevant Interest Payment Date.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Certificate to such persons will be limited. Because DTC, Euroclear, Clearstream, Luxembourg and Euroclear France (or Approved Intermediaries) can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The holdings of book-entry interests in the Notes through Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of (i) BT Globenet Nominees Limited and (ii) Cede & Co. to reflect the amounts of Notes held through Euroclear, Clearstream, Luxembourg, Euroclear France and DTC, respectively. Beneficial ownership of Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg, Euroclear France and DTC, as the case may be.

Interests in each Unrestricted Global Certificate and Restricted Global Certificate will be in uncertified book-entry form.

Trading between Euroclear and/or Clearstream, Luxembourg Accountholders and/or Approved Intermediaries Secondary market sales of book-entry interests in the Notes held through Euroclear,

Clearstream, Luxembourg or Euroclear France, as the case may be, to purchasers of book-entry interests in the Notes through Euroclear, Clearstream, Luxembourg or Euroclear France, as the case may be, will be conducted in accordance with the normal rules and operating procedures of Euroclear, Clearstream, Luxembourg or Euroclear France, as the case may be, and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants Secondary market sales of book-entry interests in the Notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System. Where payment is not effected in U.S. dollars, separate payments outside DTC are required to be made between the DTC participants.

Trading between DTC Seller and Euroclear/Clearstream, Luxembourg/Euroclear France Purchaser When book-entry interests in Notes are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg accountholder, as the case may be, wishing to purchase a beneficial interest in an Unrestricted Global Certificate (subject to such certification procedures as are provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York City time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the Custodian will instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee for DTC and evidenced by the relevant Restricted Global Certificate and (ii) increase the amount of Notes registered in the name of the nominee for the Common Depositary and evidenced by the relevant Unrestricted Global Certificate. Certificate book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date. See above for details of the Record Date for payments of interest.

The relevant procedures relating to transfers of book-entry interests in Notes to be transferred from the account of a DTC participant to the account of an Approved Intermediary will be in such manner as shall be agreed by DTC and Euroclear France at the relevant time.

Trading between Euroclear/Clearstream, Luxembourg/Euroclear France Seller and DTC Purchaser. When book-entry interests in Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder, as the case may be, to the account of a DTC participant wishing to purchase a beneficial interest in a Restricted Global Certificate (subject to such certification procedures as are provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg accountholder must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 19.45 hours, Brussels or Luxembourg time, one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholders, as the case may be. On the settlement date, the Common Depositary will (i) transmit appropriate instructions to the Custodian who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC participant and (ii) instruct the Registrar to (a) decrease the amount of Notes registered in the name of the nominee of the Common Depositary and evidenced by the relevant Unrestricted Global Certificate and (b) increase the amount of Notes registered in the name of the nominee for DTC and evidenced by the relevant Restricted Global Certificate. See above for details of the Record Date for payments of interest.

The relevant procedures relating to transfers of book-entry interests in Notes to be transferred from the account of an Approved Intermediary to the account of a DTC participant will be in such manner as shall be agreed between Euroclear France and DTC at the relevant time.

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in the accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg, Euroclear France and DTC in order to facilitate the transfers of interests in the Notes among participants of DTC, Euroclear, Clearstream, Luxembourg and Euroclear France, none of Euroclear, Clearstream, Luxembourg, Euroclear France or DTC is under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, any Agent or any Arranger or Dealer or any affiliate of any of the above, or any person by whom any of the above is controlled for the purposes of the Securities Act, will have any responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or Euroclear France (or any Approved Intermediary) or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency of any purpose of the arrangements described above.

SOCIETE NATIONALE DES CHEMINS DE FER FRANÇAIS

INTRODUCTION

1. Establishment

SNCF is a French public entity of an industrial and commercial character (*établissement public industriel et commercial* – “EPIC”) with autonomous management created under Act No. 82-1153 dated 30th December, 1982 and modified by the Reform Law on 13th February, 1997 as Act No. 97-135. Its duration is unlimited. As from 1st January, 1983, SNCF became the successor of the corporation created pursuant to the Laws of 31st August, 1937 and took over the name Société Nationale des Chemins de fer Français. The registered office of SNCF currently is at 34, rue du Commandant Mouchotte, 75014 Paris.

As with all *Etablissements publics* (whether *établissements publics administratifs* (EPAs) or EPICs), the French State is ultimately responsible for the solvency of SNCF pursuant to Act No. 80-539 of 16th July, 1980 (the “Act of 1980”) on the execution of judgments on public entities. In the event that an EPIC defaults, the Act of 1980 assigns responsibility to the relevant supervisory authority (which in case of SNCF is the French State itself) which must either provide the EPIC with new resources or automatically approve the sums for which the EPIC is held liable by court order.

Moreover, court-ordered reorganisation and liquidation proceedings do not apply to EPICs (Article 620-2 of the *Code de commerce* replacing Article 2 of the Act of 25th January, 1985).

2. SNCF's Objects

The Reform Law modifies Act No. 82-1153 dated 30th December, 1982 (the “Act of 1982”) which, *inter alia*, sets out SNCF's objects. SNCF's new objects are to operate railway services over the national railway network and to manage the railway infrastructure on behalf of RFF, each in accordance with the principles applicable to public services. SNCF is empowered to carry out all activities directly or indirectly connected with such objects. The management of the railway infrastructure involves responsibility for traffic regulation, the security of the network and the good state of repair and maintenance of the infrastructure. It may create subsidiaries or take shareholdings in companies, groups or other entities, the purpose of which is related or contributes to that of SNCF.

3. Capital

The capital of SNCF amounts to € 4,270,897,305.31 and is totally owned by the French State. SNCF has no shares and pays no dividends.

4. Relation with Réseau Ferré de France (RFF)

SNCF's fixed assets relating to railway infrastructure existing as at 1st January, 1997 were transferred to RFF with effect from 1st January, 1997. They were detailed in the *Décret* No. 97-445 of 5th May, 1997 and principally comprised installations, tracks, signals, lighting, telecommunication devices and real estate on which such assets were located.

SNCF as Transportation Service Provider pays RFF fees for using the infrastructure which are determined in accordance with the *Décret* No. 97-446 of 5th May, 1997 and the *Arrêté* of 30th December, 1997. This amounted to € 1,953 million in 2002 compared to € 1,691 million in 2001.

RFF makes payments to SNCF in respect of management activities. This amounted to € 2,669 million in 2002 compared with € 2,652 million in 2001.

In parallel, there was a transfer of a liability of € 20.5 billion to RFF in consideration for the transfer of infrastructure assets on 1st January, 1997. This transfer resulted in the recognition in balance sheet assets of a RFF receivable. SNCF liabilities remained unchanged. As at 31st December, 2002 the amount outstanding of this debt is at € 11,808 million (see financial statements below).

5. Relationship with the French State

Pursuant to the Act of 1982, a *Cahier des Charges*, an operating agreement entered into between the Republic of France and SNCF, was approved by *Décret* No. 83-817 dated 13th September, 1983 as modified by *Décret* No. 99-11 dated 7th January, 1999. It sets out the conditions and general principles under which SNCF shall provide its services to the public and the basis of the contractual relationship of SNCF with both the French State and regional authorities including the principle of compensatory payments.

The *Pacte de Modernisation* signed between SNCF and the French State on 18th November, 1996 defines the relationship between SNCF and the French State over the coming years. It also provides that the French State will continue to support SNCF financially in its role as provider of public services, and that agreements will be signed between SNCF and the State or regional authorities. SNCF's retirement rules remain unchanged and the French State will continue to assume liability for the debt transferred to the Special Debt Account referred to below

SNCF receives compensatory payments from the French State: contributions which remunerate global services, specific works and subsidies to promote the development

The Reform Law provided also a transfer of organisational responsibility for regional passenger rail transport to regional authorities. The SRU (Urban Solidarity and Renewal) law was enacted on 13th December, 2000 with effect from January 2002, enacting the transfer to the regional authorities of the responsibility for regional passenger rail transport. Article 129 of this law specifies that regional authorities have to sign contracts with SNCF to determine the managing and financial conditions of regional passenger rail services. By July 2002, SNCF had signed agreements with all regions.

The fact of having the services defined by the regional authorities, of putting the services thus defined into a contract and of adding the corresponding financial contributions from the Regions has led to an unprecedented increase in public service and an improvement in the profitability of Regional Express Transport (TER) activities.

6. Special Debt Account

In accordance with the corporate plan ("*contrat de plan*") signed by the French State and SNCF in 1990, a Special Debt Account was set up on 1st January, 1991. This account has no independent legal status, although separate accounting records are kept by SNCF.

The role of this account is to isolate part of the SNCF debt, in respect of which interest and capital payments are essentially made by the French State. Debt transferred to the Special Debt Account remains there until extinguished

Debt corresponding to accumulated losses of SNCF at the end of 1989 was transferred (€ 5.8 billion)

In 1997 and 1999 further amounts were transferred (respectively € 4.4 billion and € 0.6 billion).

The outstanding indebtedness of the Special Debt Account as at 31st December, 2002 amounted to € 8.868 billion (see Note 31 to the consolidated financial statements).

7. Corporate Plan

The first phase of SNCF's corporate plan was achieved in 1999 with the ambition to make SNCF an exemplary public service in France and in Europe with a return to equilibrium and debt stabilisation. The second phase 2000-2002 was launched in 2000 with a focus on customers, Europe and efficiency.

Overall, these two phases have been successful in achieving their aims except that the equilibrium was not restored on a long term basis. SNCF has now entered the third phase, 2003-2005, which continues to focus on customers, Europe and efficiency and aims to create the coherent conditions which would lead, by 2005, to the establishment of a balanced way to finance the substantial investments which are necessary to the company's continued development.

In 2002, SNCF adopted a highly innovative contribution approach in the preparation of its 2003-2005 corporate plan. During 100 forums bringing together 20,000 railway staff, and through 45,000 questionnaires, broad, non-conflictual discussions provided the Group with a wealth of material covering corporate strategy, Europe, public service, competition and management, reflecting a real desire for modernisation expressed notably by tens of thousands of young employees recruited during the last five years. In particular, this project resulted in the implementation of 18 priority measures announced on 23rd October, 2002 to 4,500 railway staff.

MANAGEMENT REPORT FOR THE YEAR ENDED 31st DECEMBER, 2002

1. Group Presentation

1.1 SNCF Group Structure

SNCF is comprised of partner companies, which express the effectiveness of the Group through their ability to capitalise on the complementary nature of their services

A major travel and logistics player in Europe, SNCF Group is now able to fulfill increasingly global transport service requests: intermodal transport, transport-related services, and logistics. Each Group company is active in one or more of the operating divisions making up the Group's activities:

- passenger transport and services;
- freight transport and logistics; and
- infrastructure and leveraging of SNCF's assets and know-how.

SNCF Participations, a 99.83 per cent. owned subsidiary, holds the majority of the Group's investments. Well beyond its own boundaries, SNCF Participations ensures the implementation of divisional strategies, performs a role of financial and legal control and offers its expertise on Group developments to all subsidiaries.

SNCF GROUP SIMPLIFIED ORGANISATIONAL CHART

PASSENGER TRANSPORT AND SERVICES				FREIGHT					INFRASTRUCTURE AND LEVERAGING OF SNCF'S ASSETS AND KNOW-HOW			
<i>TGV, Mainline, Transilien, TER, Stations</i>				<i>SNCF FREIGHT</i>					<i>Infrastructure maintenance and management, Project management, Engineering</i>			
International long distance transport	Regional & local public transport	Transport-related services		Transport and logistics operators		International	GEODIS Group	Financing and other services	SNCF International	Télécom développement	SFCI	SNEF
Eurostar	KEOLIS	Services	Distribution & new services	<i>Combined railroad Transport</i>	<i>Cereals</i>	International freight	France	Segi	Systra	Shem	SICF	Eurofima
THALYS		MTI	Rail Europe Ltd	CNC	Logistra	<i>Freight cars</i>	Europe (except France)	Sefergie		AREP	SOCRIF	
Artesia		A2C	Rail Europe Inc	Novatrans	CTC	France wagons	Rest of the world	Stesimaf				
Rhealys		Effia	Voyages-sncf com	Rouch	<i>Nuclear Chemistry and indivisible loads</i>	Ernewa	<i>Parcel delivery</i>	Edifret				
LYRIA			Gle commerce	Froidcombi		SGW	Sernam					
Elipsos			Eurovacation	Ecorail	STSI	Final stage, carriage & logistics	<i>Ports</i>					
<i>Ferry transport</i>			GL Expedia	CME			Sealogins					
Seafrance				<i>Distribution</i>	<i>Automobile</i>	VFLI						
				Districhrono	STVA	Garmatex						

SNCF Participations, a 99.83 per cent. subsidiary of the parent company, holds investments in and manages the majority of Group subsidiaries

1.2 Significant events of the year

1.2.1 Changes in Group structure

- **Full consolidation of Keolis**

Keolis, produced by the merger of Via GTI and Cariane in April 2001, is the leading privately owned passenger public transport operator in France. Previously equity accounted, Keolis is now fully consolidated. The impact of this change on revenues and gross operating income for the year ended 31st December, 2002 is €1,645 million and €155 million respectively. A simplified pro forma income statement for fiscal year 2001 is presented in paragraph 2.1 below

- **Full consolidation of the Ermewa Group**

In accordance with commitments given to the founder stockholder of Ermewa, the Group purchased, in 2002, additional interests from their rightful owners and as a result held directly, or by third parties on behalf of the Group, 99.8 per cent. of the common stock as at 31st December, 2002. Previously equity accounted, the Ermewa Group is fully consolidated as from 31st December, 2002. The impact of this change on non-current assets as at 31st December, 2002 is €192 million. Net income remains equity accounted in 2002 as the buy-out was performed at the end of the year.

Negotiations in progress with respect to the restructuring of Ermewa's stockholding structure should lead to the entry of a new financial partner. SNCF Group will remain the industrial operator, retaining an active role in the definition of Ermewa's strategy, which will now focus on freight car rental, freight forwarding, container rental and equipment repairs. Marine shipping activities, currently being sold, are presented as a net asset for disposal.

- **Expansion of Keolis in Canada and Germany**

Keolis stepped up its presence in Quebec through Slivia (owned 40 per cent. by Keolis and 60 per cent. by the Canadian Group Lavalin), which won a call for tenders for the management of the Montreal Urban Community Transport Corporation bus pool maintenance programme. In April 2002, Keolis purchased 75 per cent. of the common stock of Orléans Express, the leading intercity passenger transport operator in the province of Quebec.

Finally, in association with Rhenus, Keolis took over full operation of the bus networks of the German cities Bad Kreuznach and Zweibrücken from 1st July, 2002.

- **Development of GLI in the USA**

The Group's "Passenger" division in the USA (REG Inc and Eurovacations) was strengthened with the acquisition of Destination Europe Resources (DER) in January 2002. DER is a leading distributor for European car rental, airline agreements, train travel, hotel reservations and travel tours throughout the world. The development of synergies with REG Inc, the leading North American distributor for train travel and related tourist products, should enable the Group to extend its geographical coverage, widen its product range and improve its market penetration

- **Geodis refocuses on its core businesses**

Geodis finally closed its subsidiary United Distribution, which had weighed heavily on the 2000 and 2001 financial statements, but remained active nonetheless in the British Isles via Geodis UK and the Irish company Pan European Transport, purchased in November 2001.

In addition, the following disposals and restructuring operations were undertaken during the year:

- sale of the industrial packaging companies Tailleur Dubot Emballage and Europacking, involved in non-core activities;
- closure in April 2002 of the international freight forwarding subsidiary in Chile. The activities of this regularly loss-making company were transferred to Rhode & Liesenfeld, the German international freight forwarder; and
- sale to the Rhode & Liesenfeld Group on 31st July, 2002 of the German company Geodis Overseas GmbH.

In parallel with these agreements, Geodis improved its international coverage considerably, through the signature of a strategic alliance in February 2002 with Rhode & Liesenfeld.

In a move to consolidate its positions, Geodis purchased 98.26 per cent of the common stock of Ambrosetti Stracciari, an Italian domestic parcels delivery company with annual revenues of approximately €70 million and acquired full control of FAT, a specialist in Franco-German parcels delivery, as part of the partnership with the German parcels delivery grouping Elix. In effect, with the Elix agreement, Geodis joined the leading European franchise network for groupage services in April 2002 and became the main stockholder of Elix, following the acquisition of 34 per cent. of that company's common stock on 13th December, 2002

Finally, the acquisition of 50 per cent of the common stock of Thales' logistics subsidiary on 31st October, 2002 strengthened Geodis' presence in the aeronautics and defence market

- **Organisation of sea shipping and port activities**

As part of the development of the Group's port activities, the Freight – Transport and Logistics division created, at the end of 2001, the holding company, Scalogis, fully controlled by the Group (including 51 per cent. held by third parties on behalf of the Group). Scalogis took over the Group's interest in the Feron de Clebsattel Group and then acquired control of Challenge International in February 2002, with the acquisition of 66 per cent. of its common stock. Present in the Marseilles, Le Havre and Antwerp ports, Challenge International will strengthen the freight forwarding activities of the division.

Substantial synergies between Scalogis and the SNCF Group should enable the Group to offer customers comprehensive logistic services integrating port and sea shipping links.

- **STVA in Germany**

STVA entered the German market in 2002, with the acquisition of a 20 per cent. interest in Werner Egerland in March and control of Egerland France, located in Forbach. At the end of 2002, STVA and Egerland also acquired the control of a German vehicle logistics company, Helf.

- **Expansion of the VFLI group**

The new subsidiary, VFLI Cargo, created as part of the takeover of the entire colliery rail network of Houillères du Bassin de Lorraine (HBL), was fully consolidated for the first time in 2002.

1.2.2 Economic climate and general policy

- **Strong mobilisation in the face of a difficult economic climate**

All Group activities were affected by the sluggish economic climate in France and Europe, their primary markets, since the end of 2001. Faced with this situation and after a poor first half, the Group reacted vigorously, mobilising itself behind energetic commercial measures both within the Passenger – Transport and Services and the Freight – Transport and Logistics divisions. Meanwhile, cost reduction measures were launched at all levels and in all sectors (spreading and postponement of the recruitment of 1,000 employees, €50 million reduction in external expenses) and the harmonisation of investments continued. Results for the second half of 2002 were in line with the initial budget.

- **Regionalisation, putting public service obligations in the contracts**

The last of the series of agreements between SNCF and the Regional authorities, as provided in the Urban Solidarity and Renewal (SRU) Law, were signed in the first half of the year

The fact of having the services defined by the Regional Authorities, of putting the services thus defined into a contract and of adding the corresponding financial contributions from the Regions led to an unprecedented increase in public service and an improvement in the profitability of Regional Express Transport (TER) activities.

- **A grassroots approach for the Corporate Plan**

In 2002, the parent company adopted a highly innovative bottom-up approach in the preparation of its 2003-2005 Corporate Plan.

In 100 forums bringing together 20,000 railway staff, and through 45,000 questionnaires, broad, non-conflictual discussions provided the Group with a wealth of material covering corporate strategy, Europe, public service, competition and management, reflecting a real desire for modernisation expressed notably by tens of thousands of young employees recruited during the last five years. In particular, this project

resulted in the implementation of 18 priority measures announced on 23rd October, 2002 to 4,500 railway staff

- **Implementation of the first Railway Package on 15th March, 2003**

- Creation of the French Rail Infrastructure Capacity Allocation Body (*Organisme de Répartition des Capacités- ORC*);
- Accounting separation of Freight activities; and
- Opening of the Trans-European Rail Freight Network (TERFN) to international competition

- **Transalpine rail motorway**

The new side-loading Modalohr wagon, officially presented in June 2002, received ministerial authorisation for commercial use at the beginning of 2003. The official order for 35 Modalohr wagons in January 2002 and the completion of the Aiton-Bourgneuf lorry transfer platform in October 2002 provides tangible evidence of the launch of the transalpine rail motorway or “rolling road” experiment.

The holding company C-Modalohr – Express (CME), owned 51 per cent. by SNCF Participations and 49 per cent. by Modalohr, a subsidiary of Lohr, was created in 2001 for the purpose of the rail motorway project. The partners AREA, SNCF and FS-Trenitalia will organise and market transalpine tractor and trailer on flatcar services via an operator. Starting in June 2003, this service will transport full road units on special shuttle trains between the Aiton-Bourgneuf terminal at the entry to the Maurienne valley and the Orbassano terminal in the western suburbs of Turin.

- **Change in the Group’s stake in Sernam**

In accordance with the agreement signed between SNCF and Geodis in December 2001, Geodis purchased a 15 per cent. interest in Sernam in January 2002 (for a nominal consideration of €1).

The acquisition of a further interest increasing Geodis’ holding to 51 per cent. by 2006 is contingent on the satisfaction of a number of conditions and primarily the settlement in full by SNCF of the common stock increase (€143 million outstanding), the successful completion of the Sernam recovery plan and a return to profitability. The terms of the recovery plan are based on the plan approved by the European Commission on 28th May, 2001.

In addition, COGIP, a 34 per cent.-owned subsidiary of Geodis, consolidated its shareholding in Sernam by acquiring 15 per cent. interest in 2003. The heads of agreement signed by SNCF and COGIP provides for an increase in COGIP’s stake to 49 per cent. in the long term, under conditions similar to those set with Geodis.

1.2.3 Other events by division

- **Passenger – Transport and Services**

Line-based management of the Transilien network

In 2002, SNCF launched the line-based management of the Transilien (Paris suburban) network, in a bid to improve passenger service and optimise production. Seven lines actually groups of lines were awarded to line managers, responsible for their operation and improvement.

South Central concession in the UK

Go Via (a 35 per cent./65 per cent. joint venture between Keolis and Go Ahead) operates the South Central rail concession under the previous license taken over from Connex. The Strategic Rail Authority (SRA), the British rail regulator, announced in advance in August 2002, the granting, for a maximum period of seven years, of the South Central rail franchise to Go Via from 1st January, 2003. “Preferred candidate” for a 20-year licence with substantial infrastructure investment commitments, Go Via is now the confirmed candidate for a licence limited to the operation of the London-Brighton line. This decision preserves the profitability initially forecast under the franchise and substantially reduces the operator’s risk. The means of guaranteeing the terms of the British rail regulator’s commitment are currently under negotiation and the signature of an agreement is expected in the near future.

Rationalisation of passenger distribution activities

GLI continued the restructuring of its distribution activities in continental Europe with the discontinuation of Rail Europe Deutschland activities and the reorganisation of Rail Europe Suisse.

- **Freight – Transport and Logistics**

A difficult economic climate and unfavourable rail traffic conditions

In addition to a difficult economic climate, parent company Freight activities were penalised by a level of production quality which remains inadequate, marked notably by traffic difficulties towards Italy and the UK

The freight business was adversely affected in fiscal year 2002 by the suspension of cross-Channel rail freight traffic. Average traffic levels fell from around 15 to six or seven trains daily from November 2001, and traffic even stopped completely for several days in March 2002. The lifting of these restrictions in April required an increase in the number of employees allocated to security at the Calais-Frethun site and improvements to the surveillance system. The situation returned to normal in September 2002.

As part of the Freight growth plan finalised in April 2002, measures were taken to improve control over production resources and develop the sales and marketing policy.

A new organisational structure for Franco-German transit, a prelude to more fluid European links

In preparation for the major European freight corridors, SNCF is forging alliances in a bid to lift technical barriers and develop the interoperability of equipment. As such, and in conjunction with Deutsche Bahn, direct links, without a change in locomotive or driver, were launched in June 2002 between the four major marshalling yards in Woippy, Mannheim, Stbelin (Lyon) and Gremberg (Cologne), thanks to the development of a joint locomotive pool able to support the different voltages along the cross-border network. Similar measures are in progress with other bordering railway companies in order to facilitate the circulation of freight convoys along the principal European trunk routes.

Strengthening of Geodis stockholders' equity and the development of its commercial product range

The strengthening of Geodis' stockholders' equity involved a €35.3 million common stock issue in December 2002, subscribed to by its three main stockholders and bringing SNCF Group's controlling interest up to 48.92 per cent

IBM expanded its partnership with Geodis, awarding contracts for the logistics management of its Dublin plant and the collection of equipment at the end of leasing contracts from all user clients in Europe.

An improved range of combined transport services

The opening in February 2002 of the new multi-modal transport platform in Bordeaux-Hourcade operated by CNC and Novatrans, followed by the Dijon-Gevrey terminal in December contributed to the development of combined transport activities by offering customers larger capacity. The allocation of specific combined transport resources to the Ile-de-France hub enabled improvements in punctuality and reliability in 2002.

- **Infrastructure – leveraging of SNCF's assets and know-how**

Mobilisation focused on customer service

Following the "production debate" within the parent company, the delegated infrastructure manager (SNCF Infrastructure Department) took steps to improve the quality of services offered to customers. In liaison with infrastructure owner/manager RFF, multi-year maintenance programmes, enabling realistic planning, were adopted and an approved regional engineering network established.

Concrete results were obtained in 2002. The indicator measuring the number of events affecting punctuality due to fixed plant failures improved significantly on 2001. Efforts were concentrated particularly on the Ile-de-France (Paris region) network – the "Francilien" – where a specific quality upgrade programme decided in agreement with RFF was implemented.

SHEM association with the Electrabel group

Fiscal year 2002 was marked by the completion of negotiations aimed at finding a new commercial and industrial partner for SHEM, the electrical power generator. A contract for the sale of electrical energy produced by the Group was signed with Electrabel on 21st October, 2002.

2. SNCF Group

On a constant Group structure basis, consolidated revenues rose 3.1 per cent on last year.

2.1 Consolidated net income

	<i>Year ended</i>			
	<i>31st</i>	<i>31st</i>		
	<i>December,</i>	<i>December,</i>		
	<i>2002</i>	<i>2001</i>	<i>Change</i>	<i>Change</i>
		<i>(in € millions)</i>		<i>%</i>
Consolidated revenues	22,176	20,129	2,047	10
Capitalised production and production for stock	575	659	(84)	-13
Operating subsidies	89	134	(45)	-34
Purchases and external charges	(10,844)	(10,242)	(602)	-6
Taxes and duties other than income tax	(843)	(785)	(58)	-7
Personnel costs	(9,750)	(8,741)	(1,009)	-12
Gross operating income	1,403	1,155	248	21
Depreciation, amortisation and provisions, net	(1,166)	(1,132)	(34)	-3
Other operating income and expenses	(54)	(3)	(51)	
Net operating income	183	20	163	
Net financial expense	(320)	(330)	10	3
Net loss from ordinary activities of consolidated companies	(137)	(310)	173	NM
Exceptional items	297	149	148	NM
Income tax	(37)	(24)	(13)	NM
Net income/(loss) of consolidated companies	123	(185)	308	NM
Share in earnings of equity affiliates	(2)	13	(15)	NM
Amortisation of goodwill	(28)	(38)	10	NM
Consolidated net income/(loss)	93	(210)	303	NM
Minority interests	30	(70)	100	NM
Net income/(loss) for the year (Group share)	63	(140)	203	NM

• Financial statement comparability

Two factors affect a year-on-year comparison of the 2002 financial statements. The first concerns a change in estimated useful life of certain rolling stock held by the parent company, as well as Keolis buses and coaches. The depreciation period for TGV Réseau, Eurostar and Thalys trains was increased to 30 years with effect from 1st July, 2001. This adjustment to the trains' service lives resulted in a €48 million decrease in the net charge to depreciation (compared to a depreciation period of 15 years).

The depreciation period for buses and coaches was increased to 12 years. This adjustment to useful lives had an impact of €6.9 million (compared to a depreciation period of eight years).

The second factor impacting financial statement comparability is the full consolidation of the Keolis Group with effect from 1st January, 2002, equity accounted up to that date. SNCF exercises full control over Keolis and has appointed the majority of members to the Board of Directors of this company during the last two consecutive years.

The impact of the full consolidation of this company on net income breaks down as follows.

	<i>Year ended 31st December, 2002</i>	<i>Year ended 31st December, 2001 pro forma</i>	<i>Year ended 31st December, 2001 published</i>
	<i>(in € millions)</i>		
Revenues	22,176	21,504	20,129
Gross operating income	1,403	1,246	1,155
Net operating income	184	47	20
Net loss from ordinary activities of consolidated companies	(136)	(283)	(310)
Exceptional items	297	152	148
Share in earnings of equity affiliates	(2)	9	13
Consolidated net income/(loss)	93	(201)	(210)
Net income/(loss) for the year (Group share)	63	(140)	(140)
Minority interests	30	(61)	(70)

• **Net operating income**

On a constant Group structure basis, consolidated revenues rose only 3.1 per cent., despite an increase in traffic revenues following the launch of the TGV Méditerranée line and compared to 2001 figures heavily affected by Spring strikes. In effect, road transport and logistic activities, which developed a more selective sales and marketing policy in order to increase margins, suffered as a result of the listless economic climate and transportation difficulties both cross-Channel and towards Italy. In addition, passenger activities reported mixed results, marked by Corail (conventional intercity) and Eurostar problems.

Still on a constant Group structure basis, gross operating income rose 12.6 per cent., despite a marked increase of €266 million in infrastructure fees paid to RFF and a decrease in State combined transport subsidies of €60 million, thanks, notably, to the excellent results of Regional Express Train (TER) activities, Seafrance and Télécom Développement.

Net operating income increased €137 million on a like-for-like basis to reach €184 million in 2002, under the combined impact of an improvement in gross operating income, and the increase in the useful lives of TGV high-speed trains and Keolis buses and coaches.

• **Net financial expense**

The consolidated net financial expense improved by €10 million (from €330 million in 2001 to €320 million in 2002) due to a reduction in the net interest expense and the absence of long-term investment write-downs recorded in 2001 in respect of the Geodis and GLI groups.

• **Exceptional items**

Exceptional net income for the year of €297 million, compared to €149 million in 2001, breaks down as follows:

- net capital gains on asset disposals of €186 million, including €83 million in respect of the building located at 10 place de Budapest, Paris, €41 million in respect of the building located at 1 Place Valhubert, Paris and €19 million for the Geodis logistics activity in Basiano, Italy. In 2001, this heading included capital gains realised on the sale of SNCF Participations' corporate headquarters and the SNCF building, rue St Lazare;
- net release from reserves of €159 million following the implementation of the Sernam restructuring plan and an appraisal of residual risks;
- net release from reserves of €33 million in respect of a tax dispute concerning VAT on onboard catering, following receipt of tax rebates;
- additional charge to reserves of €42 million in respect of environmental risks; and
- 2001 exceptional items comprised reorganisation and restructuring costs, in particular within the Geodis Group, of €98 million.

- **Share in earnings of equity affiliates**

The equity affiliates' contribution to net income fell €13 million to negative €2 million due to the difficulties encountered by Société Nationale Maritime Corse-Méditerranée (negative €11 million in 2002 compared to a break-even position in 2001). These losses were partially offset by the continued good performance of Eurolima (€8 million).

- **Income tax**

The tax charge increased by €13 million on last year following the full consolidation of Keolis

2.2 Cash position and finance sources

- **Cash position**

The Group's principal sources are cash from operations (€1,410 million) and cash from financing activities (€1,831 million)

Net cash from operations

Net cash from operating activities is equal to Cashflow adjusted for changes in working capital requirements. Net cash from operating activities totalled €1,410 million in 2002, compared to €741 million in 2001.

This increase reflects the improvement in Group operating income in 2002 and especially the change in working capital requirements (+€469 million compared to -€74 million), primarily due to the renegotiation by SNCF of settlement terms and conditions with RFF (+€348 million) and efforts covering all trade receivables within the Group

The coverage of investments by operating cashflow ratio improved by seven points on 2001, but only reached 49 per cent.

Net cash used in investing activities

Net cash used in investing activities comprises tangible and intangible asset purchases and disposals, acquisitions of equity investments and investments in equity affiliates and net movements in other investments and marketable securities.

Net cash used in investing activities totalled €1,877 million in 2002, compared to €1,746 million in 2001, representing a €131 million increase year-on-year.

- Asset purchases during the year totalled €2,144 million and comprised:

	<i>(in € millions)</i>
Tangible assets	2,040
including assets purchased under lease finance	(65)
Intangible assets	47
Unconsolidated investments	9
Movements in amounts payable on asset purchases	113

- The main proceeds from 2002 disposals break down as follows:

	<i>(in € millions)</i>
Sales of buildings by the parent company	207
Assets sales by Geodis Group	82

- Changes in the scope of consolidation had a negative impact of €183 million in 2002 and primarily concerned the acquisition of an additional interest in Ermewa (net negative impact of €101 million) and the full consolidation of Keolis (negative impact of €59 million).

Net cash from financing activities

Net cash from financing activities totalled €1,831 million in 2002, compared to €654 million in fiscal year 2001.

Borrowings with an initial term greater than three months increased by €1,042 million, comprising net long-term loan issues of €586 million and a €456 increase in cash borrowings.

After adjustment for changes in Group structure (+€148 million, primarily concerning the full consolidation of Keolis and Ermewa), the impact of translation differences on bond issues recorded in the parent company financial statements (–€408 million), and the increase in lease finance liabilities (+€41 million), long-term borrowings in the balance sheet increased by €356 million.

● Sources of financing – Debt management

One of the objectives of the 2002 financing policy was the lengthening of the average term of debt by undertaking new issues in the capital markets

As long issues are possible on the pounds sterling market, the parent company launched a GBP 350 million 25-year issue on 4th March, 2002. As SNCF did not wish to retain the exchange rate risk, it entered into swap contracts changing this debt into euro-denominated floating-rate borrowings

The financing policy then sought to capitalise on the improvement in SNCF's long-term credit rating with Moody's, on 26th July, 2002, from Aa1 to Aaa, by increasing the pounds sterling line by GBP 150 million and launching a €500 million 10-year benchmark transaction. These two transactions were aimed at building on the new credit rating and confirming SNCF's reputation as a quality issuer.

2.3 Employees and social policy

The annual average number of Group employees (fully consolidated companies) increased by 21,416, as a result of the full consolidation of Keolis (+22,980 employees) and the closure of United Distribution (–1,300 employees)

	2002	2001	Change in per cent.
SNCF ^(*)	183,954	184,695	
Geodis Group	23,500	25,825	–9
Keolis Group	22,980	–	
Sernam Group	3,099	3,126	–1
STVA Group	2,030	1,663	+22
SeaFrance Group	1,429	1,188	+20
Other subsidiaries and equity investments	5,170	4,250	+21
Total	242,162	220,747	+10

(*) paid employees, including employees seconded to Group subsidiaries (1,674 in 2001 and 1,261 in 2002)

There was little change in the total number of Sernam employees. A large number of employees seconded from SNCF returned to the parent company during the year and were replaced by new recruits.

Changes in the number of employees over the last four years were as follows:

	2002	2001	2000	1999
Parent company ^(*)	183,954	184,695	182,804	179,415
Subsidiaries	58,208	36,052	37,187	36,302
Total	242,162	220,747	219,991	215,717

(*) paid employees

2.4 Outlook for the future

● Passenger Transport and Services Division

Two major challenges for long distance rail transport

The “fast train of tomorrow”, the new Inter-city train, will be brought into service by SNCF in mid-2003, following completion of the marketing relaunch campaign commenced at the end of 2002. Discussions will be undertaken with public authorities concerning certain lines which fulfil regional development missions.

As regards the Eurostar, phase one of the new high-speed line between London and the Channel tunnel will be brought into service in September 2003, reducing travel times between Paris and London to two hours 35 minutes and between Brussels and London to two hours 20 minutes. In response to this challenge, a new organisational structure will be proposed in order to rationalise management and operation. These activities will be grouped together within a single company, Eurostar Ltd, in which SNCF Group will hold a majority stockholding of 54.6 per cent.

Contracted transport lives up to expectations

Parent company Regional Express Train (TER) and Transilien activities continued to improve production quality and tighten control over production expenses. Transilien is getting itself in the best possible position for negotiating the renewal of the SNCF contract with the transit authority for the Paris region, STIF.

Keolis continues to consolidate its position in France . .

In France, Keolis contracts were renewed.

- by the Lille Urban Community for the passenger transport network concession for the period 2003 to 2009;
- by the Dijon Town and Suburb Community for the operation of its public transport network; and
- by the town of Lisieux for the operation of its urban network.

. . and accelerate its international expansion

On 1st January, 2003, Keolis acquired a majority 70 per cent. interest in the common stock of Busslink, whose bus and tramway network in Stockholm and the surrounding region is one of the main public transport players in Sweden. With the rail franchise Citypendeln (Stockholm regional express train network) already operated by the group, Keolis is now a reference in the passenger transport market in Sweden.

The Dutch company Synthus, one third of whose common stock is held jointly by Keolis and SNCF International, won the call for bids in December 2002 for the Zutphen-Hengelo-Oldednzaal concession along the German border. This confirmed Keolis' European roll-out strategy.

In the United Kingdom, Keolis is a candidate for the takeover of the Transpennine Express franchise in association with the British company First Group, as well as the allocation of the Merseyrail franchise, in partnership with a UK Group in minority position.

The restructuring of Keolis common stock, with the total or partial withdrawal of Paribas Affaires Industrielles, constitutes a major challenge for the group in 2003.

Ongoing renewal of the ferry fleet

Having demonstrated the success of its operating strategy, with immediate gains realised thanks to the introduction of *Rodin* into the fleet, Seafrance intends to continue the renewal of its fleet as early as 2003, with an order for a ferry with a commissioning date of late 2004, if possible.

● **Freight – Transport and Logistics**

A new rail freight organisational structure within the context of a balanced growth plan

The balanced growth plan for the Freight Division presented to the Board of Directors on 24th April, 2002 has been implemented, with the objective to return to a healthy financial position around 2006-2007. To achieve this objective will require significant reorganisation of activities focused on the core businesses of logistics operator, freight forwarder and main route and local transporter.

European roll-out intensifies

March 2003, a keystone date for rail freight, will notably see the implementation of the Trans-European Rail Freight Network (TERFN) and the Rail Infrastructure Capacity Allocation Body, within the context of the first Railway Package. The European dimension, crucial for freight activities where 35 per cent. of traffic volume is international, will increase in line with the logistic requirements of customers.

Parcel delivery and logistic rationalisation measures on the verge of bearing fruit

The implementation of a new organisational structure within the Geodis group and the focusing of activities on a portfolio of profitable businesses is now largely completed. The recapitalisation of Geodis continued in 2003. Geodis expects to report a significant increase in results in 2003, by substantially improving the profitability of its core businesses, overseas and road parcel delivery, and developing its high added-value activities, express and logistics, by offering customers a Europe-wide transport-logistics capability.

A financial effort to support combined transport activities

The €20 million recapitalisation of CNC during the first half of 2003 should re-establish the key financial indicators of the subsidiary. It comes in addition to the sale and lease-back transaction covering the pool of 1,159 freight cars spread over the period December 2002 to January 2003. The competitiveness of rail-road combined transport activities in 2003 will be closely linked to the level of public subsidies received and changes in infrastructure fees.

Creation of a European logistics operator for the petrochemical sector: Ermechem

The Ermewa group and Bourgey Montreuil created Ermechem with SNCF's Freight Division. This new company specialises in the assembly of logistic and multi-modal transport packages for major petrochemical and gas groups.

● **Infrastructure – leveraging of SNCF's assets and know-how**

Waiting for the TGV East line

Over the coming years, the delegated infrastructure manager will see its activities increase substantially with the TGV East line and work performed under State/Regional plan contracts. Implementation delays concerning these programmes were recognised as early as 2002.

As is the case each year, infrastructure management teams did everything possible to re-establish traffic in exceptional circumstances. Repairing the consequences of the Gard floods is a prime example.

Partnership between SHER and Electrabel

Following signature of a partnership with Electrabel at the end of 2002, SHER's contract with the utility, EDF, has been terminated on 1st May, 2003 in order to get better value from its electricity production.

Finally, the Saint Pierre de Marèges plant's peaking equipment will be purchased during 2003, representing the most significant development operation carried out by SHER in several decades.

● **3. Activity and results by division**

Division contribution to revenues, gross operating income and net operating income breaks down as follows:

	<i>Passenger – Transport and services</i>	<i>Freight – Transport and logistics</i>	<i>Infrastructure, leveraging of SNCF's assets and know-how</i>	<i>Group</i>
	<i>(in € millions)</i>			
Division revenues	10,864	6,345	4,967	22,176
Gross operating income	1,209	-87	281	1,403
<i>as a percentage of revenues</i>	11	-1	6	6
Net operating income	450	-361	94	183
<i>as a percentage of revenues</i>	4	-6	2	1

3.1 Passenger – Transport and Services

The Passenger – Transport and Services Division brings together the passenger transport activities of the Group – rail (TGV and traditional mainline trains, Thalys, Eurostar, Regional Express Trains and Transilien), ferries (Seafrance) and bus, tramway and subway (Keolis) – as well as distribution activities and new services complementary to the intrinsic activities of the Division (Effia, A2C).

	2002	2001	Change in per cent
	(in € millions)		
Division revenues	10,864	8,562	+27
Gross operating income	1,209	888	+36
as a percentage of revenues	11	10	
Net operating income	450	230	+95
as a percentage of revenues	4	3	

On a constant Group structure basis (pro forma full consolidation of Keolis in 2001) consolidated division revenues rose 9.3 per cent., gross operating income 23.5 per cent., and net operating income 75.3 per cent.

The increase in revenues reflects the impact for a full-year of the TGV Mediterranean line, the development of the Keolis group, notably internationally and the excellent activity of Seafrance. Mainline traffic increased 2.7 per cent (encompassing 6.6 per cent. growth attributable to TGV traffic, including Eurostar and Thalys), Regional Express Train (TER) activities increased 4.0 per cent and Ile-de-France traffic increased 2.4 per cent.

On a constant Group structure basis, gross operating income represents 11.1 per cent of revenues compared to 9.8 per cent. in 2001. Good regional transport and Seafrance results offset the difficulties encountered by the Corail intercity and Eurostar lines

At the same time, on a constant Group structure basis, net operating income improved significantly reaching 4.1 per cent. of revenues compared to 2.6 per cent. in 2001. This heading benefited notably from the extension of the depreciation period for TGV Réseau, Eurostar and Thalys HSTs and the improved profitability of Regional Express Train (TER) activities

● Long-distance and international rail transport

In a listless economic climate, Mainline activity results were marked by the successful development of the TGV Mediterranean line, accompanied by the greater than expected impact of this new line on the Corail conventional intercity trains offer. The contribution to revenues increased 4.2 per cent. to €4,747 million (from €4,554 million in 2001), thanks to traffic growth of 2.7 per cent. and a 2.2 per cent. increase in average income.

- The TGV demonstrated for the first year its ability to combine traffic growth and a marked increase in average income (+4.8 per cent.)
- Corail intercities suffered a drop in traffic and a reduction in average income under the combined impact of the launch of the TGV Med, the transfer of certain destinations to the Regional Express Train network and the fall in competitiveness witnessed over the last four years,
- The Eurostar would appear to be highly sensitive to the global economic climate and its repercussions on the London financial market; the development of low cost airlines also weakened this activity which recorded a 3.7 per cent. drop in traffic;
- Thalys, which benefited from the closure of the Paris-Brussels scheduled flight, demonstrated its development capacity with an enriched offer and traffic income up 8.3 per cent.; and
- The Elipsos over-night trains and the Artesia day trains enjoyed a good year, despite a decrease in the foreign customer base.

In this context, parent company Mainline activities constantly sought to strengthen competitiveness, through commercial actions (new corporate product range, TGV Premium class on the Paris-Lyon line, etc.), measures aimed at improving efficiency (tightening of after-sales/ticket exchange conditions, strengthening of anti-fare-evasion measures, etc.) and tight control over procurement.

Their contribution to gross operating income (€505 million) nonetheless fell 6.7 per cent., due to the marked rise (19 per cent.) in infrastructure fees paid, resulting both from the volume effect of the TGV Med traffic build-up and an increase in the price scale. Net operating income is €223 million, up 12.3 per cent.

The performance of e-commerce activities improved significantly on 2001, when results were penalised by start-up costs and a fall in US customer confidence. Fiscal year 2002 enjoyed a 68 per cent.

increase in Internet distribution activities. Voyages-SNCF.com confirmed its position as the leading French e-commerce site with business volume of €272 million.

- **Regional Express Trains (TER)**

TER activities contributed €2,056 million (€1,715 million in 2001) to revenues and €154 million to gross operating income, up €20 million on 2001

The 19.9 per cent increase in TER revenues is attributable to good growth in traffic income (up 8.5 per cent), reflecting the dynamism injected by the regionalisation policy and the increase in contributions resulting from contracts entered into between the 20 Regional Authorities and SNCF.

The range of products increased significantly (+5.6 per cent), due notably to the reorganisation effect of the TGV Mediterranean line launch and the takeover by TER of the Paris-Auxerre and Paris-Dijon services on the non-high speed line.

Net operating income is €74 million, up €143 million on last year, benefiting from an extremely limited level of penalties thanks to an improvement in service quality.

- **Transilien**

In 2002, the 2.4 per cent traffic growth in the Ile-de-France activity brought to 574 million the annual number of travellers. Traffic income rose 3.6 per cent. The increase in the service price index, used to update the STIF contractual objective, contributed to this improvement

Gross operating income increased 5.3 per cent. to €297 million (15.8 per cent of revenues), compared to €283 million in 2001 (15.5 per cent. of revenues) and bears the significant increase in personnel costs (+3.9 per cent.) and RFF (infrastructure) charges (+3.4 per cent.) between 2001 and 2002.

Service quality results were contrasted, notably with regard to punctuality which, although it improved 1.1 per cent to 91.6 per cent., nonetheless remained below the contractual objective of 93.50 per cent, such that the bonus/penalty balance under the SNCF-STIF contract is only slightly positive.

- **Keolis**

Keolis consolidated its position as the leading passenger road-transport operator in France, with a contribution to consolidated revenues of €1,645 million, compared to €1,378 million in 2001, and to net operating income of €29 million, compared to €27 million in 2001. In France, the three-week strike which affected the Lyon network in March-April 2002 and operating problems in Lille due to delinquency and vandalism disturbed the operation of city and suburb activities. Nonetheless, the new transport network launched in Rennes on 15th March, 2002, including the start-up of an automated metro line, is already a success. Overall, French operation activity levels were satisfactory, despite certain contracts not being renewed

Internationally, Keolis revenues increased significantly with the entry into the group of companies such as Orléans Express in Canada and Martin Becker in Germany and the consolidation in 2002 of South Central purchased in 2001, which benefited from SRA subsidies. After having suffered a number of difficulties, the operation of the Citypendeln concession has now broken even, while results from UK activities recorded a significant downturn.

The lengthening of the depreciation period of buses and coaches from eight to 12 years contributed to the improvement in net operating income.

- **Ferry transport**

Fiscal year 2002 was a historic year for Seafrance, which is clearly heading for growth and profitability. It recovered and consolidated historical market shares on the France-Dover crossing and reported record activity levels in all traffic categories:

- 22 per cent. growth in car traffic, compared to an overall one per cent. drop in the market;
- 25 per cent. increase in lorry traffic, compared to an overall five per cent. increase in the market.

Seafrance demonstrated its ability to meet fully the commercial and operating challenge created by the arrival of the ferry *Rodin*, increasing available capacity by 25 per cent. By maintaining the *Renoir* in the fleet, Seafrance was able to replace ferries unavailable for technical reasons and offer additional crossings during peak periods. The reopening of discussions with employee representatives enabled the company to improve its reaction speed, without employee unrest disturbing services or damaging the

company's reputation. The closing quarter of 2002 nonetheless witnessed more moderate growth, as the expected reactions of competitors combined with a highly uncertain geopolitical climate and a worsening economic environment

Ferry transport activities benefited throughout 2002 from a combined increase in volumes and price. All cross-Channel operators continued to revise tariffs in a bid to restore margin levels, eroded since the abolition of duty-free sales.

Fiscal year 2002 revenues rose 27.7 per cent to €259 million. With operating expenses increasing only 18.6 per cent., Sealrance enjoyed a return to profits, unseen since 2000. Fiscal year 2002 net operating income is €18 million, compared to €2 million in 2001.

3.2 Freight – Transport and logistics

The Freight Division brings together all the Group's freight and logistics activities in both rail and road.

	2002	2001	Change in per cent.
	(in € millions)		
Division revenues	6,345	6,622	-4
Gross operating income/(loss)	(87)	37	NM
as a percentage of revenues	-1.4	0.6	
Net operating income/(loss)	(360)	(283)	-27
as a percentage of revenues	-5.7	-4.3	

The economic turnaround expected in 2002 did not materialise, despite a more buoyant final quarter. The downturn in freight business results was primarily due to the car, combined transport and grain transport sectors of the division's various entities. The other activity sectors held up well, particularly Gcodis parcel delivery activities in France, which improved its relative position in this market.

● SNCF Freight activities

Rail freight carryings by Fret SNCF suffered the consequences of the slowdown in economic growth, as well as the drop in the customer base following the employee unrest in the Spring of 2001 and the fall in traffic caused by problems with freight movements through the Channel tunnel and towards Italy. Nonetheless, the activity managed to maintain traffic levels at 50.04 billion tonne-kilometres carried (down 0.7 per cent.) by retaining its market share (20.5 per cent.), one of the largest in Europe. Contrarily to other sectors, the oil, chemicals, metals and wood and construction materials and quarry products sectors recorded revenue growth in excess of 4 per cent., while traffic income from iron and steel and coal products increased 1.8 per cent.

The contribution of rail freight activities to consolidated revenues is stable on last year (€1,781 million in 2002 compared to €1,798 million in 2001).

Gross operating income fell €83 million, under the impact of:

- a €60 million drop in the State combined transport subsidies;
- a €15 million increase in traction and equipment maintenance costs, despite a 6 per cent. reduction in external purchases; and
- the payment to RFF of concession income of €10 million.

● Parcels delivery and logistic services

Sernam

The difficult economic climate in 2002 and a selective sales and marketing policy resulted in a decrease in the contribution to consolidated revenues (€382 million compared to €476 million in 2001). Cost controls nonetheless enabled a reduction in sub-contracting costs and despite a fall in revenues, the gross operating loss remained stable at €68 million, compared to €70 million in 2001, in line with the current restructuring plan.

Geodis

In a generally unfavourable economic climate, Geodis continued the regional integration of its different businesses, improved its commercial offer and put the finishing touches to measures aimed at turning around its loss-making subsidiaries. This policy enabled Geodis to report net operating income of €50 million, up 58.7 per cent. on 2001 (€31 million), despite a 7.1 per cent. drop in revenues to €3,266 million.

On a constant Group structure basis:

- Activity revenues in the France zone fell 2.5 per cent., while net operating income increased 5.8 per cent.
 - the International Logistics division, heavily involved in the electronics industrial sector currently in difficulty, is under pressure from competitors unfavourable to the acquisition of new profitable contracts in a stable market, and as such recorded a 10 per cent. fall in revenues;
 - the Road Transport division also faced strong competition and reported a 3.8 per cent. drop in revenues, primarily in the chemicals sector, despite an increase in the General Cargo sector. A highly selective sales and marketing policy enabled an increase in net operating income;
 - the Geodis BM sub-group, present in both the road transport and logistics sectors, increased its net operating income to €7.4 million (from €1.5 million in 2001), thanks to a selective sales and marketing policy and excellent cost control;
 - the Parcels Delivery division, the uncontested leader in this business in France, reported a slight increase in tonnage dispatched in the traditional sector, despite a falling market, and a drop in express tonnage, although substantially less than that suffered by the profession as a whole; these trends resulted in a 2.7 per cent. increase in revenues and an improvement in net operating income;
 - the decrease in air and sea freight rates did not impact international freight forwarder volumes which remained stable, resulting in a decrease in revenues but the maintenance of net operating income levels.
- Activity revenues of the European zone, excluding France, fell 5.9 per cent., despite a recovery towards the end of the year. The net operating loss fell to €9.9 million from €24.6 million in 2001, with Italian subsidiaries suffering from difficulties in the logistics sector, notably the electronics segment, while rationalisation measures, particularly in Spain and the UK, started to bear fruit.
- Activity in the rest of the world recorded a 14.5 per cent. drop in sales following a reduction in freight and transfer rates which affected international transport by sea and air, in particular with the Far East and Argentina, while the worsening of the net operating loss from €0.9 million in 2001 to €2.2 million in 2002 was due to declining results in Mexico, India and especially the Ivory Coast.

As such, a more discerning selection of revenue sources and the discontinuation of non-profitable activities resulted in a 58.7 per cent. increase in net operating income, which reached 1.5 per cent. of revenues.

• Port and shipping logistics

Excluding the entry of Challenge International into the scope of consolidation, the revenues of Sealogis (formerly Feron de Clebsattel) fell 17.6 per cent. as a result of the general slowdown in the economy, the crisis in Argentina and the drop in activity with Africa and South America. Including Challenge International, the contribution of port logistic activities to consolidated revenues increased 38 per cent. (€169 million compared to €122 million in 2001).

Sealogis net operating income is €2 million and, contrary to last year, the port handling company MTND/GMP broke even.

• Combined transport

After a poor 2001, rail-road combined transport activities saw the beginnings of a mild turnaround in 2002. In a combined-transport context marked by fragility, CNC business volumes fell 6 per cent.

Sea container activities enjoyed an increase in market share, with growth of 7 per cent. following the success in 2002 of special offers tailored to the new logistic needs of major players in the sector.

This increase offset a fall in door-to-door, swap-body “general cargo” rail-road activities, due to combined transport losing out to more competitive “all-road” offers with excess capacity, the lengthening of relevant combined transport distances within mainland France and the loss of 50 per cent of cross-Channel traffic due to the suspension of traffic in the Channel tunnel.

CNC reduced its net operating loss in 2002 to €5 million, from €16 million in 2001. After rail difficulties in 2001, CNC was penalised by an increase in road terminal costs. The adaptation plan launched in 2001 has already enabled substantial reductions in the operating costs of production facilities: optimisation of the transport plan around a reliable hub, branch closures, as well as cost reductions and cutbacks in staffing

- **Grain**

Logistra reported 5.8 per cent revenue growth to €57 million, thanks to the availability of freight cars and a high-quality rail service. Conversely, CTC revenues fell substantially (down 23 per cent. to €20 million) following a 15 per cent. drop in 2001-2002 grain campaign volumes and a reduction in traditional outlets in France, hit in the export market by competition from Eastern Europe.

- **Automobile transport**

The French automobile market fell 4.9 per cent. in 2002 compared with an excellent 2001. In this context of slowdown, which heavily affected its traditional customers, STVA succeeded in maintaining activity volumes (€294 million compared to €291 in 2001). Rail and road transport activities are down on last year as are related businesses, except for storage activities which recorded growth. Under these conditions, STVA reported net operating income close to break-even. Two new operating sites were opened in Bordeaux and Avigny.

3.3 Infrastructure, Leveraging of SNCF's assets and know-how

	2002	2001	Change in per cent.
	(in € millions)		
Division revenues	4,967	4,945	
Gross operating income	281	230	22
as a percentage of revenues	6	5	
Net operating income	94	73	29
as a percentage of revenues	2	2	

Division revenues are stable on 2001 but slightly below expectations. The 22 per cent. increase in gross operating income and the 29 per cent. increase in net operating income are primarily attributable to Telecommunication activities.

- **Infrastructure management**

The contribution of delegated infrastructure management to consolidated revenues remained stable at €3,786 million, due to failure of the expected growth of work performed for RFF and under State-Region multi-year planning contracts to materialise, after the postponement of investment schedules and, in particular, RFF development projects.

In addition, the postponement of SNCF investment on its own behalf, notably in stations and depots, reduced net operating income from infrastructure management.

The excellent collaboration between SNCF and RFF in the investment area enabled the implementation of a joint management system in order to improve production control.

Restrictions on employee numbers and external expenditure were insufficient to stabilise gross operating income, which fell €11 million to €72 million.

- **Telecommunications**

In an unfavourable economic environment, the contribution of telecommunication activities to revenues fell slightly (€1,045 million compared to €1,075 million in 2001). The impact of the increase in traffic carried with the arrival of local traffic was limited by the fall in international tariffs and the reduction in internet traffic revenues following the introduction of the unlimited connection offer.

Gross operating income rose 50 per cent (€142 million compared to €94 million in 2001) following a drop in interconnection costs and a reduction in external expenses

Net operating income rose more moderately, from €20 million in 2001 to €45 million in 2002, due to increased depreciation charges following the commissioning of substantial new telecommunications plant during 2001 and at the beginning of 2002

- **Electricity generation**

SHEM's contribution to consolidated gross operating income remained stable at €52 million in 2002, as did its contribution to net operating income (€51 million). The lowering of the tax on hydraulic installations offset the fall in the tariffs for electricity sales to EDF

4. Additional information concerning the Parent Company

4.1 Parent company results

Financial statement comparability

The only factor affecting a previous-year comparison of the 2002 financial statements is the change in the estimated useful life of certain rolling stock. The depreciation period for TGV Réseau, Eurostar and Thalys trains was increased to 30 years with effect from 1st July, 2001. This change (compared to a depreciation period of 15 years) generated a €41 million increase in net income, consisting of a €27 million reduction in the net depreciation charge and a €14 million reduction in net charges to operating provisions

Results for the year

The parent company financial statements for the year ended 31st December, 2002 report a net profit for the year of €19 million, compared to a net loss for fiscal year 2001 of €134 million.

This improvement reflects the combined effect of positive and negative factors:

- a slight increase (€7 million) in the net loss from ordinary activities to €183 million; and
- offset by extremely high exceptional income (€168 million), including substantial capital gains on asset disposals

Passenger traffic continued to increase, benefiting from the launch of the TGV Méditerranée and the development of the Regional Express Train (TER) offer (TGV traffic up 6.6 per cent.; total Mainline traffic up 2.7 per cent.; TER traffic up 4.0 per cent.; Transilien traffic up 2.4 per cent.).

Conversely, freight traffic fell back slightly (0.7 per cent.), in a sluggish economy.

The €555 million increase in Company revenues was due to an increase in traffic income (up two per cent. after neutralisation of the estimated consequences of the strikes in March-April 2001) and the contribution of services associated with regionalisation.

As the parent company accounts for over two-thirds of Group activity, the information presented on 2002 consolidated results explains the majority of the parent company results.

In summary, the 2002 parent company net loss from ordinary activities is up slightly on 2001, primarily as a result of:

- the deterioration in the net financial expense (–€61 million), which had benefited in 2001 from a one-off foreign exchange gain; and
- a €49 million increase in gross operating income, which rose from 4.4 per cent. of operating revenues to 4.6 per cent.

The parent company has not recorded a tax charge in respect of the year due to tax losses carried forward of €12,222 million (including deferred tax depreciation of €11,795 million).

4.2 Material movements in investments

During 2002, investments decreased by €39 million. Movements primarily concerned the sale of 15 per cent. of the common stock of Sernam (€35 million) to Geodis in January 2002, for a nominal consideration of one euro, in accordance with the heads of agreement signed in December 2001. On 29th January, 2003 the Board of Directors approved the sale of an additional 15 per cent. interest to COGIP, for a nominal consideration of one euro, subject to receipt of ministerial approval for the sale.