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 *Etablissements 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 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 decree of 30th December, 1997. This amounts to € 1,691 million in 2001 compared to € 1,561 million in 2000.

RFF makes payments to SNCF in respect of management activities. This amounts to €2,652 million in 2001 compared with € 2,617 million in 2000.

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, 2001 the amount outstanding of this debt is at € 13,798 million (see financial statements).

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 local authorities including the principle of compensatory payments.

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

Following the signature of new agreements during 2000, the accounting classification of contributions received from the French State and local authorities was reviewed. As such, certain contributions (the contributions remunerating global services) are now recorded in Revenues (cf financial statements).

The Reform Law provided also a tranfer of organisational responsibility for regional passenger rail transport to local authorities. The SRU (Urban Solidarity and Renewal) law was enacted on 13th December, 2000 with effect from January 2002, enacting the transfer to the local authorities of the responsibility for regional passenger rail transport. Article 129 of this law specifies local authorities have to sign contracts with SNCF to determine the managing and financial conditions of regional passenger rail services. By 9th July 2002, SNCF had signed agreements with all regions.

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, 2001 amounts to € 8.941 billion (see Note 31 to the consolidated financial statements).

7. Corporate Plan

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 local 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 above.

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 is currently preparing the third phase, 2003-2005, which will continue to focus on customers, Europe and efficiency and will aim to create the coherent conditions which would lead, by 2005, to the establishment of a balanced way to finance the substantial investsments which are necessary to the company's continued development.

MANAGEMENT REPORT FOR THE YEAR ENDED 31st DECEMBER, 2001

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: intermodality, transport-related services, 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; and
- infrastructure and leveraging of SNCF's assets and know-how.

SNCF Participations, a 99.83 per cent. 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 SNCF'S ASSETS AND KNOW-HOW			
TGV, Mainline, Transilien, TER, Stations				Road Freight	SNCF RAIL FREIGHT				Infrastructure maintenance and management, Project management, Engineering			
International long distance transport	Regional & local public transport	Transport-related services		Geodis Group	Combined rail-road transport	Cereals and bulk	Port	Financing	SNCF International	Télécom développement	SFCI	SNEF
Eurostar	KEOLIS (ex VIA-Cariane)	Services	Distribution & new services	Geodis Logistics	CNC	Logistra	Feron	Sefergie	Systra	Shem	SICF	Eurofima
THALYS		MTI	Rail Europe Ltd	Geodis overseas	Rouch	CTC	Final delivery	Miscellaneous		AREP	SOCRIF	
Artesia		A2C	Voyages-sncf.com Gle commerce	Bourgey Montreuil	Froidcombi	SGW	VFLI	STSI				
		Effia	Eurovacation	Calberson	Novatrans	Gramatex	Freight cars	SCI Ney				
LYRIA			GL Expedia	Automobile	Districhrono	International	France wagons					
Elipsos				STVA	Ecorail	Fret International	Ermewa					
Ferry transport Seafrance			Rail Europ INC	Parcel delivery								
				SCS								

SNCF Participations, a 99.83% 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

The 2001 fiscal year saw few changes to the Group structure.

The principal change concerned the Züst Ambrosetti Group, controlled 48.72 per cent. as of 31st December, 2000. During the first half of 2001, this group was subject to a number of major restructuring measures. The spin-off of its activities, commenced in January 2001, enabled:

- the creation of Züst Ambrosetti Spa, a General Cargo operator with revenues of € 309 million, fully controlled by the Group as of 31st December, 2001. This transaction was fully consistent with the Group's decision to refocus on its core businesses and enabled the Group to strengthen the range of parcel services available in Italy; and
- the sale of its automobile activities and the realisation of a capital gain of € 22.5 million.

In addition, Gle-Commerce acquired a 20 per cent. interest in Maximiles in January 2001, in an ongoing effort to secure the loyalty of Voyages-SNCF.com online customers.

In the multimodal and multimedia information service production and marketing sector, Effia and Kéolis created Canal TP.

1.2.2 General policy

- **Launch of the TGV Mediterranean line**

The launch of the TGV Mediterranean line in June, 2001 was an outstanding commercial success: over 11 million customers have traveled on this line since its launch. Despite the complexity of reorganising close to 20,000 train schedules across the entire South-East of France, punctuality on the Mediterranean line exceeded 88 per cent. at the beginning of 2002.

Train occupancy rates are extremely high on the Paris-Mediterranean and Lyon-Mediterranean segments, reaching 73 per cent. on average since the launch of the line.

- **Contracting regional transport activities**

The SRU Law (Urban Solidarity and Renewal), which transfers organisational responsibility for rail transport to the regions, requires the parent company to produce a 2000 fiscal year accounting base for each of its Regional Express Train (TER) activities. This work was completed during the first half of 2001 and enabled the certification of financial statements for the Transilien sector and 20 other TER activities.

The company thereby completed an important step in the contracting process, leading to the signature of agreements with 12 of the 20 regions by 15th March, 2002.

- **Rail Transport Package**

The construction of a European rail transport network took a major step forward in March 2001, with the publication of three new Rail Transport Package directives (2001/12 amending 91/440, 2001/13 amending 95/18 and 2001/14 replacing 95/19).

The first "Rail Transport Package" lays down the legal framework for the development of rail transport activities in Europe and relations between railroad companies and the different European Union Member States. The main terms and conditions of these directives are as follows:

- mandatory extension of access and transit rights to rail infrastructures of other Member States to encompass international groupings of rail operators for all types of international traffic and rail operators providing international combined transport services, with the introduction of access rights to the trans-European rail freight transport network (TERFN).
- ability for each Member State to extend the range of candidates which qualify for the allocation of markets (regulatory authorities, loaders, etc.)
- mandatory accounting separation of Freight activities, together with the production of publishable balance sheets and income statements.
- identification of four essential functions which must be entrusted to bodies which do not supply rail services (awarding of licenses, allocation of markets, infrastructure pricing policy, control of compliance with public sector obligations).

All European Union Member States must implement the Rail Transport Package by 15th March, 2003 at the latest.

- **Sernam restructuring**

In May 2001, the European Commission approved the takeover of SCS Sernam by Géodis. This approval opened the way to continue the process launched in 2000 with the spin-off of Sernam and enabled the signature of a further agreement with Géodis in December 2001, encompassing the following principal terms and conditions:

- € 419 million common stock increase subscribed by SNCF in 2001 (including € 276 million fully paid-up);
- immediate common stock reduction of € 195 million, in the amount of 2000 and 2001 losses;
- set-up of a € 34 million participating loan in 2001;
- acquisition by Géodis of a 15 per cent. interest in SCS Sernam in January 2002 (purchased for the nominal consideration of one euro);
- acquisition of a further 51 per cent. interest by Géodis before 2006.

Acquisition of this additional interest is contingent on satisfaction of a number of conditions and primarily 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.

- **Labor conflicts**

The results for the year were heavily affected by labor unrest in the parent company in the spring, which resulted in the partial paralysis of production activities and a complete stop to rail freight and customer loading. This led to an immediate drop in revenues and the payment of compensation to certain customers, generating total losses for the Group of approximately € 160 million. The long-term impact on customer relations is more difficult to assess but will undoubtedly be negative.

1.2.3 Other events by division

- **Passenger transport and services**

Station upgrade and modernisation of Transilien rail equipment

By the end of 2001, significant headway had been made on the Transilien programme. In the first stage, the emphasis has been placed on improving the stations: refurbishment and introduction of staffing, welcome and comfort standards, rewarded by the attribution of the Transilien network name. At the end of 2001, 199 stations had received this award, out of a target of 236 by the end of the 1999/2002 three-year programme.

Developing a more human environment has been a major aspect of this programme, in order to win-back the stations and improve passenger safety. At the end of 2001, 228 stations benefited from increased staffing, including – and especially – at night, as did 133 trains running after 9 p.m..

As part of the ambitious rolling stock modernisation programme, delivery was taken of 42 new Z2N cars with refrigerated ventilation and 60 refurbished Z6400 cars. In addition, a € 242 million refurbishment programme covering 936 cars was launched, co-financed by *Syndicat des Transports Ile de France* (STIF), the *Ile de France* Region (RIF) and SNCF. This programme aims to replace or renovate half of the existing asset pool, some 1,900 cars, by the end of 2004.

Replacement of regional rail equipment (parent company TER activities)

The modernisation and replacement of rolling stock continued, with close to 100 new regional railcars delivered to the Regions in 2001. On 13th December, the Company signed an agreement with Bombardier for the delivery of 500 large capacity railcars, including a firm commitment for the delivery of 192 cars commencing the beginning of 2004. Alongside this investment, SNCF updated its TER logo, in a bid to strengthen its public image as a modern operator, close to its customer base.

Development of e-commerce activities

www.voyages-sncf.com was ranked number one in a 2001 hit-list of French e-commerce sites published by "e-commerce Magazine" on 15th May, 2001. During the 2001 fiscal year, transactions totaling € 162 million were processed by this site, representing an average of 135,000 visits daily by the end of the year.

The Group joined up with the tour operator, Expedia, which sells worldwide on the Internet, in order to offer voyages-sncf.com customers access to a range of tourist products manufactured or negotiated by Expedia with other service providers. The resulting virtual travel agency joint venture is controlled 53 per cent. by voyages-sncf.com and 47 per cent. by Expedia. The new site, officially launched on 4th December, 2001, enables the real-time preparation, reservation and purchase of trips by customers (reservation of train and plane ticket, hotel rooms, travel packages, car rental, etc.).

South-Central concession in the UK

At the end of 2000, Go-Via (a joint-venture between Kéolis (35 per cent.) and Go Ahead (65 per cent.)) was named the preferred candidate by the UK authorities for obtaining the 20-year operating licence for the South-Central rail network. Go-Via and Connex, the current holder of the South-Central licence finalised an agreement enabling Go-Via to purchase the franchise from Connex two years early (26th August, 2001) and thereby speed-up the implementation of the network modernisation programme. Go-Via became the owner of the company.

Kéolis recently acquired a 20 per cent. interest in the UK company Eastbourne Buses, with a purchase option to increase its investment to 49 per cent. This company, which provides urban services to the town of Eastbourne, will, in the long-term, enable economies of scale to be realised with train services, through rail franchises operated by joint ventures with Go Ahead (Thameslink and South Central).

A joint venture between Kéolis (45 per cent.) and First Group (55 per cent.) is currently seeking to be named the preferred candidate for the Trans Pennine rail franchise.

Aéroports de Paris awards the Roissy internal line to Kéolis, in partnership with a Siemens subsidiary

Kéolis, in partnership with Siemens, will be responsible for the construction, running and maintenance of the future unmanned subway at Roissy Charles de Gaulle airport, scheduled to open to the public in 2005. The success of this international call for bids strengthens Kéolis' position as the global leader in the running of unmanned subway lines and confirms its expertise in the airport sector.

Continued operation of the Stockholm RER by Kéolis and expansion in Scandinavia

The Citypendeln contract (Stockholm RER) was renegotiated in 2000. Citypendeln encountered further operating difficulties and commercial relations problems which have now been resolved.

In Denmark, Kéolis increased its interest in City Trafik, the leading privately-owned passenger transport group (from 10 per cent. to 32.6 per cent.).

New Seafrance ship

The major event in 2001 for Seafrance was the successful entry into the fleet of SF Rodin, delivered on 13th November, 2001 in Finland. The ship was brought into commercial service on 29th November, 2001 on the Calais-Dover line. This new ship, the highest-performing ever operated on this line, represents a decisive asset in improving the market position of Seafrance services, both in terms of capacity and quality. In addition, the productivity of Seafrance ships increased significantly in 2001, following a return to satisfactory profit levels by the car-ferries and more intensive utilisation of the *Nord Pas de Calais* ship.

- **Freight transport**

Rail freight alliances

The Freight Division entered into a number of alliances during the year:

- a French-Italian joint venture, Sideuropa (Trenitalia (50 per cent.), Fret international (50 per cent.)) was formed to develop iron and steel transportation between France and Italy, by extending the range of services offered to customers;
- the "Channel Rail Freight" alliance between Fret SNCF and English, Welsh & Scottish (EWS) seeks to develop rail freight activities through the Channel Tunnel: combined transport, automobile transport and traditional freight cars;

- an initial agreement was signed on 24th April, 2001 between SNCF and Office National Interprofessionnel des Céréales (ONIC) bringing together the "cereals and oilseed sectors" and rail transport;
- Agrifersa was created on 8th November, 2001 jointly with RENFE and two transport commissioners, TMF and Transfesa, in order to develop traffic between France and Spain in the cereals, oilseed and fertilizer sectors. This company offers comprehensive rail transport services encompassing the supply of freight cars, customs clearance, logistic services and final road delivery;
- a strategic committee bringing together Novatrans, CNC and SNCF was created in order to strengthen the Group's presence at the European level; and
- an agreement was signed between SNCF and Deutsche Bahn to optimise French-German border crossings and develop common freight traffic. The two companies wish to introduce rail shuttles between the Woippy and Sibelin French marshalling yards and the Gremberg and Mannheim German marshalling yards, allocating a pool of inter-operable engines to this traffic. The extension of this new structure will later enable the serving of long-distance European corridors.

Improvements to the combined transport service range

An equal partnership agreement was signed with LOHR for the launch in France of the first rail shuttles for heavy vehicles. The Modalohr car-carrying freight car project offers an alternative solution to road congestion and a four-year trial will be launched between France and Italy at the end of 2002. The holding company C-Modalohr-Europe (CME), held 51 per cent. by the Group and 49 per cent. by Modalohr, was created for the purposes of this project. CME will control the subsidiaries responsible for managing the two transfer terminals, the company owning the Modalohr freight cars and the piggyback transport operator.

The opening in 2001 of the Lomme (operated jointly by CNC and Novatrans), Bayonne-Mouguerre (operated by Novatrans) and Bordeaux-Hourcade rail-road yards, should contribute to the development of combined transport by offering customers increased capacity.

Acquisition of the logistics company Castle Services

Castle Services, a logistic services company based in the UK, provides warehouse management, handling and transport (road, rail and sea) services. 90 per cent. of its customers are from the iron and steel industry, with the remaining 10 per cent. from the retail industry. This company provides SNCF Group with a logistics operator position in the cross-Channel market. The Group plans to consolidate and develop the range of services offered to iron and steel customers and expand its customer base to encompass other markets.

VFLI Cargo, a new VFLI subsidiary

On 7th November, 2001,Voies Ferrées Locales et Industrielles (VFLI) signed an agreement for the acquisition of the Houillères du Bassin de Lorraine (HBL) rail network. The Houillères network, the largest privately-owned rail network in France, comprises 206 km of track. It serves around ten industrial companies in the East Mosellan region and transported 5.3 million tonnes in 2001. VFLI Cargo is expected to generate revenues of € 18 million in 2002 and will be brought into the scope of consolidation in 2002.

VFLI also acquired the companies Locotract and Energie et Traction in 2001, to strengthen its rail transport and maintenance division.

Creation of the subsidiary Fret SNCF Benelux

Fret Benelux manages contracts covering traffic travelling from or to France, Belgium, the Netherlands and Luxembourg. In effect, 15 per cent. of parent company freight traffic, representing some 7.7 billion tonne-kilometers, travels from or to one of these countries, generating revenues of some € 207 million, 11 per cent. of Fret SNCF revenue in various sectors: iron and steel, chemicals, agricultural products and combined transport. In conjunction with the Benelux railway, the aim is to develop closer customer relations, offering a comprehensive door-to-door service.

Replacement of the electrical engine pool

In September 2001, SNCF decided to acquire 200 new electrical engines for the Freight Division. The contract comprised a firm tranche for 120 engines and an optional tranche for 80 engines, with delivery scheduled between October 2005 and March 2007. This contract forms part of the engine pool replacement programme, which already provides for the purchase of 600 Freight traction engines, the first of which were delivered in 2001.

Reorganisation of Sernam

The Sernam conversion plan provided for the spin-off of its activities, with the creation of nine subsidiaries (partnerships), consisting of seven geographical subsidiaries, one business subsidiary (Sernam LDI, integrated logistics and distribution company) and Sernam Services (regrouping head office services). This major reorganisation was performed on 1st June, 2001.

The new heads of agreement signed by SNCF and Géodis in December 2001 provides, notably, for the implementation of a recovery plan and a return to profitability by 2006.

Géodis restructures its activities around customer needs

The company's strategic direction, which seeks to develop "high added-value" activities such as parcel delivery and logistic services, was confirmed. An activity structure by geographical area focused on customer needs was implemented to replace the traditional four-division structure (parcel delivery services, road transport, logistics and overseas).

Géodis Solutions houses the expert functions required by all group activities, enabling it to satisfy the requirements of major customers. Géodis Réseaux seeks to optimise the operation of parcel delivery and oversea networks.

Géodis decided to discontinue the activities of its UK subsidiary, United Distribution, whose recovery was proving more difficult than expected, on 31st January, 2002. It intends, nonetheless, to maintain its presence in the UK and Ireland in the parcel delivery, transport commission and logistic sectors.

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

The telecommunications market encountered many difficulties in 2001. Despite an unstable environment, which stepped-up price competition (delay in the roll-out of UMTS, difficulties encountered by France Telecom competitors with the unbundling of telecommunication services and the presence of players with excess capacity) Telecom Développement recorded a marked increase in volume. Furthermore, with a view to the opening up of the broadband and local traffic markets, Telecom Développement organised the necessary resources to ensure its presence on these markets.

AREP, the Group's architecture and urbanism firm, recently excelled with the construction of the TGV Mediterranean line stations and by winning competitions for the construction of stations in Nankin, Beijing and Shanghai.

A call for bids was launched in 2001 to find a new commercial partner for SHEM and obtain better remuneration for its electricity production. Following this process, exclusive negotiations were commenced with Electrabel Group and are still ongoing to date.

2. SNCF Group

On a constant Group structure basis, revenues rose 1.05 per cent. on last year.

2.1 Consolidated Net Income

	Year ended 31st December, 2001	*31st December, 2000*	*Change*	*Change %*
		(in € millions)		
Consolidated Revenues	**20,129**	**19,839**	**290**	**1.5**
Capitalised production and production for stock.	659	589	70	11.9
Operating subsidieds	134	235	(101)	-43.0
Purchases and external charges	(10,242)	(9,682)	(560)	5.8
Taxes and duties other than IT	(785)	(774)	(11)	1.4
Personnel costs	(8,741)	(8,602)	(139)	1.6
Gross operating income	**1,155**	**1,605**	**(450)**	**-28.1**
Depreciation, amortisation and provisions, net	(1,132)	(1,192)	60	
Other operating income and expenses	(3)	(6)	3	
Net operating income	**20**	**407**	**(387)**	**-95.1**
Net financial income/(expense)	**(330)**	**(333)**	**3**	
Net income from ordinary activities of consolidated companies	**(310)**	**74**	**(384)**	
Exceptional items	149	46	103	
Income tax	(24)	49	(73)	
Net income of consolidated companies	**(185)**	**169**	**(354)**	
Share in earnings of equity affiliates	13	146	(133)	
Amortisation of goodwill	(38)	(19)	(19)	
Consolidated net income	**(210)**	**296**	**(506)**	
Minority interests	(70)	119	(189)	
Net income for the year (Group Share)	**(140)**	**177**	**(317)**	

- **Financial statement comparability**

The only factor impacting a year-on-year comparison of the 2001 consolidated financial statements is a change in the estimated useful lives of certain rolling stock held by the parent company. The depreciation period for the Network, Eurostar and Thalys TGVs was increased to 30 years with effect from 1st July, 2001. This adjustment to useful lives resulted in a € 46 million decrease in the net charge to depreciation (compared to a depreciation period of 15 years). At the end of 2001, all recently acquired TGV rolling stock was depreciated over 30 years.

- **Net operating income**

The only slight increase in revenues, notably following employee unrest in the parent company in March and April, was accompanied by a marked drop in Gross operating income (28 per cent.) and plummeting Net operating income (€ 20 million in 2001 compared to € 407 million in 2000).

The fall in Gross operating income (down € 450 million) is attributable to employee unrest in the spring, at an estimated cost to the Group of € 160 million, the loss of €91 million in State aid, TGV Mediterranean line launch costs estimated at € 75 million and a general slow-down in the economy which particularly affected the Freight Division.

- **Net financial income/(expense)**

The consolidated net financial expense is stable on last year at € 330 million (€ 333 million in 2000) due to:

- a €55 million increase in net exchange gains, attributable to favorable movements during the year in the euro/yen exchange rate; and
- offset by a € 51 million drop in net gains on finance lease transactions, following the signature of only one new contract in 2001.

- **Exceptional items**

Exceptional net income for the year of € 149 million, compared to € 46 million last year, breaks down as follows:

- capital gains of € 96 million from the sale of real-estate assets (rue Saint Lazare building, SNCF Participations head office and other buildings);
- capital gains of € 23 million realised on the demerger of the Züst Ambrosetti Group in 2001, compared with gains of € 73 million realised in 2000 on the sale of Extand to the British Post Office;
- net releases from provisions of € 112 million linked to the implementation of the Sernam restructuring plan and contractual changes; and
- costs of reorganisation and restructuring plans implemented or decided, in particular within the Géodis Group (€ 98 million).

- **Share in earnings of equity affiliates**

Equity affiliates' contribution to net income fell from € 146 million in 2000 to € 13 million in 2001, as the 2000 figure included exceptional income from Télécom Développement's subsidiary, Cegetel Fixe, following a debt waiver by Cegetel SA.

The Group share in the net income of the Kéolis Group created by the Via Cariane merger, after amortisation of goodwill, is € 4 million.

- **Income tax**

The tax charge for the year is € 24 million, compared to a tax gain of € 59 million in 2000 following the recognition of a deferred tax asset by Telecom Développement.

2.2 Cash Position and Finance Sources

- **Cash position**

The Group's principal source of liquid resources is cashflow from operations (€ 741 million).

Net cash from operations

Net cash from operating activities is equal to Cashflow adjusted for changes in working capital requirements. Cash flow from operations totalled € 741 million in 2001, compared to € 903 million in 2000.

The fall reflects the drop in Group operating income in 2001 and changes in working capital requirements (€ 74 million compared to € 329 million) following:

- a fall in various outstanding balances, such as amounts payable to or receivable from the French State, the RFF current account, advances and down payments paid or received; and
- partially offset by a marked drop in trade receivables, particularly in the Freight Division.

Cashflow, which covered 92 per cent. of investments in 2000, covered only 42 per cent. in 2001. Investment levels were, nonetheless, substantially lower in the 2000 fiscal year.

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 equity investments and marketable securities.

Net cash used in investing activities totalled € 1,746 million in 2001, compared to € 831 million in 2000, representing a € 915 million increase year-on-year.

- Asset purchases during the year totalled € 1,876 million and comprised:

– Tangible assets	1,880
– Intangible assets	44
– Unconsolidated equity investments	21
– Movements in amounts payable on asset purchases	(69)

Equity investments primarily consist of the acquisition of VFLI Cargo and Sealogis.

- The main capital gains and losses on disposal in 2001 break down as follows: (in € million)

– Sale of SNCF building on rue Saint-Lazare	73
– Sale of SNCF Participations head office	18
– Restructuring of Zust Ambrosetti	23

- Changes in the scope of consolidation had a negative impact of € 18 million in 2001 and primarily concerned Zust Ambrosetti (Géodis sub-group).

Net cash from financing activities

Net cash from financing activities totalled € 654 million in 2001, compared to net cash used in financing activities of € 524 million in the 2000 fiscal year.

Borrowings with an initial term of greater than three months increased by € 446 million, comprising net long-term loan issues of € 405 million and a € 41 million increase in cash borrowings.

After adjustment for changes in Group structure (€ 51 million, primarily relating to the entry of Zust Ambrosetti into the scope of consolidation), borrowings with an initial term of greater than three months increased by € 529 million. The SNCF parent company accounted for € 344 million of this increase, primarily through euro-denominated bond issues and US dollar bond issues hedged by euro swaps.

- **Sources of financing – Debt management**

Transactions during the year were either performed directly in euro at fixed or floating rates, or subject to swap contracts from the outset, converting foreign currency denominated commitments into euro-denominated floating rate commitments.

In order to maintain a major presence on the markets and reduce the financial charges paid by the Group, the financing policy comprised the performance of one major transaction in order to protect SNCF's position as a top quality issuer, together with a number of transactions of smaller unit volume, potentially structured and over shorter terms, in order to gain a cost price advantage.

As such, and applying the same strategy governing the major issues in 1999 and 2000, a € 500 million major issue, maturing 9th July, 2013 was launched at the end of June, 2001 by the parent company. Thanks to the longer term of this issue, it enabled SNCF to confirm its presence in the Euro zone, despite a more substantial portion of the loan being placed on the French market this year. 47 per cent. of the loan was placed in France, 13 per cent. in Benelux, 12 per cent. in Austria, 7 per cent. in Germany and 6 per cent. in Spain.

2.3 Employee and Social Policy

The annual average number of Group employees (fully consolidated companies) increased by 0.34 per cent. from 219,991 in 2000 to 220,747 in 2001.

	2001	*2000*	*Change in %*
SNCF(*)	184,695	182,804	1.03
Géodis Group	25,825	25,368	1.80
Cariane	–	3,576	–
Sernam Group	3,126	1,796	74.05
STVA Group	1,663	1,552	7.15
SeaFrance Group	1,188	1,264	(6.01)
Other subsidiaries and equity investments	4,250	3,631	17.04
Total	**220,747**	**219,991**	**0.34**

(*) paid employees, including employees seconded to Group subsidiaries (3,340 in 2000 and 1,674 in 2001).

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

	2001	*2000*	*1999*	*1998*
Parent company(*)	184,695	182,804	179,415	179,088
Subsidiaries	36,052	37,187	36,302	34,916
Total	**220,747**	**219,991**	**215,717**	**214,004**

(*) paid employees

2.4 Parent Company Fixed Assets Register

During 2001, the parent company launched a major review, aimed at creating a register of fixed assets other than rolling stock, for which an asset register already exists.

Procedures comprised:

- improving the reliability of technical files existing at the end of 2000;
- allocating values to the newly-improved technical files, without distorting future depreciation flows; and
- implementing an asset management software package and corresponding accounting procedures for the processing of asset flows in 2001 and thereafter.

Following completion of these procedures, the parent company now has a fixed asset register representative of all its property, including those assets subject, since 1997, to conflicting interpretations of Law No. 97-135 of 02/13/97 and its application decrees.

Since 1999, the National Commission of Asset Allocation has been analysing and arbitrating the four main areas of disagreement: land used for freight purposes (CM4 lots), housing, passenger concourses in stations and the volume division of buildings. These assets are currently included in Group fixed assets.

In 2001 SNCF proposed a mechanism to RFF translating asset allocation decisions into financial terms, and involving the remuneration of all asset additions and disposals at a price at least equal to the net book value of the assets in the company's balance sheet. This financial compensation mechanism has not as yet been approved.

2.5 Outlook for the Future

- **Passenger Transport and Services Division**

Stay ambitious in an increasingly difficult economic climate for both the parent company....

The economic slowdown and difficulties associated with the development of European links and the business market, necessitate the implementation of measures aimed at revitalising the Group and improving performance levels.

Among these measures, which bear witness to the Group's high ambitions for 2002, are the passenger loyalty programme, specific actions targeting venders ("Vitamin C" programme), a determination to extend existing market shares (with for example, the introduction of Transilien line directors) and the development of new TER service offers.

. . . and its subsidiaries

The Group is currently considering a new organisational structure for Eurostar, in order to consolidate cooperation between the French, British and Belgian networks and improve the efficiency of the structure.

Kéolis is a candidate for a new UK rail operating franchise, Wales and Borders, which will link the Welsh capital Cardiff with Manchester. The Strategic Rail Authority (SRA) will announce its decision in the autumn of 2002 and the franchise will commence operation at the beginning of 2003. 2002 is also a very important year for Kéolis in France, as 25 of its concessions will come up for renewal, including the Lille transport network concession at the end of the year. The recapitalisation of Kéolis is another major challenge for the Group.

- **Freight Division**

The first half of 2002 should see a pickup in certain activity sectors (continued growth in the automobile industry impacting favorably on flat-bar steel activities in the iron and steel industry, resumption of coal transportation, start-up of traffic relating to the construction of the TGV East high-speed line). These initial signs of a general improvement should enable the Freight Division to return to growth. Nonetheless, this could be affected by a number of factors not under the Group's control, such as the absence of a recovery in the economy or continued perturbations to Channel Tunnel traffic.

2002 is, above all, the final year of SNCF's freight transport monopoly. The network will open to competition in 2003. SNCF is not, however, sitting idle. Preparations are underway and an offensive policy has been launched in Europe, notably through partnerships and alliances, as the Group considers Europe an area ideally suited to the development of rail activities.

Cooperation to lift technical borders

On 24th January, 2001, the Chairmen of SNCF and DB announced a joint project to develop rail shuttles between four marshalling yards, creating a joint pool of engines capable of receiving the "different electrical currents feeding cross-border tracks".

This equipment inter-operability could enable the creation of major European freight corridors. The arrival of the European age will also be signaled by the bringing into service of the Alpine rail freeway at the end of 2002 or beginning of 2003. This new service will be assured in partnership with Trenitalia, Modalohr and the freeway company AREA. On 1st February, 2001, 35 double freight cars were ordered by the freight car owner and C-M-E subsidiary. These freight cars were submitted for approval in March 2002 and will be delivered at the end of December, 2002. The order represents an investment of over € 15 million.

The Freight Division is investing in inter-network co-operation, as the market opens up to competition.

Break-even – a financial necessity

All these measures will only come into their own, with the progressive return by the division to profits. Despite its public service attributes, notably as regards the environment, rail freight is, above all, a commercial activity which should be profitable. This is not only a necessity for the Group, but also, from now on, a European obligation. The Freight Division has set itself the objective of breaking even by 2005.

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

Construction of the TGV East European line was commenced on 28th January, 2001 in Baudrecourt, Moselle. The total cost of this project is estimated at € 3.9 billion, including € 1 billion payable by SNCF. The first trains are scheduled to run in 2006, bringing Strasbourg only 2 hours 20 minutes from Paris, Colmar 2 hours 40 minutes and Mulhouse 3 hours 5 minutes.

3. Activity and Results by Division

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

	Passenger transport and services	*Freight*	*Infra-structure, leveraging of SNCF's assets and know-how*	*Group*
		(*in* € million)		
Division revenues	**8,562**	**6,662**	**4,945**	**20,129**
Gross operating income	**888**	**37**	**230**	**1,155**
as a % of revenues	10.4%	0.6%	4.6%	5.7%
Net operating income	**230**	**(283)**	**73**	**20**
as a % of revenues	2.7%	(4.3)%	1.5%	0.1%

3.1 Passenger Transport and Services

This Division brings together all the passenger transport activities of the Group – rail (TGV and traditional mainline trains, Thalys, Eurostar, Regional Express Trains and Transilien), ferries (Seafrance) and bus, tram and subway (Via Cariane, now Kéolis, equity accounted in 2001) – as well as distribution activities and new services complementary to the intrinsic activities of the Division (Effia, MTI, voyages-sncf.com).

	Year ended 31st December, 2001	*31st December, 2000*	*Change %*
	(*in* € million)		
Division revenues	**8,562**	**8,562**	**–**
Gross operating income	**888**	**1,130**	**(21.4)%**
as a % of revenues	10.4%	13.2%	
Net operating income	**230**	**343**	**(33.0)%**
% of revenues	2.7%	4.1%	

On a constant Group structure basis (equity accounting of Cariane within Kéolis as of 31st December, 2000), consolidated division revenues rose 2.7 per cent. This was achieved despite a less favorable economic climate than in 2000 and reflects traffic perturbations in certain regions and the consequences of employee unrest; the strike in March and April generated a 2 per cent. drop in annual passenger traffic, equivalent to one week's production.

After marked growth in traffic in 2000, passenger traffic continued to increase in 2001 across all sectors (TGV up 7.9 per cent., Regional Express Trains up 3.3 per cent. and Transilien up 2.1 per cent.).

The contribution of Mainline activities to consolidated revenues increased 3.4 per cent. on last year, Regional Express Train activities 3.7 per cent., Transilien activities 1.9 per cent. and Seafrance activities 17 per cent.

On a constant Group structure basis, Gross operating income fell € 216 million, or 19.1 per cent. This drop was primarily due to the strike (impact of approximately € 75 million), the withdrawal of infrastructure fee subsidies received by the Division (€ 61 million), the launch of the TGV Mediterranean line (€ 75 million) and an increase in RFF infrastructure fees (13.6 per cent. rise).

On a constant Group structure basis, Division Net operating income fell € 105 million, or 30.6 per cent.

Net operating income benefited from the extension of the depreciation period for Eurostar, Thalys and Network carriages from 15 to 30 years. This change, which came into effect on 1st July, 2001 had a positive impact of € 46 million.

- **Long distance and international rail transport**

In a difficult economic climate, revenues rose 1.5 per cent. thanks to an 8.9 per cent. increase in domestic TGV traffic, with the launch of the highly promising TGV Mediterranean service which has already contributed some € 110 million to revenues, and to the Thalys service (7 per cent. increase in traffic and 11 per cent. rise in revenues). Starting 25th March, 2001, Thalys now transports Air France customers between Roissy Charles de Gaulle airport and Brussels. It also profited from the bankruptcy of Sabena and the subsequent discontinuation of Paris-Brussels and Amsterdam-Brussels services by DAT. The terrorists attacks of 11th September, 2001 in the USA had a limited impact on commercial activities, with the exception of Eurostar Group traffic which recorded a 2 per cent. drop.

The slowdown in economic growth had a tangible impact on Eurostar traffic and subsidiary sales abroad. The distribution of European rail products is down, the slowdown in economic activity having triggered a significant decrease in tourist travelling.

Revenue growth is also attributable to the success of the new pricing structure and, in particular, of commercial products which represent around one-third of total sales (12-25 and children's card, discovery range). In addition, the "Frequent Passenger" programme counted close to 200,000 members by the end of 2001.

The increase in traffic was achieved in a context of equipment under-capacity. The first double-decker TGV carriages were delivered in September, 2001. By the end of 2002, the TGV asset pool will comprise an additional 12 double-decker carriages.

Internet activities expanded rapidly, with voyages SNCF.com recording an 80 per cent. growth in sales volume. Eurovacations activities were, however, affected by the events of 11th September, 2001 and lag far behind the other internet activities.

The contribution of Long-distance and international transport activities (comprising SNCF Mainline activities and the GLI sub-group) to division gross operating income fell 22 per cent. from € 673 million in 2000 to € 522 million in 2001, while its contribution to division net operating income fell 13 per cent. from € 190 million to € 165 million.

The drop in Gross operating income is primarily due to an increase in infrastructure fees, which had a net impact of € 168 million, including the withdrawal of operating subsidies of € 61 million in 2000. This increase is mainly attributable to the launch of the TGV Mediterranean line (impact of € 75 million).

The more muted fall in Net operating income is primarily due to the extension of the depreciation period for Eurostar, Thalys and Network carriages from 15 to 30 years (€ 46 million).

- **Regional Express Trains (TER)**

The fall in the contribution of TER activities (net operating loss of € 73 million in 2001 compared to € 35 million in 2000) is mainly attributable to:

- the inclusion in 2001 of audit adjustments identified during the audit of the TER 2000 financial statements (€ 17 million);
- the consequences of the economic slowdown observed during the closing months of 2001; and
- the impact of employee unrest in the spring of 2001.

Despite this, TER service offering increased by 4.6 per cent. and income from operation grew 5.9 per cent.

- **Transilien**

As the second year of implementation of the SNCF-STIF contract, the 2001 fiscal year naturally focused on satisfying the Company's contractual commitments, in order to offer a higher quality service, while ensuring profitability.

Thankfully, a persistently poor punctuality record did not hold back traffic growth. SNCF remained well above the contractual maximum profit sharing level. Traffic realised by holders of *Intégrale and Imagine "R"* cards contributed to this growth.

The fall in this activity's contribution to consolidated net operating income from € 143 million in 2000 to € 120 million in 2001 is mainly attributable to:

- contractual indexing measures which continue to disadvantage activities (of around € 11 million); and
- increases in certain expense accounts such as rolling stock maintenance, compared with contractual remuneration levels based on the general concept of constant service offer constant price.

- **Kéolis**

This Group, which changed its name at the beginning of 2001, resulted from the merger in December 2000 of Via GTI, the leading privately-owned passenger public transport operator in France, and Cariane (an operator specialising in inter-urban transport). A leading operator in urban, inter-urban and light-rail transit systems, it reported activity volume of € 1.46 billion in 2001, compared with € 1.24 billion in the previous year. However, as the 2000 fiscal year was marked by major reorganisational measures and the sale of subsidiaries to Connex, a year-on-year comparison is of little relevance. Activity in the 2001 fiscal year was affected by national strike movements, primarily in the urban transport sector, which weighed heavily on the overall performance of French activities, without stopping them recording growth.

- **Ferry transport**

The general environment for Cross-Channel activities was not particularly favorable in 2001: foot-and-mouth disease in the UK, illegal immigration towards the UK, beginnings of an economic slowdown. However, after the major impact of employee and operating problems in the 2000 fiscal year, Seafrance enjoyed a marked turnaround in 2001, thanks to a return to satisfactory reliability levels. Seafrance improved its competitive position, in particular during the tourist high-season. Growth in car (up 12 per cent.) and truck (up 6 per cent.) traffic, which generate the major part of company margins, was key to the significant improvement in results.

2001 revenues rose 17 per cent. on 2000 to € 203 million, despite a dip in the pound sterling exchange rate (down 2 per cent.). With only a 11.2 per cent. increase in operating expenses, Seafrance's contribution to consolidated net income rose € 6 million (net income of € 2 million, compared to a net loss of € 4 million in 2000). The fall in fuel prices and a reduction in port taxes in France contributed to keeping a tight reign on purchases and external charges.

- **Transport-related services**

Parent company station activities were marked by the opening of three new stations for the launch of the TGV Mediterranean line (Valence, Aix and Avignon) and the development of ambitious station upgrade programmes.

Activity revenues (fees received in respect of businesses located in the stations, advertising, car parks, checkroom, etc.) totalled € 73 million, up 17 per cent. on the 2000 fiscal year.

3.2 Freight Division

The Freight Division brings together the freight and logistic activities of the Group, irrespective of the transport method (rail or road).

	Year ended 31st December, 2001	*31st December, 2000*	*Change %*
	(in € million)		
Division revenues	**6,622**	**6,512**	**1.7**
Gross operating income	**37**	**184**	**(79.8)**%
as a % of revenues	0.6%	2.8%	
Net operating income	**(283)**	**(69)**	**nm**
% of revenues	(4.3)	(1.1)	

Excluding the reorganisation of the Züst Ambrosetti Group, Division contribution to consolidated revenues fell by 3 per cent.

Division net operating income was affected by strikes both in the parent company and rail-using subsidiaries (CNC, STVA, Rouch, etc.), with an estimated impact of € 84 million.

- **SNCF Freight activities**

2001 was marked in France and Europe by a general slowdown in economic growth, particularly in the manufactured product, construction and public works and food-processing sectors. The intermediate goods sector, a major consumer of rail transport services, also fell, while consumer goods and automobile activities held up best.

In addition to the economic climate, activity levels were heavily affected by the strike in March and April and the resulting partial suspension of traffic, as well as recurring employee unrest at a number of locations which persisted up to the end of the year. The immediate consequences of the strike have been estimated at € 78 million and lost traffic at approximately 2 billion tonne- kilometers transported. These employee actions also led a number of customers to change their choice of transport method, the impact of which is difficult to measure.

In this context, activity contribution to consolidated revenues fell by € 140 million (7.2 per cent.) to € 1,799 million. The general trend over the last two years of high growth in traffic, marked an abrupt about-turn, with traffic levels falling 9 per cent. (50.4 billion tonne-kilometers in 2001 compared to 55.35 billion in 2000).

As a result, Gross operating income fell substantially (drop of € 167 million from net income of € 60 million in 2000 to a net loss of € 107 million in 2001), due also to a € 30 million drop in transport services. The net operating loss increased € 190 million to € 196 million.

- **Parcel delivery and logistic services**

Sernam

Even after inclusion of parent company activities in January 2000, the Sernam Group's contribution to consolidated revenues fell slightly.

While logistic services recorded growth of 53 per cent. on the 2000 fiscal year, trends in traditional parcel delivery services, both express and international, were more varied, and grouping activities fell back 4.8 per cent.

The new transport plan will not be operational before the beginning of 2002, but expenses were contained thanks to in-depth measures taken at branch level, cuts in head office real-estate and employee costs and a reduction in recourse to temporary staff and handling sub-contracting.

Géodis

Revenues rose by 1.1 per cent. (0.3 per cent. on a constant group structure and exchange rate basis), profiting essentially from the good level of French activities (up 3 per cent. on a constant group-structure basis). Parcel delivery services continued to enjoy buoyant demand, despite the slowdown observed during the second quarter and a more marked drop in the third quarter.

The European region (excluding France), recorded a slight drop of 1.9 per cent., primarily due to a steady fall in activity levels in the United Kingdom (United Distribution).

The Group's other international activities recorded a 14.3 per cent. drop in business volumes (on a constant group structure and exchange rate basis), following a marked slowdown in relations between Asia and Europe and, in particular, the drop in activity levels since September, primarily affecting air and sea transport commission businesses. Activity levels were also affected by restructuring measures in Latin America.

Net operating income rose significantly (€ 31 million, compared to € 17 million in 2000). The domestic parcel delivery division reported good results, up on last year despite an increase in employee costs as a result of activity growth and the full impact of the reduced working week. European parcel delivery activities once again reported substantial losses, mainly attributable to United Distribution. Géodis decided to discontinue the activities of its UK parcel delivery subsidiary on 31st January, 2002, as its turn around was proving more difficult than expected. Although still loss-making, overseas activities improved significantly on the 2000 fiscal year, notably in Africa. The restructuring measures launched in the road transport division in 1999 began to bear fruit. Logistic activity results were acceptable, but down significantly on last year. The Géodis Group recorded a high level of reserves in respect of necessary restructuring measures and customer risks at the year end. As such, despite an increase in net operating income, Géodis reported a net loss for the year of € 138 million, compared to € 28 million in 2000.

- **Port activities**

Feron de Clebsattel recorded a marked drop in business volumes (8.8 per cent.) by its traditional sea shipping agency, container logistic and port handling activities. Its activity portfolio was significantly reshuffled following the transfer of Evergreen, effective 15th December, 2000, and the loss of the Sollac contract at the end of January 2001. Feron reported a net loss for the year of € 4 million, compared to net income of € 2 million in 2000.

- **Combined transport**

Combined rail-road transport activities slowed down considerably during the year.

CNC nonetheless managed to maintain revenues at their 2000 level of € 220 million. The strikes in April 2001 and the variable quality of rail links weighed heavily on business volumes. In addition to the structural problems encountered by combined transport activities, CNC also had to deal with an increase in the price of final deliveries, the implementation of decrees concerning the reduced working week, and an economic slowdown in the second half of the year. Ground transport activities suffered as a result of SNCF strikes and sea shipping activities were penalised by the strikes at Le Havre. The current restructuring plan has already enabled a significant reduction in production operating costs.

Novatrans business volumes fell back 6.3 per cent., although its contribution to net income of equity affiliates remained positive (€ 0.8 million).

Rouch Intermodal, purchased by the Group in July 2000, recorded revenue growth of 2.7 per cent., primarily attributable to its road activities, but suffered the full effects of the parent company strike and the increase in road sub-contracting costs. It contributed € 29 million to consolidated revenues.

- **Cereal and bulk**

Logistra continued to encounter problems with its rail links. Revenues fell slightly by 1.2 per cent. to € 53.7 million.

CTC contributed € 26 million to revenues, down 0.7 per cent. on last year, affected by the depressed climate in the cereal sector in the second half of the year. This subsidiary, whose activities are mainly rail-related,continues to incur freight car rental expenses even when traffic is interrupted by parent company strikes. As a result, it recorded a € 3 million drop in net operating income.

- **Automobile transport**

The automobile market held up well with 0.6 per cent. growth in registrations in Europe and 5.7 per cent. in France. STVA did not benefit fully from this growth in the French market, due to the erosion of the market share of its traditional clients (Ford and Renault). STVA contributed € 291 million to consolidated revenues in the year, compared to € 282 million in 2000 (up 3.2 per cent.). This increase is attributable to the increase in registrations and continued external growth.

Gross operating income is stable at € 26 million, following an increase in operating employee costs and overheads. Net operating income fell to € 7 million from € 11 million, due to:

- an increase in depreciation charges (up 18 per cent.) following a two-fold increase in capital expenditure between 2000 and 2001;
- a decrease in amounts released from provisions for freight car maintenance;
- an increase in lease finance charges linked to the purchase of new VMV freight cars; and
- difficulties encountered by UK companies.

3.3 Infrastructure, Leveraging of SNCF's Assets and Know-How

	Year ended 31st December, 2001	*31st December, 2000*	*Change %*
	(in € million)		
Division revenues	**4,945**	**4,765**	**3.8**
Gross operating income	**230**	**291**	**(21.0)%**
as a % of revenues	4.6%	6.1%	
Net operating income	**73**	**133**	**(45.1)**
% of revenues	1.5	2.8	

The increase in revenues is largely attributable to the surge in telecommunication activities which increased 52.7 per cent. on last year.

Division Gross operating income fell back 21 per cent. as a result of substantial pressure on Télécom Développement prices.

The contribution of hydro-electric power generation activities to division results was relatively constant.

- **Managing the infrastructure**

The TGV Mediterranean line was brought into service on schedule. This marked the end of one of the largest European worksites of recent years, which has had a determining impact on Infrastructure management activities.

As such, the 2001 fiscal year was a year of transition between work on the TGV Mediterranean line and work on the XIIth Plan and the TGV East line. RFF capital expenditure was below previous year levels, a drop only partially offset by an increase in capital expenditure on SNCF fixed installations, notably in the stations. The parent company contribution to consolidated revenues was, therefore € 3,729 million, down 5.3 per cent. on the 2000 figure of € 3,939 million.

At the beginning of 2001, the rail network was once again hit by bad weather. Floods caused damage, creating substantial work for Equipment maintenance staff, while geological problems (formation of underground cavities) seriously affected the operation of the TGV North line.

2001 also saw the full application of agreements regarding reductions in the working week. The Infrastructure manager must continue, through sustained productivity efforts, to ensure the maintenance of the network and the management of traffic, while guaranteeing the security of the rail system.

Gross operating income fell by € 51 million (€ 83 million in 2001 compared to € 134 million in 2000), and Net operating income by € 30 million (Net loss of € 1 million in 2001 compared to a Net income of € 29 million in 2000) primarily due to the withdrawal of State subsidies for the development of rail transport (€ 30 million).

- **Telecommunications**

This sector contributed € 1,075 million to Group revenues, a rise of some 53 per cent. on 2000. This increase is attributable to growth in traffic carried and was achieved despite substantial price decreases during the period.

The 82 per cent. increase in interconnection costs paid to France Télécom, despite a drop in selling prices, under an annual price-setting agreement, resulted in stable gross operating income (revenues minus interconnection costs). This situation, combined with costs associated with the arrival of new traffic in 2002, accounts for the drop in Telecom Développement net income and its contribution to the Group of only € 37 million compared to € 79 million last year (down 53 per cent.).

- **Electricity generation**

SHEM Group revenues fell slightly by 2.5 per cent. to € 78 million. Its contribution to net operating income fell € 6 million, but remains high at € 50 million.

4. Additional Information Concerning the Parent Company

4.1 Parent company results

Financial statement comparability

The only factor affecting a prior-year comparison of the 2001 financial statements is the change in the estimated useful life of certain rolling stock. The depreciation period for TGV Network, Eurostar and Thalys carriages was increased to 30 years with effect from 1st July, 2001. This change (compared to a depreciation period of 15 years) generated a € 43 million increase in net income, consisting of a € 29 million reduction in the net depreciation charge and a € 14 million reduction in net charges to operating provisions (in respect of equipment subject to Service Contract lease or Pickle lease financing arrangements). At the end of 2001, all recently acquired TGVs were being depreciated over 30 years.

Results for the year

The parent company financial statements for the year ended 31st December, 2001 report a net loss for the year of € 134 million, compared to a net income for the 2000 fiscal year of € 68 million.

Two major events in 2001 impact heavily on Company results: employee unrest in April and the launch of the TGV Mediterranean line in June.

Despite the strikes during the spring of 2001, passenger traffic continued to grow, benefiting from the launch of the TGV Mediterranean line and the development of Regional Express Train (TER) services (TGV traffic up 7.9 per cent.; total Mainline traffic up 2.3 per cent.; TER traffic up 3.3 per cent.; Transilien traffic up 2.1 per cent.).

Conversely, freight traffic fell significantly in 2001 (9.0 per cent.) as a result of the strike in March and April and a general economic slowdown in the second half of the year.

Company revenues were also affected by a reduction in work performed on behalf of RFF, following completion of the TGV Mediterranean worksites, not offset by other projects (TGV East line and projects detailed in XIIth State-Regional Plan Contracts).

The parent company is currently in the middle of stage two of its industrial project, as broken down between operations and departments. During the year the emphasis was placed on improving key rail production components and notably punctuality.

As the parent company accounts for over two-thirds of Group activity, the information presented on the 2001 consolidated results explains the majority of the parent company results.

In summary, 2001 parent company net income fell substantially on 2000, primarily as a result of:

- the impact of employee unrest in March and April 2001, estimated at € 145 million;
- the withdrawal of specific State subsidies to Mainline and Infrastructure activities of € 91 million;
- the bringing into service of the TGV Mediterranean line, with an estimated impact of € 75 million; and
- the economic slowdown, which impact heavily on freight revenues.

Gross operating income fell € 430 million on last year, to a loss of € 71 million. Net operating income includes a capital gain realised on the sale of the former head office building of € 73 million, limiting the drop in net operating income to € 202 million.

Note that the parent company did not record a tax charge in respect of the year due to tax losses carried forward (€ 502 million of ordinary tax losses and € 11,793 million of tax losses available for carry forward indefinitely).

4.2 Material movements in investments

During fiscal 2001, equity investments increased € 419 million. No investments were sold. The increase corresponds entirely to the subscription of SCS Sernam stock issues (€ 276 million fully paid-up and € 143 million not fully paid-up), performed in December 2001 following the signature of a heads of agreement with Géodis.

4.3 Corporate governance

The Board of Directors of the Industrial and Commercial Public Institution SNCF comprises 18 members:

- Seven representatives of the French State appointed by decree, based on the report of the Transport Minister:
  - two at the recommendation of the Transport Minister;
  - one at the recommendation of the Economic and Finance Minister;
  - one at the recommendation of the Budget Minister;
  - one at the recommendation of the Minister responsible for planning and regional development;
  - one at the recommendation of the Industry Minister; and
  - the Chairman of the Board appointed from among directors and at their recommendation by a Council of Ministers Decree.
- Five members chosen for their expertise and appointed by decree:
- a representative of passengers;
- a representative of shippers;
- two local councilors chosen for their knowledge of regional, department and local rail-related matters; and
- an individual chosen for his personal expertise in the transport sector.
- Six members, including a management representative, elected by employees of the Company and its subsidiaries, with a minimum workforce of 200.

A Council of State ("Conseil d'Etat") Decree lays down the parent company by-laws and sets the procedures for the appointment and election of Board members.

Board members are appointed for a five-year term of office. A director may not exercise more than three consecutive terms of office. Directors receive no compensation for their activities.

The Government Commissioner or, in his absence, the Assistant Government Commissioner has an advisory seat on the Board and all sub-committees and commissions created.

The head of the Transport Economic and Finance Control Office or his representative has an advisory seat on the Board and all sub-committees and commissions. The Board Secretary and the Central Company Committee Secretary also have a seat on the Board. The Board of Directors meets monthly.

In order to strengthen its analysis and decision-making capacity and in accordance with the terms of the bylaws, the Board of Directors has set up a number of specialised committees and commissions.

Audit and Risk Committee, responsible for reviewing the accounts, budget and risk control.

Finance and Plan Commission, responsible for dealing with questions concerning financial management, the budget and the annual and half-year financial statements.

Group Commission, consulted on matters concerning general policy and Group restructuring, Group company financial statements, acquisitions of new or additional investments and disposals, the creation, sale and winding up of subsidiaries.

Regionalisation Commission, responsible for monitoring matters concerning the regionalisation of regional and local passenger public transport services.

Markets Commission, consulted on projects involving contracts, public markets, acquisitions, disposals, building exchanges etc. exceeding a predetermined threshold set by the Board.

Executive Management

Executive Committee

The Chairman appoints the members of the Executive Committee and defines their tasks.

The Executive Committee collectively reviews, at the initiative of the Chairman or on the proposal of one of its members, development and strategic projects necessary to the development of the Group.

The Chairman approves decisions concerning all matters reviewed by the Executive Committee. In their areas of expertise, the Chairman delegates powers to Executive Committee members to enable them to act and decide in his name.

The powers delegated carry authority over all Company bodies.

4.4 Extracts from the SNCF parent company financial statements

The key explanations concerning the company financial statements of the public institution SNCF are presented in the consolidated financial statements. As such, only the summary financial statements of SNCF are presented here.

The company financial statements may be obtained by simple request from SNCF (Management Control Division).

Summary Income Statement

	Year ended 31st December,	
	2001	*2000*
	(in € million)	
Revenues	14,227	14,348
Other income	603	553
Purchases and external charges	(6,165)	(6,032)
Value added	**8,665**	**8,869**
Operating subsidies	133	234
Taxes and duties other than IT	(641)	(645)
Personnel costs	(7,493)	(7,364)
Gross operating income	**664**	**1,094**
Depreciation, amortisation and provisions, net	(721)	(795)
Other operating income and expenses	(14)	(43)
Net operating income	**(71)**	**256**
Net financial expense	(105)	(155)
Net income from ordinary activities	**(176)**	**101**
Exceptional items	14	(79)
Income from tax grouping	28	45
Net income/(loss) for the year	**(134)**	**68**

Summary Balance Sheet

	Year ended 31st December, 2001	2000
	(in € million)	
Tangible and intangible assets	11,152	10,597
Réseau Ferré de France (RFF) receivable	14,297	16,256
Other long-term investments	3,381	3,382
Inventory and work-in-process	458	441
Operating receivables	7,046	6,691
Special Debt Account and Employee-Related Benefits Service Account assets	1,710	1,536
Cash and cash equivalents	1,039	1,323
Prepaid expenses and deferred charges	672	766
Total assets	**39,755**	**40,992**
Stockholders' equity	6,199	6,183
Reserves for contingencies and losses	1,358	1,686
Borrowings	20,147	21,617
Operating liabilities	8,799	8,336
Special Debt Account and Employee-Related Benefits Service Account liabilities	754	574
Accruals and deferred income	2,498	2,596
Total liabilities and stockholders' equity	**39,755**	**40,992**

Summary Statement of Cashflow

	Year ended 31st December 2001	2000
	(in € million)	
Cash flow from company operations	**637**	**1,035**
Change in working capital requirements	**(260)**	**(416)**
– Net cash from operations	377	619
– Net cash used in investing activities	(1,499)	(331)
– Net cash from/(used in) financing activities	620	(389)
Increase/(decrease) in the cash balance	**(502)**	**(101)**

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated information set forth below for 2000 and 2001 is included for information purposes. The financial information appearing below should be read in conjunction with "Characteristics of Financial Year 2000 and Subsequent Events" and "Characteristics of Financial Year 2001 and Subsequent Events". The consolidated financial statements of SNCF for 2000 and 2001 including the notes thereto have been audited by SNCF's statutory auditors.

CONSOLIDATED BALANCE SHEET AS OF 31st DECEMBER

(in € million)

	Note	*2001*	*2000*
Assets			
Goodwill	4	242	256
Intangible assets	5	120	117
Tangible assets	6	14,889	14,101
Reseau Ferre de France ("RFF") Receivable	7	14,297	16,255
Other long-term investments	8	887	823
Equity affiliates	9	366	426
Total non-current assets		30,801	31,978
Inventory and work-in-process	10	485	465
Operating receivables	11	6,090	5,675
Special debt account and employee-related benefits account – assets	31	1,711	1,537
Cash and cash equivalents	12	1,334	1,570
Total current assets		9,620	9,247
Total assets		40,421	41,225

	Note	*2001*	*2000*
Liabilities and Stockholders' Equity			
Capital		4,271	4,271
Reserves and accumulated profit		(55)	80
Stockholders' Equity (Group Share)	13	4,216	4,351
Minority interests	14	220	301
Reserves for contingencies and losses	15	1,294	1,384
Loans and borrowings	17,18	24,350	25,728
Operating liabilities	19	9,586	8,887
Special debt account and employee-related benefits account – liabilities	31	755	574
Total liabilities		34,691	35,189
Total liabilities and stockholders' equity		40,421	41,225

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31st DECEMBER

(in € million)

	Note	*2001*	*2000*
Consolidated revenues	20	20,129	19,839
Capitalised production and production for stock		659	589
Operating subsidies	22	134	235
Purchases and external charges	21	(10,242)	(9,682)
Taxes and duties other than IT		(785)	(774)
Personnel costs	23	(8,741)	(8,602)
Gross operating income		1,155	1,605
Depreciation, amortisation and provisions, net	24	(1,132)	(1,192)
Other operating income and expenses		(3)	(6)
Net operating income		20	407
Net financial income/(expense)	25	(330)	(333)
Net income/(loss) from ordinary activities of consolidated companies		(310)	74
Exceptional items	26	149	46
Income tax	27	(24)	49
Net income (loss) of consolidated companies		(185)	169
Share in earnings of equity affiliates	9	13	146
Amortisation of goodwill	4	(38)	(19)
Consolidated net income/(loss)		(210)	296
Minority interests	14	(70)	119
Net income/(loss) for the year (group share)		(140)	177

CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31st DECEMBER

(in € million)

	Note	*2001*	*2000*
Net income of consolidated companies		(185)	169
Add-back of non-cash items:			
Depreciation, amortisation and provisions, net (excluding current asset provisions)		1,074	1,422
Deferred tax movement		2	(53)
Capital gains/(losses) on disposal		(137)	(304)
Other		46	(11)
Cash flow from consolidated company operations	30	800	1,233
Dividends received from equity affiliates		15	9
Change in working capital requirements		(74)	(329)
Net cash from/(used in) operations	30	741	903
Non-current asset purchases		(1,876)	(1,175)
Non-current asset disposals		168	173
Change in loans and receivables		(3)	26
Impact of changes in group structure		(18)	129
Other investment changes		(17)	16
Net cash from/(used in) investing activities	30	(1,746)	(831)
Dividends paid to minority interests in consolidated companies		(6)	(7)
New loans secured		2,202	1,645
Loan repayments.		(1,797)	(2,133)
Investment subsidies received		290	263
Change in marketable securities[1].		(116)	(14)
Change in cash borrowings[1]		41	(332)
Other changes		40	54
Net cash from/(used in) financing activities	30	654	(524)
Increase/(decrease) in cash balance	30	(351)	(452)
Opening cash balance		(348)	57
Closing cash balance		(668)	(348)
Impact of exchange rate fluctuations		31	52
Impact of changes in accounting method		–	(5)

Notes:
(1) Portion with an initial maturity of more than 3 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

All amounts are in € million, unless stated otherwise

1. Accounting Standards

Pursuant to Article 25 of the Orientation Law on Domestic Transport (LOTI) of 30th December, 1982, Société Nationale des Chemins de fer Français (SNCF), a state-owned industrial and commercial institution "is subject to the financial management and accounting rules applicable to commercial companies". SNCF keeps its accounting books and records in accordance with prevailing legislation and regulations in France.

As from 1st January, 2000, the consolidated financial statements are prepared in accordance with the new rules and methods applicable to consolidated financial statements, approved by the Ministerial Order of 22nd June, 1999 authorising CRC Regulation 99-02 issued by the French Accounting Standards Setting Body.

2. Comparability of the Financial Statements

Changes in Group Structure

A list of the main companies included in the scope of consolidation is presented in Note 33.

Changes in Group structure during the year primarily relate to the demerger into two companies of the Züst Ambrosetti group, equity accounted as 31st December, 2000:

- Züst Ambrosetti Spa is fully consolidated from 1st January, 2001
- the other company was sold during the year, generating a capital gain on disposal of €22.5 million.

Other Changes

Other than changes in Group structure, the only factor impacting the year-on-year comparison of the 2001 consolidated financial statements is the change in the estimated useful life of certain rolling stock. The depreciation period for Network, Eurostar and Thalys TGVs was increased to 30 years from 1st July, 2001. The impact of this change in estimated useful life (compared to a period of 15 years) on the Group share of 2001 net income for the year is €46 million (net charge to depreciation).

At the end of 2001, all recently acquired TGVs were being depreciated over 30 years.

3. Accounting Policies

Consolidation Policy

Companies over which SNCF exercises exclusive control, directly or indirectly, are fully consolidated. Companies over which control is exercised jointly with a limited number of stockholders are consolidated on a proportional basis.

Companies which the Group does not control but over which it exercises significant influence are equity accounted. Significant influence is deemed to exist when the Group holds a percentage interest of 20 per cent. or more.

Companies over which the Group exercises control or significant influence but which are not, as a whole, material to the consolidated financial statements are excluded from the scope of consolidation.

The SICF and SOCRIF sub-groups, comprising HLM low-rental housing companies, are not consolidated due to the regulatory restrictions applicable to HLM companies (see Note 8).

The financial statements of consolidated and equity accounted companies are adjusted in accordance with Group accounting policies.

The financial statements of all companies included in the scope of consolidation are drawn up to 31st December, 2001 (except for the Financière Systra financial statements drawn up to 30th September).

Translation of Foreign Company Financial Statements

The financial statements of foreign subsidiaries are translated into euro using the closing rate of exchange method:

- balance sheet accounts are translated at the year-end rate of exchange,
- income statement items are translated at the average annual rate of exchange,

- translation differences arising on the retranslation of opening balance sheet items (movement between opening and closing exchange rates) and income statement items (movement between average and closing exchange rates) are taken to Translation reserves in Consolidated stockholders' equity.

Translation of Foreign Currency Transactions

Foreign-currency denominated transactions are translated at the exchange rate prevailing at the transaction date or at the appropriate hedge rate.

Foreign-currency denominated assets and liabilities are valued at the closing rate of exchange or the appropriate hedge rate and any gains or losses arising taken to the income statement.

Statement of Cashflows

The Statement of Cashflows is prepared using the indirect method which involves adjusting company net income for non-cash income and expense items in order to determine Cashflow from operations.

The cash balance presented in the Statement comprises cash and cash equivalents, marketable securities, deposits and cash borrowings with an initial maturity of three months or less.

Goodwill

Up until 31st December, 1999, the difference on consolidation recognised on the acquisition of an investment represented the difference between the acquisition cost of the investment and the relevant share in adjusted stockholders' equity of the company acquired. The residual difference not allocated to balance sheet items was recorded in balance sheet assets within Goodwill on consolidated investments.

As from 1st January, 2000, the difference between the acquisition cost of the investment and the fair value of identifiable assets and liabilities as of the acquisition date is recorded as goodwill. Operating assets are stated at their carrying value. Assets not intended for use in operations are stated at their estimated market value as of the acquisition date or, in the absence of a market value, at their expected realisable value.

Pursuant to the option offered by Regulation 99-02, acquisitions prior to 1st January, 2000 have not been adjusted in accordance with the new valuation rules.

Positive goodwill balances are recorded in consolidated assets and amortised over a period generally not exceeding 20 years.

Negative goodwill balances are recorded in Reserves for contingencies and losses in the balance sheet and released to income in accordance with the assumptions and objectives set at the time of the acquisition.

Intangible Assets

Preliminary expenses are amortised in full in the year incurred.

Software is amortised over a period of one to five years, depending on its forecast economic life.

Purchased goodwill and market share is amortised over a period not exceeding 20 years, commencing the date of acquisition.

Assets are valued using methods specific to each category and enabling value movements over time to be monitored. The methods adopted refer to one or more physical or financial indicators enabling such values to be monitored on a regular basis.

An impairment reserve is booked when the market value of such assets is less than their net book value.

Tangible Assets

Group tangible assets include assets made available by the French State, assets owned outright and assets held under lease finance agreements.

Public Domain Real Estate Assets made available by the French State

The French Orientation Law on Domestic Transport (LOTI) lays down the terms of possession of assets entrusted to SNCF.

On the creation of the industrial and commercial public institution SNCF on 1st January, 1983, the real estate assets previously given under concession to the semi-public limited liability company which it succeeded, were appropriated to it.

These assets made available by the French State, without transfer of title, are recorded in the Group balance sheet in the relevant tangible asset accounts, to enable an economic assessment of Group performance.

Subject to legal provisions applicable to infrastructures deemed of general interest or public utility, the parent company exercises full management powers over all real estate assets entrusted to it or purchased by it.

Real estate assets held by the public institution, no longer used in the performance of its activities or which are part of its private domain, may be allocated to another purpose or sold by the public institution for profit.

Owned Assets

Tangible assets owned outright are recorded in consolidated assets at acquisition or production cost.

Production cost comprises the cost of raw materials and labour used to manufacture the assets, including that of purchased spare parts. Interest costs are not capitalised.

The cost of overhauls performed at the end of the technical life of rolling stock, together with refurbishment and transformation costs, are capitalised in assets.

All costs incurred during the life of equipment (repair work on faulty spare parts and replacement of unusable and missing parts) are recorded as operating expenses.

Tangible assets are depreciated over their expected useful life, primarily using the straight-line method.

Depreciation Period

Tangible assets are depreciated over the following periods:

• Buildings	10 to 50 years
• Industrial plant and machinery (excluding rolling stock)	3 to 20 years
• Overland transport equipment:	
– TGV high-speed trains	15 to 30 years
– Electric locomotives	25 to 30 years
– Diesel locomotives	20 to 30 years
– Motorised carriages	15 to 30 years
– Passenger carriages	20 years
– Freight cars	7 to 15 years
– Tractors, trailers (trucks)	4 to 10 years
– Buses	8 years
• Rolling stock overhaul, refurbishment and transformation costs	7 years
• Ferries	8 to 14 years
• Other tangible assets	3 to 5 years

Depreciation charges relating to the assets held under concession agreements by the Group, which will be returned to the local and administrative authorities free of charge at the end of the concession period are recorded within Reserves for contingencies and losses.

Long-term Investments

Investments in unconsolidated companies and other long-term investments are recorded in the balance sheet at acquisition cost net of any impairment reserves. Impairment reserves are booked when the fair value of an investment is less than its acquisition cost.

The fair value of an investment is its carrying value to the Group. This is determined taking account of the Group's share in net equity (potentially revalued), future profitability and, for listed companies, stock market trends.

Inventory

Inventory is valued at the lower of cost price and net realisable value. Cost price is equal to acquisition or purchase cost. Purchase cost includes both direct and indirect production expenses.

Cost price is calculated using the weighted average cost method.

Inventory reserves are booked based on the age of items.

Operating receivables

Receivables are stated at nominal value. An impairment reserve is booked when a potential risk of non- recovery arises. This reserve is determined based on an individual or statistical appraisal of non-recovery risk.

Marketable Securities

Marketable securities are recorded in the balance sheet at the lower of acquisition cost and market value. The market value of listed shares is equal to the stock market price on the last day of the fiscal year.

Bonds are recorded on the acquisition date at face value adjusted for any premiums or discounts. The year-end value includes any accrued interest receivable.

Shares in French mutual funds (SICAV) are recorded at acquisition cost net of purchase charges. An impairment reserve is booked at the year-end when the net asset value is less than the acquisition cost.

Marketable debt securities are recorded at acquisition cost and interest taken to financial income on a time-apportioned basis.

Derivative Instruments

Derivative instruments traded by SNCF Group to manage currency, interest rate and commodity risks are recorded off-balance sheet (see Note 18).

All hedging instruments used by the Group to manage long-term commitments are allocated, as a general rule, to borrowings on issue or to existing borrowings.

- **Currency derivatives**

  The Group trades on the forex market to hedge foreign-currency denominated receipts and payments linked to debt servicing and commercial activities. The Group uses futures and forward contracts, swaps and forex options.

  Forex option premiums received or paid are recognised in full to the income statement in the year of exercise.

- **Interest rate derivatives**

  Interest Rate Swaps and Swaptions

  The Group uses interest rate swaps and swaptions to hedge loan issues and manage its existing debt.

  Option premiums received or paid are recognised in full in the income statement in the year of exercise.

  Whenever possible, the Group seeks to cancel existing contracts in order to reduce the number of contracts covering the same loan and thereby reduce counterparty risk and commitment levels. Cash balances received or paid on the conclusion or cancellation of swaps are deferred over the term of the underlying commitment. However, when a debt restructuring operation calls for the implementation of options, the cash balance resulting from the cancellation of swaps following the exercise of these options is taken directly to the income statement, provided such cancellation is designed to optimise implementation of the strategy.

Interest Rate Futures and Forward Contracts

The Group may be called on to trade on interest rate forward markets, notably when preparing a loan issue or in order to manage interest-rate exposure on floating-rate assets and liabilities. Transactions are performed on both organised markets and over-the-counter.

Income and expenses on firm futures and forward contracts are deferred over the term of the underlying debt.

Option premiums received and paid are recognised in full in the year of exercise.

- **Commodity Derivative Instruments**

In order to optimise the average cost of fuel supplies, the Group trades in the petroleum hedge markets. Transactions traded primarily consist of swaps and swaptions.

Option premiums received and paid are recognised in full in the year of exercise.

Issue Premiums, Discounts and Expenses, Loan Redemption Premiums

When an issue is performed at below par, the discount is deducted from the liability accounts. Expenses are recorded in deferred charges in balance sheet assets.

Discounts and expenses are released to the income statement on a straight-line basis over the loan term.

When an issue is performed at above par, the issue premium is allocated in priority to the amortisation of issue expenses; the residual balance represents:

- deferred income when the premium exceeds issue expenses,
- offset issue expenses, when the premium is less than issue expenses.

The residual balance is released to the income statement over the loan term.

Investment Subsidies

The Group receives investment subsidies in the form of third party financing, primarily from regional authorities.

Investment subsidies are recorded as deferred income and released to operating income (deducted from Depreciation, amortisation and provisions) over the estimated economic life of the relevant assets.

Lease Financing

Leased assets are recorded as purchases when the contract terms and conditions correspond to lease financing arrangements. Lease finance agreements are contracts whereby the lessor transfers to the lessee the right to use an asset for a given period in exchange for payment; the lessor transfers all benefits and risks inherent to ownership of the asset.

Such assets are recorded in assets at historical cost and depreciated over the same period as similar assets owned outright or public domain real estate assets made available by the French State.

Lease agreements not having the characteristics of lease financing arrangements are recorded as operating leases. Only the lease instalments are taken to income.

Sale and Lease-Back Transactions and Equivalent

Sales and lease-back transactions

Proceeds from the sale of assets to a lessor under a lease finance arrangement are cancelled in net income in the year of the transaction. Capital gains are released to the income statement in line with asset depreciation charges.

Other Transactions

In addition, certain financial arrangements concern existing lease finance agreements.

As the existing equipment financing structure is not altered, the proceeds of such transactions are recognised in net financial income on signature of the agreements.

Deferred Tax

The Group recognises deferred tax on all temporary differences between the tax and book values of assets and liabilities in the consolidated balance sheet.

Deferred tax is recorded using the liability method, applying the most recently voted tax rate at the year end applicable to the period in which the temporary differences are expected to reverse.

Deferred tax assets in respect of temporary differences and tax losses or credits carried forward are recognised when recovery is deemed probable.

Deferred tax balances are discounted to present value when the impact of such discounting is material and the reversal schedule for temporary differences and tax losses can be drawn up reliably.

Reserves for Contingencies and Losses

Reserves for Major Repairs

These reserves are intended to cover foreseeable, material costs, not incurred each year and which primarily relate to freight cars.

Reserves for Environmental Risks

The Group provides for environmental risks when the realisation of the risk is deemed probable.

Reserves for Disputes and Litigation

The Group is involved in a certain number of disputes and litigation arising in the normal course of its activities and notably:

- performance guarantees received from companies supplying construction work; and
- guarantees granted to clients in the freight transportation sector covering incidents arising during transport.

Such disputes and litigation are provided based on an assessment of the related risk.

Restructuring Reserves

The cost of restructuring measures is provided in full in the current year when such measures have been decided, in principle, and announced prior to accounts closure. Restructuring costs primarily consist of employee relocation, training and departure costs and the cost of writing-off non-current assets, inventory and other assets.

Self-Insurance Costs

Up through 1999, the parent company provided its own insurance against the majority of its operating risks. In 2000, it took out insurance policies covering risks in excess of an initial level covered by self-insurance. Insurance premiums are expensed in the income statement.

Revenue and other Income Recognition

Transport Activities (Passengers, Freight)

Revenue is recognised based on the effective transportation of passengers and freight.

Revenue recognised on the issue of a passenger transport ticket is adjusted at the period end for tickets issued but not used (taken to Deferred income).

Contributions from the French State and Regional Authorities

These contributions comprise price subsidies covering socially-motivated fare reductions introduced by the French State, contributions remunerating global or specific services and subsidies providing specific aids for development.

Contributions from the French State and Regional Authorities remunerating either global or specific services are recorded within Revenue.

Engineering and Contracting Services performed by the Group

Sub-contracting and project leader work performed by the Group is recognised on a percentage completion basis.

Maintenance

Maintenance income and income from the operation of the rail network is recognised in accordance with the contract negotiated with the network owner ("RFF").

Research and Development Costs

Research and development costs are expensed in the year incurred.

Ordinary and Exceptional Activities

Net income from ordinary activities includes all recurring income and expense items directly relating to the operating activities of the Group.

Exceptional income and expenses comprise material items which, due to their nature, unusual character or non-recurrence cannot be considered inherent to the operating activities of the Group.

Division and Geographical Segment Information

Business Segments

Around its core businesses of passenger and freight transport and the delegated management of the infrastructure, SNCF has developed a number of activities performed by subsidiaries.

These primarily enrich, complement and extend the activities of the parent company in three operating divisions:

- passenger transport,
- freight,
- management of the railway infrastructure and enhancement of assets and know-how: Leveraging SNCF's assets and know-how.

Segment Indicators

The business segment indicators are:

- Revenue,
- Gross Operating Income,
- Net Operating Income.

Items common to the different divisions, SNCF Participations holding company costs and results specific to services rendered by the parent company (Traction, Equipment), are allocated to the operating divisions based on their respective contributions to Revenue.

The accounting methods adopted by each operating division are identical to those used in the preparation of the consolidated financial statements.

Inter-Division Transactions

All material transactions between operating divisions are eliminated.

Geographical Areas

As activities are essentially carried out in France, the geographical areas presented are France and Rest of the world. The latter category encompasses all activities performed abroad and the export activities of French Group companies.

Employee Benefits

Defined employee benefits (retirement and medical care) are estimated in accordance with prevailing actuarial standards. These commitments are not accrued but recorded off-balance sheet.

Accounting Treatment of Employee-Related Service Accounts

Pursuant to the French Act of 21st July, 1909, the employee-related services carried out by the parent company have no legal status but have been granted accounting and financial autonomy.

In order to ensure the comparability of the Group's financial statements with other industrial and commercial groups, total asset and liability accounts relating to these employee-related parent company services are presented in the Group balance sheet under the headings "Special debt account and employee-related benefits service account assets" and "Special debt account and employee-related benefits service account liabilities" respectively.

The financial statements of these employee-related services are presented in Note 31.

Debt Transferred to the Special Debt Account ("SAAD")

In accordance with the corporate plan ("contrat de plan") signed by the French State and the parent company 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 the parent company.

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.

A total of €10.7 billion has been transferred to the Special Debt Account: .

- €5.8 billion (€5.9 billion face value) on creation on 1st January, 1991,
- net liabilities of €4.4 billion on 1st January, 1997 (€4.4 billion face value),
- €0.6 billion on 1st January, 1999 (€0.61 billion face value) accompanied by an amendment to its structure by loan substitution.

Special Debt Account resources consist of an annual contribution from the French State of €677 million, paid in equal quarterly instalments and an annual payment by the parent company of €18 million, paid mid-year.

The excess of the French State contribution over net annual expenses is capitalised in the Special Debt Account. The parent company contribution is recorded in net financial income.

When loan repayments allocated to the Special Debt Account exceed the debt repayment capacity of the year, the shortfall is covered by interim financing deducted from French franc financing (now euro), directly or after swap contracts, secured by the parent company on the markets during the year.

As the respective balances were not of identical composition at the outset, nor were they expected to be during the life of the Special Debt Account, the decision was taken to equalise the financial charges borne by the two accounting structures once a year as follows:

- the effective charge rate borne by the debt allocated to the Special Debt Account and the debt retained by the parent company and the effective rate borne by the overall debt is calculated at each year end,
- the charge rates borne by Euro zone currency denominated debt recorded in the Special Debt Account and that retained by the parent company are equalised, such that each entity bears the overall charge rate. An equalisation payment is calculated and taken to net financial income for the year. Between 1999 and 2002 inclusive, the equalisation payment owed by the parent company is subject to a reduction of €85 million. This deduction will be reduced progressively between 2003 and 2005 (€38 million in 2003, €30 million in 2004, €23 million in 2005), before being withdrawn completely in 2006).

Total Special Debt Account assets and liabilities are presented in the Group balance sheet under the headings "Special Debt Account and Employee-related Benefits Account – Assets" and "Special Debt Account and Employee-related Benefits Account – Liabilities" respectively (see Note 31).

4. Goodwill

	As of 31st December,	
	2001	*2000*
Gross value	*356*	*342*
Amortisation	*(114)*	*(86)*
Net value	*242*	*256*

As of 31st December, 2001, the principal goodwill balances, net of amortisation, concern:

- the Geodis sub-group in the amount of €66 million as of 31st December, 2001 (€73 million as of 31st December, 2000),
- the Kéolis sub-group in the amount of €112 million as of 31st December, 2001 (€110 million as of 31st December, 2000), following finalisation of fair value adjustments to identifiable assets and liabilities.

5. Intangible Assets

	As of 31st December	
	2001	*2000*
Gross value:		
Concessions, patents and similar rights	130	116
Purchased goodwill	25	26
Other intangible assets	98	79
Gross value	253	221
Amortisation:		
Concessions, patents and similar rights	103	82
Purchased goodwill	10	8
Other intangible assets	20	14
Amortisation	133	104
Net value	120	117

The main additions during the year totalled €44 million, and primarily concerned Télécom Développement and SNCF.

6. Tangible Assets

	31st December, 2000[1]	*Additions/ charges*	*Disposals/ releases*	*Changes in Group structure*	*Other*[2]	*31st December, 2001*
Gross value						
Land	1,378	36	(14)	20	–	1,420
Buildings	6,471	294	(40)	91	16	6,832
Industrial and technical plant	2,043	234	(14)	5	43	2,311
Rail transport equipment	15,991	480	(35)	–	55	16,491
Road transport equipment	419	36	(81)	2	1	337
Sea shipping transport equipment	60	91	–	–	–	151
Other tangible assets	508	128	(27)	9	9	627
Assets under construction	1,115	581	(9)	7	(77)	1,617
Total gross value	27,985	1,880	(220)	134	47	29,826
Depreciation						
Land	45	5	(3)	(1)	–	46
Buildings	2,597	154	(26)	18	2	2,745
Industrial and technical plant	1,065	169	(10)	3	(5)	1,222
Rail transport equipment	9,457	674	(34)	–	46	10,143
Road transport equipment	418	35	(67)	1	–	387
Sea shipping transport equipment	56	1	–	–	–	57
Other tangible assets	246	104	(21)	6	2	337
Total depreciation	13,884	1,142	(161)	27	45	14,937
Net value	14,101	738	(59)	107	2	14,889

(1) The 2000 fiscal year presentation was refined to present Sea shipping transport equipment on a separate line.
(2) Other movements comprise transfers between gross value and depreciation and exchange rate movements.

Changes in Group structure primarily relate to the full consolidation of Züst Ambrosetti SpA in the amount of €92 million.

SNCF continued to invest heavily (+€1,375 million), acquiring rail equipment at a cost of €828 million (double-decker TGVs, TER and Transilien equipment) and fixed installations at a cost of €547 million (including buildings of €232 million).

Other notable additions included:

- the roll-out of cable and site infrastructures and the acquisition of transmission and commutation equipment by Télécom Développement in the amount of €200 million.
- the acquisition of the ship, Rodin, by Seafrance for €91 million,
- Géodis Group capital expenditure of €72 million

The principal disposals during the year concerned the parent company in the net book amount of €12 million and notably the former head office building at 88, rue Saint Lazare (€11.1 million) and the sale of SNCF Participations' head office in Levallois with a net book value of €1 million.

Assets recorded in tangible assets and held under lease finance agreements break down as follows:

	As of 31st December, 2001		
	Gross value	*Deprec.*	*Net value*
Land	31	0	31
Buildings	279	(79)	200
Railway equipment	4,357	(2,451)	1,906
Sea shipping transport equipment	91	(1)	90
Other non-current assets	42	(38)	4
Total	4,800	(2,569)	2,231

Parent Company Fixed Assets Register

During 2001, the parent company launched a major review, aimed at creating a register of fixed assets other than rolling stock, for which an asset register already exists.

Procedures comprised:

- improving the reliability of technical files existing at the end of 2000,
- allocating values to the newly-improved technical files, without distorting future depreciation flows,
- implementing an asset management software package and corresponding accounting procedures for the processing of asset flows in 2001 and thereafter.

Following completion of these procedures, the parent company now has a fixed asset register representative of all its property, including those assets subject, since 1997, to conflicting interpretations of Law n° 97-135 of 02/13/97 and its application decrees.

In 1999, the National Commission of Asset Allocation launched an analysis of the four main areas of disagreement: land used for freight purposes (CM4 lots), housing, passenger concourses in stations and the volume division of buildings. These assets are currently included in Group fixed assets.

In 2001, SNCF proposed a mechanism to RFF translating asset allocation decisions into financial terms, and involving the remuneration of all asset addition and disposals at a price at least equal to the net book value of the assets in the company's balance sheet. This financial compensation mechanism has not as yet been approved.

7. Reseau Ferre de France Receivable

Article 7 of the Law of 13th February, 1997 creating Réseau Ferré de France (RFF), provides for the transfer of a liability of €20.5 billion to Réseau Ferré de France 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. Company liabilities remained unchanged.

The RFF receivable was constructed line-by-line to provide it with a maturity, currency and interest rate structure identical in all manners to the company debt of €30.3 billion as of 31st December, 1996, after swap contracts.

The exchange rates initially adopted for foreign currencies included in the receivable were rates as of 31st December, 1996.

Deferred income and expenses representing premiums and issue costs and income and expenses on swap contracts were also transferred, materialised by a cash payment. This payment is recorded in the company accounts in the form of deferred income and released to the income statement in line with the maturities of the corresponding transactions.

An agreement signed by the two institutions evidences the RFF receivable.

Debt Maturities after Adjustment for Derivatives

	As of 31st December, 2001	2000
Maturing within:		
Less than 1 year	1,984	2,009
1 to 5 years	6,770	7,086
More than 5 years	5,044	6,598
Total	13,798	15,693
Accrued interest receivable	499	562
Total	14,297	16,255

Currency Structure after Adjustment for Derivative Instruments and excluding Accrued Interest Receivable (after Swaps)

	As of 31st December, 2001	2000
Euro	12,311	14,003
Swiss francs	1,140	1,423
Pound sterling	347	267
Total	13,798	15,693

Interest Rate Structure after Adjustment for Derivatives and Excluding Accrued Interest Receivable

	As of 31st December, 2001	2000
Fixed rate	10,495	12,312
Floating rate	3,303	3,381
Total	13,798	15,693

The reduction in the receivable over the period is consistent with loan repayments

8. Other Long-term Investments

	As of 31st December, 2001			As of 31st December, 2000
	Gross	Amortization and reserves	Net	Net
Unconsolidated investments	394	(42)	352	344
Loans to unconsolidated investments	284	(1)	283	225
Loans	153	(19)	134	203
Deposits received	83	0	83	0
Other long-term investments	36	(1)	35	51
Total	950	(63)	887	823

Unconsolidated investments break down as follows:

	% interest	Stock-holders' equity	Net income	NBV of investment
SICF	100.00	487	15	289
SOCRIF	99.77	81	0	0
Other unconsolidated investments	–	–	–	63
Total				352

The SICF and SOCRIF sub-groups are not consolidated due to regulatory restrictions regarding the appropriation of earnings applicable to HLM (low-rental housing limited liability companies):

- the liquidation surplus which may be distributed to stockholders is limited to 50 per cent. of the par value of securities held,
- distributable earnings are limited to 5 per cent. of common stock each year.

Balance sheets as of 31st December, 2001 were as follows (in € million):

SICF sub-group (as of 31st December, 2001)

Net non-current assets	1,893	Stockholders' equity *(including net income for the year of €12 million)*	487
Net current assets	204	Reserves for contingencies and losses	117
		Liabilities	1,424
Prepaid expenses and deferred charges	67	Accruals and deferred income	136
Total Assets	2,163	**Total Liabilities & SHs' equity**	2,164

SOCRIF sub-group (as of 31st December, 2001)

Net non-current assets	170	Stockholders' equity *(including net income for the year of €2 million)*	86
Net current assets	14	Reserves for contingencies and losses	2
		Liabilities	96
Total Assets	184	**Total Liabiiities & SHs' equity**	184

9. Equity Affiliates

	As of 31st December, 2001			As of 31st December, 2000
	% interest	Net income	Investment	Investment
Eurofima	24.90	7	150	142
Ermewa SA Suisse	44.91	(2)	69	70
Géodis Group	–	2	9	66
Kéolis Group[(1)]	43.42	4	50	57
Systra Group	35.07	(0)	19	27
Transfesa	16.30	2	21	20
Ermewa	30.75	4	19	17
SNCM	20.00	(0)	11	11
STVA Group	–	1	7	6
FRP Group	20.00	1	5	4
Novatrans	39.10	1	5	4
Feron Group[(2)]	–	(5)	(0)	–
Other investments	–	(2)	1	2
Total	–	13	366	426

Notes:
(1) Formerly Via Cariane as of 31st December, 2000
(2) Negative contribution to stockholders' equity (€5 million reserve for subsidiary risks as of 31st December, 2001).