

Corporate Governance

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Corporate Governance.

Confidence in the business policies of SBB hinges on many things, not least on responsible, transparent management and control geared to sustainable growth in the value of the company. Good corporate governance thus forms the basis for our decision-making and control processes.

Introduction.

Since its conversion to a joint-stock company on 1 January 1999 SBB has acted to safeguard the interests of its various stakeholder groups. These are the Confederation as sole shareholder, SBB's customers, employees and business partners, the general public, the politicians and its financial backers.

In recent years the Board of Directors – in fulfilment of its responsibilities to government and politics, society and the economy – has modified the managerial and organisational structure of SBB in the light of changes in the operating environment.

Our stakeholder groups need – and are entitled to expect – greater transparency and more detailed information, and SBB is determined to provide this by means of comprehensive, open communications. The present Corporate Governance guidelines are an expression of that determination. Even though the SBB is not a company whose shares are held by the public, its reporting complies with the guidelines of the Swiss Exchange regarding information on corporate governance.

In view of special circumstances SBB's, however, certain adjustments are being made. Reference is also made to items described in detail in the Annual Report.

Legal form of the SBB.

"Schweizerische Bundesbahnen SBB" is a public-sector joint-stock company governed by special legislation: the Swiss Federal Railways Act (SBBG) of 20 March 1998. The SBBG defines the purpose and certain corporate principles of SBB and contains special legislative provisions regarding its shareholder structure, its organisation, the appointment of its staff and its accounts. Finally the SBBG also provides the legal basis of the Performance Agreement and of spending limits for the SBB's infrastructure.

In the absence of any provision to the contrary in the SBBG, SBB is subject to the regulations of the Code of Obligations governing joint-stock companies.

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Group structure and shareholders.

Group structure. The organisation chart of the SBB can be found on the coverflap of the Annual Report.

Although SBB Cargo AG – a wholly-owned subsidiary of SBB – is an independent legal entity, it is managed as if it were a corporate division. All three divisions plus Central Services as a whole and, since 1 January 2003, also the Real Estate business unit, keep their own accounts. Accounts are kept in accordance with the Swiss GAAP ARR (Accounting and Reporting Recommendations).

The group and affiliated companies that are included in the SBB's consolidation are listed in a detailed summary on pages 108–109. They are all unlisted private-sector companies.

The managing divisions and business units are responsible for the companies assigned to them, and these are managed in accordance with directives that are valid throughout the Group. The fully consolidated wholly-owned subsidiaries, with the exception of Alp-Transit Gotthard AG, are managed directly, the others by virtue of the fact that SBB is represented on their respective boards of directors and at their general meetings. The representatives of SBB on the boards of directors of group and affiliated companies are appointed by the Board of Directors of SBB.

Major shareholders. Since the foundation of SBB the whole of its share capital has been held by the Confederation.

Art. 7 (3) of the SBBG provides that the Confederation must at all times hold a majority of both its share capital and its voting rights.

Cross-shareholdings. Neither the SBB nor any of its fully consolidated subsidiaries has any cross-shareholdings in terms of share capital or voting rights.

Capital structure.

The share capital totals CHF 9 billion, divided into 180 million registered shares with a nominal value of CHF 50 each. The shares are fully paid up. There is no authorised or contingent capital, no participation or dividend-right certificates and no convertible bonds or warrants. This capital structure has been unchanged since the foundation of SBB. Each share confers the right to one vote at the general meeting.

Board of Directors.

Members of the Board of Directors. The composition of the Board of Directors is as follows:

Thierry Lalive d'Épinay (b. 1944, Swiss)

Chairman of the Board since 1999, Dipl. Ing. ETH, Dr. sc. techn., Managing Partner of management consultancy HPO AG, Freienbach/SZ. Sits on all the committees of the Board of Directors including the Remuneration/Nominations Committee, which he chairs.

Other directorships and mandates: HPO AG, Freienbach, Chairman; von Roll AG, Gerlafingen; Océ (Schweiz) AG, Zurich/Glattbrugg; Foundation "Hoffnung für Menschen in Not", Murten, member of the Board of Trustees

Ulrich Sinzig (b. 1943, Swiss)

Member since 1 January 1999, Vice-Chairman since 1 January 2002, solicitor, Director of Aare Seeland mobil AG (asm), Langenthal. Chairman of the Infrastructure Committee and member of the Passenger Traffic Committee.

Other directorships and mandates: Switzerland Tourism, Zurich, Vice-Chairman; BKW FMB Energie AG, Bern; Alpar, Flug- und Flugplatzgesellschaft AG, Bern; Witschi AG (regional construction company); Kursaal Bern; Bielersee Gastro (asm subsidiary); 3B (consultancy, asm subsidiary); International Union of Public Transport (UITP), Vice-Chairman.

Hans Bieri (b. 1953, Swiss, employee representative)

Member since 1 January 1999, electrician, Secretary of the Swiss Association of Railway and Transport Personnel (SEV). Member of the Personnel and Freight Traffic Committees. Cantonal Councillor in the Cantonal Parliament of Bern (Social Democratic Party).

Hanspeter Brändli (b. 1938, Swiss)

Member since 1 January 1999, Dr. dipl. Physiker ETH, Managing Partner of Top Fifty AG, Zug. Chairman of the Freight Committee, member of the Remuneration/Nominations Committee.

Other directorships and mandates: Power-One Inc., Camarillo (California), member of the Board of Directors; Power-One AG, Uster (Power-One subsidiary), Chairman; ERO-Holding AG, Olten, Vice-Chairman; Top Fifty AG, Zug; Kunsteisbahn Zug AG, Zug.

Mario Fontana (b. 1946, Swiss)

Member since 1 January 1999, Dipl. Ing., Master of Science in Industrial Engineering. Chairman of the Information Systems Committee, member of the Real Estate Committee.

Other directorships: Leica Geosystems AG, Heerbrugg, Chairman; Swissquote Holding AG, Gland, Chairman; Inficon, Bad Ragaz; Sulzer AG, Winterthur; Büro Furrer, Dietikon.

Yvette Jaggi (b. 1941, Swiss, employee representative)

Member since 1 January 1999, Docteur ès sciences politiques, Chairman of the Pro Helvetia cultural foundation. Chairman of the Real Estate Committee, member of the Remuneration/Nominations Committee.

Paul E. Otth (b. 1943, Swiss)

Member since 1 January 1999, certified auditor. Chairman of the Finance/Audit Committee, member of the Freight Committee.

Other directorships and mandates: Ascom Holding AG, Bern, Vice-Chairman and Non-Executive Lead Director; EAO Holding AG, Olten, Chairman; Esec Holding AG, Cham; Inficon Holding AG, Bad Ragaz, Vice-Chairman; Swissquote Holding AG, Gland.

Paul Reutlinger (b. 1943, Swiss)

Member since 1 January 1999, management consultant. Chairman of the Personnel and Passenger Traffic Committees.

Other directorships: Edipresse Groupe, Lausanne; Büro Schoch, Winterthur; Nagra Public Access, Zug; SkiData, Gartenau (Austria), Chairman.

Olivier Steimer (b. 1955, Swiss)

Member since 12 June 2003, lic. iur. (University of Lausanne), International Banking School in New York. Member of the Finance/Audit and Infrastructure Committees. Other directorships: Banque Cantonale Vaudoise, Chairman.

Clockwise, from top left: Paul Reutlinger, Olivier Steimer, Hans Bieri, Hanspeter Brändli, Thierry Lalive d'Epinay, Ulrich Sinzig, Yvette Jaggi, Mario Fontana, Paul E. Otth.



Other activities and outside interests. Members of the Board of Directors and Management Board are required to declare their outside interests. The Secretary of the Board of Directors conducts an enquiry on this subject at regular intervals. A special committee of the Board of Directors consisting of Dr Hanspeter Brändli and Mr Olivier Steimer ensures that outside interests are declared, potential conflicts of interests identified at an early stage and the rules of withdrawal complied with.

Activities in other management and supervisory boards, and in political offices, are listed for individual members of the Board of Directors. Members of the Board of Directors may not exercise executive functions within the SBB.

Reciprocal board membership. No arrangements for reciprocal board membership exist between the SBB and any other company.

Election and term of office. The Board of Directors and its Chairman are elected by the General Meeting for a term of four years. They are eligible for re-election for a maximum of two further terms. All members must leave office on reaching the age of 70.

The Board of Directors was elected by the Federal Council for a term of office of four years as part of the preparations for the company's foundation. A new election was held on the occasion of the General Meeting 2003, at which Mr Olivier Steimer was elected to the Board in succession to Ms Beth Krasna, who did not stand for re-election. It is intended to hold elections to the Board of Directors on a staggered basis.

Internal organisation. The Chairman of the Board of Directors is elected by the General Meeting. Otherwise the Board is self-constituting, in that it elects the Vice-Chairman, the chairmen of board committees and their members from its own ranks. The Board appoints a Secretary, who need not necessarily be a Board member.

All decisions are taken by the Board of Directors as a whole. The Board has established standing committees for the following areas, both to prepare decisions and to give in-depth consideration to strategic questions and special projects:

- Passenger traffic
- Freight traffic
- Infrastructure
- Personnel
- Finance/audit
- Real estate
- IT
- Remuneration/nominations.

As a rule committees consist of two or three board members. Committee meetings are generally attended by the Chief Executive Officer and the head of the relevant division or business unit. Minutes of committee meetings are kept and circulated to all members of the Board of Directors. When the Board of Directors as a whole transacts business that has already been discussed in committee, the chairman of the relevant committee makes a recommendation.

The Board of Directors held ten ordinary meetings in fiscal 2003. In addition individual committees met as required by the business at hand. The agenda for meetings of the Board of Directors is prepared by its Chairman at the suggestion of the Management Board, while committee agendas are prepared by the committee chairman together with the head of the relevant division or business unit. Each member of the Board of Directors can propose agenda items. The agenda is circulated at least 5 working days before the meeting, together with the necessary documentation.

The Chief Executive Officer normally attends the whole of each meeting of the Board of Directors. The heads of divisions and business units present items concerning them in person. The Board of Directors can call in other executives and specialists if need be.

Once a year the Board of Directors assesses the performance of the members of the Management Board. The Board of Directors and its individual committees also conduct regular self-assessments.

Division of responsibilities between the Board of Directors and the Management Board. In accordance with Art. 12 (1) of the SBBG and the company's articles of association, the Board of Directors has delegated business management to the Management Board. The responsibilities of each of these bodies are defined in the Organisation Rules, which describe the legally non-transferable, inalienable responsibilities of the Board of Directors and specify the decisions which the Board of Directors expressly reserves to itself.

Mechanisms for monitoring and supervising the Management Board. The Board of Directors has established an integrated planning and reporting system. The following are its principal mechanisms for monitoring the conduct of business:

- monthly reporting: standardised written and oral reports to meetings of the Board of Directors on the results achieved by divisions, business units and the company as a whole,
- strategic planning,
- targets and medium-term planning,
- target-achievement forecasts (these are regularly updated in the course of the fiscal year),
- approval of the annual accounts,
- approval of the half-year and full-year reports on the achievements of the objectives of the Confederation as proprietor,
- fixing the annual internal-audit plan,
- audit reports from internal and external auditors and the Management Letter from the external auditors,
- risk-management system and regular risk reports,
- annual reports on the SBB Group's affiliated companies,
- annual safety report.

Members of the Board of Directors and Management Board are required to declare their outside interests. The Secretary of the Board of Directors conducts an enquiry on this subject at regular intervals. A special committee of the Board of Directors consisting of Dr Hanspeter Brändli and Mr Olivier Steimer ensures that outside interests are declared, potential conflicts of interests identified at an early stage and the rules of withdrawal complied with.

On the instructions of the Board of Directors the Finance/Audit Committee forms an independent judgement on the external and internal audits and the division of functions between them. It approves the annual internal-audit plan and monitors the implementation by the Management Board of the measures proposed in the Management Letter and the audit reports. It assesses the effectiveness of the internal control system, including risk management, and forms a view of the state of compliance. It monitors financial reporting as a whole and proposes to the Board of Directors such measures as it thinks fit.

The internal audit unit assists the Board of Directors and the Finance/Audit Committee in discharging its supervisory and control duties. Organisationally it is subordinate to the Chief Executive Officer, but is subject to the overall supervision of the Finance/Audit Committee.

Management Board.

Members of the Management Board. The Management Board of SBB is composed of the following members:

Benedikt Weibel (b. 1946, Swiss)

Chief Executive Officer (CEO) since 1999, Dr. rer. pol. With SBB since 1978, his functions including Secretary General and Head of the Traffic Department, and President of the General Direction of the former SBB state agency from 1993.

Chairman of the Union Internationale des Chemins de Fer (UIC), Paris; Director of SNCF, Paris

Pierre-Alain Urech (b. 1955, Swiss)

Deputy CEO and Head of the Infrastructure Division (since 1999; retiring at the end of 2003), Dipl. Ing. ETH with a postgraduate qualification in railway technology. With SBB since 1980, his functions including Delegate Rail 2000, Director Area Management in Lausanne, Head of the Infrastructure Department and from 1995 one of the General Directors of the former SBB state agency.

Paul Blumenthal (b. 1955, Swiss)

Head of the Passenger Traffic Division since 1999, lic. rer. pol. With SBB since 1981, initially as a graduate trainee, then as a member of the marketing staff and from 1993 as Head of the Passenger Traffic Directorate.

Daniel Nordmann (b. 1955, Swiss)

Member of the Management Board since 1999, initially as Head of Personnel and since 2001 as Head of the Freight Traffic division (SBB Cargo AG), Dipl. Psychologe at the HAP (College of Applied Psychology). With SBB since 1998 as Head of Personnel. Previously Managing Secretary of the Swiss Federation of Trade Unions (SGB).

Claude Alain Dulex (b. 1949, Swiss)

Head of Corporate Finance & Financial Control since 2000, Dr. oec. publ. With the SBB since March 2000. Previously Corporate Finance Officer (CFO) with Knorr CPC and the Siegfried Group, as well as the Novartis Corporation based in New York.

Hannes Wittwer (b. 1958, Swiss)

Head of Personnel (since 2002), secondary school teacher Phil I. With SBB since 1989, his functions including deputy head of the Löwenberg training centre, Head of the International Passenger Traffic business unit, Head of Personnel, Passenger Traffic and Head of Production, Passenger Traffic.

Hans-Jürg Spillmann (b. 1945, Swiss)

Head of Infrastructure since 1 January 2004, Lic. rer. pol. With SBB since 1978. Positions have included head of Marketing Passenger Traffic (1990), Secretary General as of 1993. Appointed as head of Infrastructure Management in 1997 and as head of Management Services at SBB Cargo in January 2001.

Hansjörg Hess (b. 1951, Swiss)

Joining SBB on 1 June 2004 as head of Infrastructure. Dipl. El-Ing. ETH. Has held leading positions at Siemens in Switzerland and abroad in the fields of electrical engineering, communications technology and railway signalling technology. Latterly Chairman of Rail Automation, Braunschweig (Germany).

By virtue of their functions, the members of the Management Board are active on the Boards of Directors of various SBB subsidiaries and affiliates. Other activities on management and supervisory boards are listed under the individual members of the Board of Directors (for outside interests see above).

Clockwise, from the left: Hannes Wittwer, Paul Blumenthal, Daniel Nordmann, Claude Alain Dulex, Benedikt Weibel, Hans-Jürg Spillmann.



Organisation and duties of the Management Board. The Management Board consists of the CEO, the Heads of the Passenger Traffic, Freight and Infrastructure divisions and the Heads of the Central Services, i.e. Personnel and Corporate Finance & Financial Control. The CEO is responsible to the Board of Directors for the company's overall success. The members of the Management Board are subordinate to him.

The Management Board conducts all the business of the SBB that is not reserved to the Board of Directors by virtue of the Organisation Rules. For its part the Management Board has enacted rules (Rules of Procedure and Terms of Reference) delegating part of its duties to the divisions and business units.

The Management Board generally meets weekly. Its meetings are always attended by the Secretary General, the Head of IT and the Head of Communications in an advisory capacity. Other executives and specialists are called in as required. Decisions of the Management Board are taken by consensus if possible; if no consensus is reached, the decision is made by the CEO.

Neither SBB nor any of its group companies has concluded management contracts with third parties.

Compensation.

Compensation: content and the procedure for its determination. The Board of Directors has defined the compensation of its members. This consists of a fixed element based on the average number of days worked per year and a lump-sum expense allowance, plus a 1st class General Abonnement season ticket.

The compensation of members of the Management Board is composed of a fixed basic salary, a variable performance-related element (bonus) and a lump sum for expenses. In addition an annual lump-sum pension contribution is made for each member.

The Remuneration Committee submits annual proposals to the Board of Directors for the bonus structure, the definition of bonus criteria and the yardsticks to be applied. At the same time the Board of Directors approves the target achievement figures for the preceding financial year for the calculation of bonus payments.

Compensation of current board members. Remuneration has been restructured in accordance with the Ordinance on executive pay, which has been approved by the Federal Council and passed into law on 1 February 2004:

In 2003, the members of the Board of Directors received total compensation of CHF 856,000 (previous year: CHF 850,400). This comprised fixed remuneration of CHF 765,000 (previous year: CHF 760,000) plus expense allowances totalling CHF 91,000 (previous year: CHF 90,400). The Chairman of the Board of Directors received fixed remuneration of CHF 250,000 (previous year: CHF 250,000) and an expense allowance of CHF 30,000 (previous year: CHF 30,000).

The compensation paid to the members of the Management Board (including CEO) totalled CHF 3,060,000 (previous year: CHF 2,954,000) and comprised fixed basic salaries totalling CHF 2,100,000 (previous year: CHF 2,100,000) and a variable salary component of CHF 960,000 (previous year: CHF 854,000). In addition, they received expense allowances totalling CHF 109,000 (previous year: CHF 109,000) and a total lump-sum pension fund contribution of CHF 150,000 (previous year: CHF 150,000).

Milestones in 2003

The CEO received total compensation of CHF 550,000 (previous year: CHF 520,000), comprising a fixed basic salary of CHF 400,000 (previous year: CHF 400,000) and a variable salary component of CHF 150,000 (previous year: CHF 120,000). In addition, he received an expense allowance totalling CHF 24,000 (previous year: CHF 24,000) and a lump-sum pension fund contribution of CHF 25,000 (previous year: CHF 25,000).

Compensation to former board members. Members of the Board of Directors receive a 1st class General Abonnement season ticket for the 4 years following their retirement from the Board.

Share allocation, share ownership, options. All shares are held by the Confederation. There are no plans for share participation or option schemes.

Additional fees and remuneration, loans to board members. No member of the Board of Directors or the Management Board has received any fees or other remuneration for providing SBB or any group company with additional services. No loans, advances or credits have been granted.

Other subsidiary benefits, commissions and further contractual terms. Apart from the expense allowance mentioned above, no other subsidiary benefits or commissions are paid to members of the Board of Directors or the Management Board. The Management Board of SBB enjoys the same conditions as its staff as a whole in terms of the nature and size of their pension plans and the relative contributions made by the employer and the employee, in accordance with the pension fund rules. The notice period is 12 months. No severance payments are envisaged.

Maximum overall compensation. The remuneration for the Chairman of the Board of Directors and for the Chairman of the Management Board both represented the maximum sum paid to members of their respective boards in the year under review.

Shareholders' participation rights / relations with the Confederation.

The management of SBB. The powers of the General Meeting are laid down in the regulations of the Code of Obligations. As long as the Confederation remains the sole shareholder, the Federal Council exercises the powers of the General Meeting (Art. 10 (2) of the SBBG). In its turn the Federal Council has delegated the exercise of its shareholders' rights to the Federal Department of Environment, Transport, Energy and Communications (UVEK) and the Federal Department of Finance (EFD).

In its management of SBB the Confederation restricts itself to political and financial directives. It has the following control mechanisms at its disposal:

- Performance Agreements: the Federal Council agrees four-year Performance Agreements with SBB and submits these for parliamentary approval,
- spending limits: the Federal Assembly fixes limits on infrastructure spending for the same periods on the basis of the Performance Agreements,
- ownership strategy: on the basis of the Performance Agreements the Federal Council enacts strategic objectives for SBB, which it has previously drawn up with the Board of Directors, for the same periods,
- annual report on the achievement of strategic objectives: approval by the Federal Council,
- budget: approval by the Federal Council (Art. 18 (2) of the SBBG),
- Annual Report, annual and consolidated accounts, appropriation of profit: approval by the Federal Council (Art. 17 (2) of the SBBG) or the General Meeting,
- election or removal of the Board of Directors,
- ratification of the management actions of the Board of Directors.

Regular meetings are held between the managing Federal Departments (UVEK and EFD) and the Federal Office for Transport (BAV) on one hand and the Chairman of the Board of Directors and the CEO on the other. At these meetings reports on the achievement of the Confederation's strategic objectives are discussed in detail, and general briefings are given on current or planned projects of great strategic importance or with significant political implications. Any additional required information is provided.

Financial transfers by the Confederation. The Confederation commissions SBB to carry out infrastructure maintenance and development, and makes the necessary funds available in the form of a four-year spending programme. It also commissions services in the fields of intermodal freight traffic and – jointly with the Cantons – regional passenger traffic, and it meets such of the SBB's costs as are not covered by standard costings (more information on page 85). Financial-control legislation entitles the Federal Audit Office to monitor the application of these funds. As the supervisory authority, the BAV tests SBB's annual accounts and balance sheet for compliance with rail legislation (Art. 70 of the Railways Act).

Auditors.

Duration of appointment, experience of the audit-team leader.

The auditors and group auditors are elected by the General Meeting for one-year terms. Ernst & Young of Bern has exercised this office since SBB AG's foundation on 1 January 1999. Ernst & Young also audits most group subsidiary companies. The audit-team leader has been responsible for SBB since 2001.

Assignments and fees. The basic assignment is to audit the individual financial statements of SBB AG, SBB Cargo AG and other group companies, to audit the consolidated accounts, to review the interim financial statements and to carry out further direct audit assignments. A fee of CHF 962,000 was charged for this in fiscal 2003. Ernst & Young received additional fees of CHF 586,000 for consultancy assignments in the fields of accounts, tax, organisation and management.

By decision of the Finance/Audit Committee, any proposed awarding of a consultancy assignment to the external auditors must be referred to the internal audit unit. After consulting the CFO this unit may object to the assignment in the event of a conflict of objectives.

Mechanisms for the supervision and control of the external auditors.

The Finance/Audit Committee assesses the performance, the independence and the remuneration of the external auditors. It acquaints itself with the audit process, the audit plan and the extent of annual audit work, discusses the audit results with the auditors, forms a view of the division of functions between the external auditors and the internal audit unit and – if it thinks fit – proposes to the Board of Directors, in coordination with the managing Federal Departments UVEK and EFD, that new tenders should be invited for the audit assignment.