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SBB Consolidated Income Statement Financial Report.

for the period from 1 January to 31 December

Income

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Traffic revenues
Grants
Rental revenue from real estate
Other operating revenues
Other revenues
Own work capitalised
Federal government grants for infrastructure
Revenue reductions
Total operating revenues

Operating expenses

Expenses for materials
Personnel expenses
Other operating expenses
Depreciation of tangible assets, impairment of
financial assets and amortisation of intangible assets
Non-capitalisable investment expenses
Total operating expenses

Operating income before transfer to
provisions as per ARR 16

Staff pension scheme as per ARR 16
Operating income after transfer to
provisions as per ARR 16

Net proceeds from sale of assets

Extraordinary income
Extraordinary expenses
Project "Chance" expenses
EBIT

Financial income

Financial expenses

Profit/loss before tax

Taxes

Minority shareholdings

Net profit/loss

The Notes are an integral part of these Financial Statements

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Interim report on the activities of SBB AG for the period from 1 July 2002 to 31 September 2002.

23-24 October Festivals to mark the inauguration of the new SBB Cargo line from Zurich to Berlin.

12 December Rail 2002 goes into operation.

SBB Consolidated Income Statement.

for the period from 1 January to 31 December.

CHF millions	Note	2003	2002
Operating revenues			
Traffic revenues	1	2,905.5	2,917.1
Grants	2	617.3	617.6
Rental revenue from real estate	3	287.6	279.6
Other operating revenues	4	754.2	588.0
Other revenues	5	108.4	151.5
Own work capitalised	6	602.5	549.4
Federal government grants for infrastructure	7	1,332.6	1,306.9
Revenue reductions	8	-118.0	-86.2
Total operating revenues		6,490.1	6,323.9
Operating expenses			
Expenses for materials	9	-478.7	-466.3
Personnel expenses	10	-2,987.0	-3,021.6
Other operating expenses	11	-1,350.2	-1,137.9
Depreciation of tangible assets, impairment of financial assets and amortisation of intangible assets	12	-1,200.8	-1,179.7
Non-capitalisable investment expenses	13	-296.1	-324.4
Total operating expenses		-6,312.8	-6,129.9
Operating income before transfer to provisions as per ARR 16		177.3	194.0
Staff pension scheme as per ARR 16	14	-132.0	-183.0
Operating income after transfer to provisions as per ARR 16		45.3	11.0
Net proceeds from sale of assets	15	138.9	111.2
Extraordinary income	16	42.4	23.6
Extraordinary expenses	17	-9.5	-6.5
Project "Chance" expenses	18	-17.3	-17.3
EBIT		199.8	122.0
Financial income	19	68.9	139.8
Financial expenses	20	-204.4	-274.0
Profit/loss before tax		64.3	-12.2
Taxes	21	-40.5	-3.3
Minority shareholdings		1.1	3.5
Net profit/loss		24.9	-12.0

The Notes are an integral part of these financial statements.

SBB Consolidated Balance Sheet.

Assets.

CHF millions		Note	31.12.2003	31.12.2002
Current assets				
Cash and cash equivalents ¹		22	604.9	964.7
Trade accounts receivable		23	557.8	545.7
Other receivables		24	239.3	239.7
Inventories and work in progress		25	281.9	258.1
Accrued income		26	364.2	264.8
Total current assets			2,048.1	2,273.0
Fixed assets				
Financial investments		27	2,275.2	3,150.3
Tangible assets		28	17,894.2	16,941.5
Assets under construction		28	6,351.9	6,214.0
Intangible assets		29	209.2	203.8
Total fixed assets			26,730.5	26,509.6
Total assets			28,778.6	28,782.6

¹ The short-term securities held were reclassified and stated under Cash. See Note 22.

The Notes are an integral part of these financial statements.

Liabilities and equity

CHF millions	Note	31.12.2003	31.12.2002
Liabilities			
Current financial liabilities			
Trade accounts payable	30	25.7	31.1
Other current liabilities	31	621.9	729.2
Deferred income and accrued charges	32	108.8	145.7
Current provisions	33	922.0	849.7
Total current liabilities	34	2,013.7	2,113.2
Non-current financial liabilities	35	4,771.4	4,626.7
Other non-current liabilities	36	7,893.9	8,025.7
Non-current provisions	34	2,415.1	2,364.4
Deferred tax		1.9	2.3
Total non-current liabilities		15,082.3	15,019.1
Total liabilities		17,096.0	17,132.3
Minority shareholdings		22.7	16.8
Equity	37		
Share capital		9,000.0	9,000.0
Capital reserves		2,069.1	2,069.1
Retained earnings		565.9	576.4
Net profit/loss		24.9	-12.0
Total equity		11,659.9	11,633.5
Total liabilities and equity		28,778.6	28,782.6

The Notes are an integral part of these consolidated financial statements.

SBB Consolidated Cash Flow Statement.

CHF millions	2003	2002
Net profit/loss	24.9	-12.0
Depreciation of fixed assets	1,200.8	1,179.7
Non-capitalisable investment expenses	296.1	324.4
Change in non-current provisions	51.2	12.8
Net proceeds from sale of assets	-138.9	-111.2
Own work capitalised	-378.3	-549.4
Equity valuation	-3.8	5.3
Cash flow	1,052.0	849.6
Change in trade accounts receivable	-11.1	145.8
Change in inventories and work in progress	-23.8	-48.6
Change in other current receivables and accrued income	-82.9	354.6
Change in current liabilities	-94.2	-166.2
Change in minority shareholdings	-0.7	-3.6
Cash flow from operating activities	839.3	1,131.6
Change in scope of consolidation	-17.5	-14.0
Investments in financial assets	-59.6	-122.9
Disposals of financial assets	165.5	239.0
Investments in tangible assets and assets under construction	-2,290.5	-2,496.9
Disposals of tangible assets	119.1	106.7
Investments in intangible assets	-5.5	-22.2
Cash flow from investing activities	-2,088.5	-2,310.3
Change in current financial liabilities	-5.5	-102.6
Change in non-current financial liabilities	137.1	845.5
Change in other non-current liabilities	759.8	732.7
Dividend payments to minority shareholders	-0.5	-0.7
Cash flow from financing activities	890.9	1,474.9
Overall change in funds	-358.3	296.2
Cash and cash equivalents at 1 January ¹	964.7	668.5
Difference on foreign currency translation	-1.5	0.0
Cash and cash equivalents at 31 December	604.9	964.7
Change in cash and cash equivalents	-358.3	296.2

¹ The short-term securities held were reclassified and stated under Cash. See Note 22.

Notes to the consolidated financial statements.

Consolidation principles.

General. The accounting principles applied to these consolidated financial statements meet the requirements of Swiss Company Law and the Swiss Accounting and Reporting Recommendations (Swiss GAAP ARR), and give a true and fair picture of the consolidated annual accounts.

Closing date. The reporting year is 12 months for all companies. With the exception of Kraftwerk Rapperswil-Auenstein AG (closing date: 30 September), the fiscal year for all consolidated units is identical to the calendar year.

Scope of consolidation. The consolidated financial statement includes the annual accounts of Swiss Federal Railways (SBB AG) and those interests where SBB AG directly or indirectly holds the majority of voting shares.

The 100% holding in AlpTransit Gotthard AG has not been consolidated, but has been included by application of the equity method. Based on a special agreement between the Swiss Confederation and SBB AG, the federal government has direct influence and the uniform management criterion therefore does not apply.

The companies in the scope of consolidation are listed on pages 108 and 109.

Consolidation method. For all companies in which SBB AG has a direct or indirect holding of more than 50%, the full consolidation method is applied. Assets, liabilities, expenses and income are accounted for at 100%. Interests of third-party shareholders in the equity capital and profit are shown separately.

Equity has been consolidated in accordance with the Anglo-Saxon purchase method. Intra-group assets, liabilities, expenses and income have been offset against each other. Interim profits on intra-group accounts not yet realised by sales to third parties have been eliminated in consolidation.

Associated companies in which SBB AG has holdings of between 20% and 50% have been consolidated by the equity method.

Minority shareholdings. Published minority shareholdings in the Group's equity capital and profits correspond to the third-party holdings in the equity capital and profits of the respective companies established on the basis of the shareholder structure currently applicable.

Foreign currency translation. Assets and liabilities from balance sheets drawn up in foreign currencies are translated at the year-end exchange rate. The equity is translated at the historical exchange rate and income and expenditure at the average rate. The exchange rate differences arising from the application of this method are offset against the retained earnings and are not reflected in the results.

The following exchange rates were applied in these financial statements:

	Average exchange rate		Exchange rate on the reference date	
	2003	2002	31.12.2003	31.12.2002
EUR	1.55	1.48	1.58	1.47

Goodwill. On initial consolidation of a company, its assets and liabilities are revalued according to uniform principles. The difference between the resulting equity and the historical cost (goodwill) is capitalised as an asset and is normally written off on a linear basis over 5 years.

Valuation principles applicable to the consolidated accounts.

General. The consolidated financial statements are based on the financial statements of the group companies, prepared according to uniform valuation and disclosure principles in accordance with the principles of Swiss GAAP ARR.

Current assets. Liquid funds are composed of cash, balances on postal and bank accounts, financial investments which can be realised in a short time and securities which are not operationally necessary. Securities have been valued at their market value.

Trade accounts receivable and other receivables are stated at their nominal value, less operationally necessary valuation provisions. Actual credit risks are shown individually while a global valuation provision has been made for latent credit risks.

Materials and spare parts which are almost exclusively for the Group's own use were entered at purchase or manufacturing cost, observing the principle of the lower of cost and market value. Manufacturing costs are calculated on the basis of the material and production costs (full costs). Valuation provisions are made for slow-moving goods and items with reduced marketability. Discounts claimed are credited to financial income.

Fixed assets. Financial investments include holdings in associated companies in which 20% and more of voting rights are held, consolidated according to the equity method, and the other unconsolidated holdings which are shown at historical cost less appropriate, commercially necessary depreciation. In addition, the financial assets contain non-current receivables from third parties, unconsolidated holdings and receivables from the shareholder. These are shown at their nominal value less valuation provisions for actual credit risks.

Tangible assets have been valued at the cost of purchase or manufacture, less the necessary depreciation. Linear depreciation has been applied over the anticipated useful life of the assets. The presumed useful life, i.e. depreciation period, of the tangible assets, is as follows (in years):

Technical, electrical and mechanical installations	15–25
Tools, furniture, instruments	10
IT	4
Telecoms	2–20
Vehicles	
– Locomotives and power cars	25
– Passenger cars and freight wagons	20
– Service vehicles	30
– Road and other vehicles	10–25
Railway installations	20–50
Site development, supply and disposal installations	15–25
Hydraulic engineering structures	80
Buildings	50–75

Leasing contracts which serve the same commercial purpose as the purchase of a tangible asset (financial lease) are capitalised as tangible assets and depreciated over the same useful life as similar assets. Leasing liabilities are included under financial liabilities. Profits from such transactions (financial lease) are deferred and written back over the contract period.

Assets under construction comprise the accrued overall costs of a project. Non-capitalisable portions of costs are taken into account with corresponding valuation provisions until completion of the project.

Intangible assets comprise intangible items (goodwill, water rights, rights of way, other rights and software) purchased. Linear amortisation has been applied over the corresponding useful life. The presumed useful life, i.e. depreciation period, of the intangible assets, is as follows (in years):

Goodwill	5
Rights	as per specific contract
Software	4–8

Liabilities. With the exception of variable-interest and conditionally-redeemable federal bonds, all interest-bearing loans are entered under current and non-current financial liabilities. All liabilities with a residual term of more than one year are deemed non-current. Liabilities due within one year are shown as current, including non-current liabilities repayable within one year.

Provisions have been formed and written back in accordance with standard business management principles.

Contributions to the pension Funds are made in accordance with the requirements of the BVG (Swiss pension fund law). All major provident institutions of the Group operate primarily on the defined benefit scheme. Benefits payable to qualifying members of staff are normally calculated as a percentage of the presumed salary in the years immediately preceding retirement and depend on the number of years of service.

Staff pension benefits at the SBB Group are, in principle, the responsibility of the SBB Pension Fund, which has been an independent foundation since 1 January 1999. The subsidiary companies, which either have contracts with other pension schemes or have their own schemes, are an exception.

The financial effects of pension commitments must be entered in accordance with ARR 16, irrespective of the legal form of the pension plans and schemes. This financial approach requires the inclusion of staff pension schemes in the financial statement, although they constitute neither a credit balance nor a liability from a legal point of view. Assets and liabilities relating to the pension schemes are revalued periodically. ATAG Libera AG carries out the calculations for SBB in accordance with ARR 16 using the "projected unit credit" method. The projected benefit obligations (PBO) towards employees covered by the plan are equivalent to the cash value of the pension benefits accrued on the reference date, taking account of assumed future salary and pension increases and the likelihood of the employees leaving. Pension scheme commitments to retirees are expressed as the cash value of the current pensions, taking account of assumed future pension increases. The overall liability is compared with the market value of the assets. If this results in a deficit, at least the liability

is entered (updating of the previous year's figure). Should the difference (between the liability and the actual deficit) exceed the range specified in ARR 16 (10% of the pension assets or 10% of the pension scheme commitments, whichever is higher), the difference is amortised over an average remaining working life of the insured parties (15 years in the case of SBB), thus affecting the income statement.

Deferred taxes, which relate solely to holdings, as SBB AG and SBB Cargo AG are exempt from tax, with the exception of real estate deemed non-operating, relate to all effects of taxes on income arising from the requirements of commercial or local law or from the internal valuation principles of the Group. The provision has been created according to the liability method and continuously adapted to any changes in local tax laws.

At present, no significant loss carryforwards or tax credits are anticipated.

Derivatives. The financial strategy of SBB AG is geared to risk minimisation. Derivatives are therefore used exclusively for hedging underlying transactions. Events affecting the earnings situation are tracked continuously in the accounts. For risk management purposes, off-balance sheet transactions are valued regularly.

Notes to the consolidated financial statements.

0 General remarks

0.1 Changes to the scope of consolidation

Since 1 January 2003, the scope of fully consolidated holdings has changed as follows:

Additions: Swiss Rail Cargo Italy S.r.L., Milan: Established. 100% shareholding (January 2003)
 elvetino management AG, Zurich: Established. 100% shareholding (April 2003)
 Rail Italy S.p.A., Milan: Purchase. 100% shareholding (August 2003)
 RegionAlps SA, Martigny: Established. 70% shareholding (September 2003)

Disposals: Silo AG Brunnen, Brunnen (November 2003)

Other: BLI Bahnhof Luzern Immobilien AG, Lucerne: Merger with SBB AG, i.e. Real Estate unit (January 2003)

0.2 Segment information

Real estate operations were spun off into a separate unit on 1 January 2003, by resolution of the Board of Directors and with the agreement of the federal government. For the most part, they had previously been a constituent of the Infrastructure division. Real estate and land from the other segments were also transferred to the new division at the time of the spin-off. The segment information shows real estate as an independent segment for the first time in the 2003 financial year. Restatement of the previous year's figures has been waived. Only a restricted year-on-year comparison of the balance sheets and income statements for the existing segments is possible.

Transfer payments to Infrastructure

In the context of the Real Estate spin-off, an agreement was entered into with the federal government whereby the impact of this transaction on the Infrastructure accounts would be offset by transfer payments. Under this agreement, it was stated that – for the current performance period 2003–2006 – these annual transfer payments would figure in the income statement of the Real Estate division as follows:

2003	CHF 141 million
2004	CHF 160 million
2005	CHF 190 million
2006	CHF 192 million

The transfer payment to Infrastructure corresponds on the one hand to the interest revenues forwarded by Central Services to Infrastructure by virtue of the capital structure of the opening balance sheet of the Real Estate division, and secondly by a direct transfer from Real Estate to Infrastructure. To ensure the transparency, relevance and comparability of the segment information, the transfer is stated separately in the "bottom line".

0.3 Taxes

In its ruling of 23 December 2003, the Federal Court specified the subjective tax liability of SBB AG in the cantons and municipalities in respect of real estate deemed to be nonoperating. As a result of the new situation, a retrospective provision is required for 1999–2003 for tax on earnings, capital gains tax and capital gains tax on property, for which a corresponding tax provision has been entered on the basis of current knowledge.

1 Traffic revenues

CHF millions	2003	2002
Passenger services	1,796.1	1,797.2
Freight services	989.7	985.4
Operation revenues	101.2	119.2
Infrastructure	18.5	15.3
Traffic revenues	2,905.5	2,917.1

Domestic passenger traffic revenue increased, despite the loss of Expo.02 revenues. Global economic and political uncertainties, health risks (SARS) and increased competition from low-cost airlines had a detrimental effect on international inter-city passenger traffic. The increased revenue from domestic traffic could not compensate fully for these losses.

Revenue from freight traffic increased slightly compared to the previous year, despite the sustained recession in Europe and the temporary blockage of the north-south corridor due to the closure of the Monte Olimpino II tunnel. The introduction of the open access rules in 2003 led to fiercer competition for transit freight. The low water level of the Rhine during 2003 restricted shipping, leading to additional losses of revenue from freight traffic from the Basel Rhine port.

Overall, traffic revenues fell by about 0.4% due to the drop in income from third-party services.

2 Grants

CHF millions	2003	2002
Grants for regional passenger services		
Confederation	323.0	317.1
Cantons	174.9	189.9
Third-party contributions	7.3	0.3
Total grants for regional passenger services	505.2	507.3

Train-path charge subsidies for freight traffic (infrastructure)

for intermodal transport	35.6	32.7
for other freight traffic	57.8	59.3
Total train-path charge subsidies	93.4	92.0

Grants to Cargo for intermodal transport	18.7	18.3
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Grants	617.3	617.6
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Total grants remained at the level of the previous year.

Regional passenger traffic services were expanded by about 3.9 million train kilometres while the subsidy per train-kilometre was reduced from CHF 8.89 in 2002 to CHF 8.29 in 2003.

Based on the disclosure practice specified by the Federal Office of Transport (BAV) regarding the reclassification of federal grants forwarded to the Zurich Transport Authority (ZVV) (cf. Note 7), the payment of CHF 33 million to the ZVV is deducted from the grants to the cantons for regional passenger services.

The purpose of train-path charge and freight traffic subsidies is to promote the transfer of freight transport from road to rail. In addition to SBB Cargo AG, other railway companies which purchase train-path services from SBB Infrastructure also benefit from the cheaper train-path charges.

Notes to the consolidated financial statements

3 Rental revenue from real estate

This figure includes the revenue from real estate in SBB's property portfolio.

4 Other operating revenues

CHF millions	2003	2002
Contract staff	0.5	1.4
Services to third parties	244.7	117.0
Maintenance and servicing work	61.0	50.2
Rental revenues	80.2	59.8
Power revenues	83.4	55.5
Foreign currency exchange	39.3	41.9
Commissions	81.8	109.8
Sales of printed matter and materials	49.9	34.8
Cost participations, contributions	71.1	75.9
Sundry additional income	42.3	41.7
Other operating revenues	754.2	588.0

The gross accounting procedure was applied consistently for the first time in the reporting year for the tour operating business for passenger services (third-party services) and for rental of rolling stock to foreign railways, resulting in restricted comparability of "Other operating revenues" with those of the previous year. Costs arising from the gross accounting procedure were entered under the heading "Other operating expenses" (cf. Note 11). Earnings in the Power unit rose owing to the relatively high market prices.

Commissions decreased mainly as a result of the absence of the additional Expo.02 services. They also fell because of the lower level of international passenger services.

Higher sales of printed matter and materials are particularly attributable to higher sales of spare parts and scrap, some of which entail additional outlay for materials.

5 Other revenues

The fall in other revenues is due to a drop in investment work for third parties and the lower release of the power provision due to higher market prices. The purpose of the power provision is to compensate for power generation costs at SBB's own power plants which exceed market prices.

6 Own work capitalised

CHF millions	2003	2002
Investment orders	378.3	345.2
Stock orders	224.2	204.2
Own work capitalised	602.5	549.4

The increase in own work capitalised is due to an increase in infrastructure work, the conversion of freight locomotives for the German market and own work capitalised on newly-acquired passenger rolling stock.

Own work for stock orders is primarily due to additional maintenance of passenger and freight rolling stock.

7 Federal government grants for infrastructure

CHF millions

	2003	2002
Depreciation of infrastructure	865.3	810.0
Infrastructure operating grant	467.3	494.0
Contribution for SBB services during St. Gotthard road tunnel closure	0.0	2.9
Federal government grants for infrastructure	1,332.6	1,306.9

Breakdown of the federal government grants for infrastructure

CHF millions	Depreciation of infrastructure 2003	Depreciation of infrastructure 2002	Infrastructure operating grant 2003	Infrastructure operating grant 2002
SBB infrastructure	855.1	804.0	456.1	486.8
– of which "Seelinie"	4.4	0.0	6.4	0.0
Brünig infrastructure	7.6	6.0	8.2	7.2
Thurbo AG (inc. cantonal grants)	2.6	0.0	3.0	0.0
Total	865.3	810.0	467.3	494.0

Infrastructure depreciation relates to write-offs and depreciation on existing installations and non-capitalisable investments. The infrastructure operating grant covers ongoing operating costs. Whilst the grant for depreciation and write-offs was increased due to investment activity in connection with Rail 2000, the operating grant was considerably lower due to increases in productivity. In addition, the budget was cut by CHF 13 million under the federal government's deficit reduction programme. Federal grants to the SBB Group increased with the takeover of the Lake Constance "Seelinie" and the creation of the Thurbo AG subsidiary, which increased the route network. The federal infrastructure grants include a CHF 33 million payment to SBB to forward to the Zurich Transport Authority (ZVV). This amount is not directly linked to services performed by SBB AG but is forwarded to ZVV in accordance with the practice specified by the Federal Office of Transport by way of the cantonal grants for regional passenger traffic (cf. Note 2).

8 Revenue reductions

The increase in revenue reductions is due to the higher balance of exchange rate gains and losses and the change in the provisions for bad and doubtful debts.

9 Expenses for materials

The higher expenses for materials are due to the increase in sales of materials and printed matter, the increase in own work capitalised for investment and stock orders and the increase in rolling stock maintenance (Rail 2000).

10 Personnel expenses

CHF millions	2003	2002
Wages and salaries	2,544.7	2,529.1
Social benefit costs	356.5	400.3
Other personnel expenses	85.8	92.2
Personnel expenses	2,987.0	3,021.6

Wages and salaries increased by 0.6% due to pay increases which offset a slight fall in the workforce.

Social benefit costs fell by CHF 43.8 million. The fall is due firstly to the absence of the costs of early retirement at SBB Cargo AG included in the previous year and secondly, to the coordination deduction, raised on 1.1.2003, and the associated reduction in one-off contributions to the pension fund. SBB assumed the costs of occupational invalidity with effect from 2003 to improve the financial position of the SBB pension fund. Furthermore, since 1 July 2003, the employees and employer have been paying a restructuring contribution to the SBB pension fund amounting to 1.5% of the insured salary. The restructuring measures represent a charge of CHF 17 million against the pension fund.

"Other personnel expenses" fell due to a reduction in reimbursements for expenses and a reduction in staff restaurant and staff recruitment costs.

11 Other operating expenses

CHF millions	2003	2002
Lease of installations	27.2	26.3
Services for maintenance, repair and replacement	211.9	202.5
Vehicle costs	140.3	118.5
Property insurance, duties and fees	68.3	56.3
Power and waste disposal costs	145.5	119.2
Administration and information system costs	219.5	224.7
Publicity costs	46.1	59.4
Other operating expenses	171.2	19.2
Third-party operating costs	265.8	265.4
Pretax reductions on grants	54.4	46.4
Other operating expenses	1,350.2	1,137.9

The increase in other operating expenses is largely associated with the consistent application of gross accounting to purchase of services in the tour operating business and the rental of vehicles from foreign railways, described under "Other operating revenues". Only a limited comparison with the previous year is possible (cf. Note 4).

The increased expenses for third-party services for maintenance, repair and spare parts include additional contracting-out of work to third parties.

Following the Federal Court ruling of December 2003 on the partial tax liability of SBB AG for property, a tax provision was created and debited against the entry for "Property insurance, duties and fees" for capital gains tax on property, retroactively for 1999–2003.

The cost of power and waste disposal increased in step with higher energy prices. (see other operating revenues).

The reduction in publicity costs is due in particular to the end of the intensive publicity campaign during Expo 02.

The expenses entered under the heading "Pretax reductions on grants" are mainly attributable to the VAT regulations applicable to public transport operators. SBB AG calculates a 2.7% Pretax reduction on the payments it receives, instead of a reduction in proportion to the corresponding share of its total turnover. As the tax payable is contained in these amounts, this arrangement does not affect the SBB AG income statement.

12 Depreciation of tangible assets, impairment of financial assets and amortisation of intangible assets

CHF millions

	2003	2002
Impairment of financial assets	0.9	11.6
Depreciation of tangible assets	1,080.5	1,034.4
Amortisation of intangible assets	72.8	58.9
Depreciation of net book values from disposals of tangible assets	46.6	74.8
Depreciation of tangible assets, impairment of financial assets and amortisation of intangible assets	1,200.8	1,179.7

In the previous year, impairments of financial assets included an increase in the valuation provision for loans.

The increase in depreciation of tangible assets is primarily due to the increase in tangible assets as a consequence of the investments in Rail 2000 and in new rolling stock.

The depreciation of intangible assets includes depreciation of software, rights and goodwill.

The lower write-downs of net book values from the disposal of assets are attributable to fewer disposals of assets and improved sales revenue.

13 Non-capitalisable investment expenses

Expenses for non-capitalisable investments were lower than in the previous year. The decrease is due to the reduction in the non-capitalisable portions of completed projects.

14 Pension scheme as per ARR 16

The slight recovery on the capital markets enabled the SBB pension fund to end the year with a surplus of CHF 346 million. This development also had a positive effect on the pension fund valuation as per ARR 16. The difference to be amortised over the average remaining enrolment period of the policyholders decreased and no additional contribution to the amount of liabilities was necessary. The transfer to the provision as per ARR 16 for the reporting year amounts to CHF 132 million (see Note 34, paragraph on "Pension scheme").

15 Net proceeds from sale of assets

The entry consists primarily of the sale of the final tranche of the holding in TDC Switzerland. The balance comes from the sale of tangible assets, primarily property.

16 Extraordinary income

Extraordinary income consists of the repayment of written-off credit balances, profit shares from joint rail ventures and the refund of foreign VAT credit balances from 1999 and 2000.

17 Extraordinary expenses

The extraordinary expense consists of the formation of a provision for real estate from the earlier restructuring of rolling stock maintenance.

18 Project "Chance" expenses

The "Chance" project is for retraining staff made redundant due to rationalisation or restructuring.

19 Financial income

CHF millions

	2003	2002
Financial income from third parties	31.2	85.7
Financial income from associated companies	1.0	5.7
Financial income from the shareholder	1.1	3.0
Financial income from other shareholdings	1.1	5.2
Adjustment of book values of holdings in associated companies	11.7	9.9
Other financial income	22.8	30.3
Financial income	68.9	139.8

20 Financial expenses

CHF millions

	2003	2002
Financial expenses third parties	141.0	189.8
Adjustment of book values of investments in associated companies	1.6	8.4
Financial expenses shareholder	55.1	51.6
Other financial expenses	6.7	24.2
Financial expenses	204.4	274.0

The reduction in financial income and expenses compared to the previous year is due to the treatment of defeasance interest associated with the leasing transactions. The generally lower interest rates also affect both entries. Financial expenses payable to third parties consist primarily of interest due on commitments to EUROFIMA.

21 Taxes

CHF millions

	2003	2002
Current income taxes and taxes on capital	40.7	3.1
Deferred income taxes	-0.2	0.2
Taxes	40.5	3.3

SBB AG is exempt from tax under Article 21 of the SBB Act of 20 March 1998, including at cantonal level. Following the ruling by the Federal Court in December 2003 on the partial tax relevance of SBB AG in cantons and municipalities in respect of "non-operating" real estate, a provision for income taxes and taxes on capital was formed retroactively for 1999–2003. Further tax expenses arise from the tax liability of SBB AG's subsidiaries.

22 Cash and cash equivalents

CHF millions

	31.12.2003	31.12.2002
Cash	39.1	39.1
Postal account	45.8	67.3
Banks	487.9	835.1
Term deposits	52.2	18.2
Cash in transit	-20.2	4.1
Securities ¹	0.1	0.9
Cash and cash equivalents	604.9	964.7

¹ The short-term securities were stated separately in the balance sheet in previous years.

Owing to the current provisions of budgetary law, SBB AG effects a large part of its monetary transactions through the Federal Finance Administration (FFA). The existing account credit balances of CHF 310.6 million (previous year CHF 608.2 million) with the FFA are entered under "Banks". The sharp fall in cash and cash equivalents is due to the channelling of leasing proceeds accrued towards the end of the previous year into the procurement of new rolling stock.

23 Trade accounts receivable

CHF millions

	31.12.2003	31.12.2002
Trade accounts receivable		
from third parties	575.3	557.6
from unconsolidated holdings	22.9	20.1
Valuation provisions	-40.4	-32.0
Trade accounts receivable	557.8	545.7

Trade accounts receivable are slightly higher than in the previous year.

24 Other receivables

Other receivables include pre-tax VAT credits and withholding tax credits.

25 Inventories and work in progress

CHF millions

	31.12.2003	31.12.2002
Inventories	461.1	429.2
Work in progress	14.6	24.7
Valuation provisions	-193.8	-195.8
Inventories and work in progress	281.9	258.1

The increase in inventories is primarily due to higher inventory production for rolling stock servicing (Rail 2000).

The valuation provisions arise from write-downs on obsolete stock.

26 Accrued income

The accruals and deferrals relate to the periodic posting of expenses and income.

The CHF 550 million decrease in non-current receivables from the shareholder relates to the agreed payment procedure for the financial restructuring of the SBB pension fund. Non-current commitments to the shareholder (cf. Note 26) can no longer be collected and have been completely written off.

The changes in non-current receivables from third parties include mortgages and building loans granted to the railway workers' building cooperative and their repayment, repayment of third party loans and the elimination of accounts receivable from previous years which the disposal of other holdings includes the sale of the remaining equity in TDC Switzerland AG.

The disposal of other holdings includes the sale of the remaining equity in TDC Switzerland AG.

been reclassified and added under other holdings.

sale of Leasing Schaffhausen. The stake in Leasing Schaffhausen has fallen to less than 50% as a result of the partial sale and has therefore the increase in the Gasping holding. The disposal is due to the sale of the Gasping Service Center Basin AG holding and from the partial leasing liabilities. The corresponding commitments are entered as liabilities. The addition for holdings in associated companies includes the additions under non-current investments include the reinvested income accrued from the investment of funds for repayment to

strongly reduced and the non-current receivables from the shareholder are now less than 50% of the total receivables.

Hot book value 31.12.2003: CHF 5,404 million; 31.12.2002: CHF 5,404 million.

Debtors' credit is reclassified to non-current receivables and non-current receivables are reclassified to debtors' credit in amount of CHF 200 million.

Foreign currency translation reserves are reclassified to non-current receivables and non-current receivables are reclassified to foreign currency translation reserves in amount of CHF 200 million.

27 Financial investments

CHF millions	Long-term investments	Investments in associated companies	Other holdings	Non-current receivables from third parties	Non-current receivables from unconsolidated holdings	Non-current receivables from shareholder	Total
Historical costs							
As at 1.1.2003	626.8	95.3	52.0	626.0	49.9	1,756.8	3,206.8
Change in valuation	0.0	3.7	0.0	0.0	0.0	0.0	3.7
Additions	14.6	6.7	0.0	49.7	3.2	0.0	74.1
Disposals	0.0	-1.5	-13.5	-109.5	-1.3	-850.0	-975.8
Reclassifications	0.0	-0.4	0.4	0.0	0.0	0.0	0.0
As at 31.12.2003	641.3	103.8	39.0	566.2	51.8	906.8	2,308.9
Accumulated depreciation							
As at 1.1.2003	-0.1	-8.1	-6.7	-41.7	0.0	0.0	-56.5
Additions	0.0	0.0	-0.9	0.0	0.0	0.0	-0.9
Disposals	0.0	6.0	1.2	16.6	0.0	0.0	23.8
As at 31.12.2003	-0.1	-2.1	-6.4	-25.1	0.0	0.0	-33.7
Net book value 1.1.2003	626.7	87.2	45.3	584.3	49.9	1,756.8	3,150.3
Net book value 31.12.2003	641.2	101.7	32.6	541.1	51.8	906.8	2,275.2

Investments in associated companies

CHF millions	Equity stake	Net goodwill
Net book value 1.1.2003	87.2	0.1
Additions	6.7	1.1
Dividends received	-6.3	
Profit shares	10.1	
Disposals and reclassifications	-1.9	
Valuation adjustments	6.0	
Foreign currency translation	-0.1	
Depreciation		-0.2
Net book value 31.12.2003	101.7	0.9

The additions under non-current investments include the reinvested income accrued from the investment of funds for repayment of leasing liabilities. The corresponding commitments are entered as liabilities. The addition for holdings in associated companies includes the increase in the Cisalpino holding. The disposal is due to the sale of the Cargo Service Center Basel AG holding and from the partial sale of Lasag Schaffhausen. The stake in Lasag Schaffhausen has fallen to less than 20% as a result of the partial sale and has therefore been reclassified and stated under other holdings.

The disposal of other holdings includes the sale of the remaining equity in TDC Switzerland AG.

The changes in non-current receivables from third parties include mortgages and building loans granted to the railway workers' building cooperative and their repayment, repayment of third party loans and the elimination of accounts receivable from previous years which can no longer be collected and have been completely written off.

The CHF 850 million decrease in non-current receivables from the shareholder relates to the agreed payment procedures for the financial restructuring of the SBB pension fund. Non-current commitments to the shareholder fell by the same amount (cf. Note 36).

Owing to the current provisions of budgetary law, SBB AG effects a large part of its monetary transactions through the Federal Finance Administration (FFA). The existing account credit balances of CHF 310.6 million previous year CHF 232.2 million with the FFA are entered under "Bank". The sharp fall in cash and cash equivalents is due to the channeling of leasing proceeds and other income towards the end of the previous year into the procurement of new rolling stock.

28 Tangible assets and assets under construction

CHF millions	Vehicles (incl. leasing)	Civil engineering, trackbed and railway installations	Other tangible assets	Property	Buildings	Total tangible assets	Assets under construction and pre- payments	Total
Historical costs								
As at 1.1.2003	10,600.5	11,879.6	4,430.2	1,462.5	3,388.8	31,761.6	7,359.6	39,121.2
Foreign currency translation	0.6	0.4	0.0	0.0	0.0	0.9	0.0	0.9
Investments	4.5	90.9	11.6	6.9	8.6	122.4	2,799.8	2,922.3
Change in scope of consolidation	2.8	0.0	-1.5	0.0	-3.0	-1.7	0.0	-1.7
Reclassification of assets under construction as assets	561.6	1,007.1	302.9	25.5	142.3	2,039.4	-2,099.0	-59.7
Investment subsidy	0.0	-61.5	-23.6	-0.3	-13.6	-99.0	0.0	-99.0
Disposals of tangible assets	-206.1	-192.4	-98.0	-5.6	-30.5	-532.6	-450.5	-983.2
Reclassifications	0.0	1.8	-3.8	0.0	0.0	-2.0	0.0	-2.0
As at 31.12.2003	10,963.8	12,725.8	4,617.9	1,489.0	3,492.6	33,289.1	7,610.0	40,899.1
of which leasing	1,992.1					1,992.1		1,992.1
Accumulated depreciation								
As at 1.1.2003	-6,284.7	-4,009.1	-2,983.7	-21.9	-1,520.7	-14,820.1	-1,145.6	-15,965.7
Foreign currency translation	-0.1	-0.1	0.0	0.0	0.0	-0.3	0.0	-0.3
Change in scope of consolidation	0.0	0.0	1.6	0.0	3.6	5.2	0.0	5.2
Additions	-365.1	-386.7	-155.6	0.0	-60.6	-968.1	-112.5	-1,080.6
Disposals	130.7	160.8	79.4	0.0	16.0	386.9	0.0	386.9
Reclassifications	0.0	-1.2	3.2	0.0	-0.5	1.5	0.0	1.5
As at 31.12.2003	-6,519.2	-4,236.4	-3,055.2	-21.9	-1,562.2	-15,394.9	-1,258.1	-16,653.0
of which leasing	-674.0					-674.0		-674.0
Net book value 1.1.2003	4,315.8	7,870.5	1,446.5	1,440.6	1,868.1	16,941.5	6,214.0	23,155.5
Net book value 31.12.2003	4,444.6	8,489.4	1,562.7	1,467.1	1,930.4	17,894.2	6,351.9	24,246.1
of which leasing	1,318.1					1,318.1		1,318.1

The prepayments entered under assets under construction amount to CHF 537.5 million as at 31 December 2003.

The increase in tangible assets is primarily due to the construction of infrastructure and procurement of passenger rolling stock for Rail 2000. Further investments in rolling stock are attributable to the increasing emphasis on international freight traffic.

Other tangible assets include all installations, IT and telecommunications equipment, and supply and disposal plants.

29 Intangible assets

CHF millions

	Goodwill	Rights	Software	Total
Historical costs				
As at 1.1.2003	16.7	117.8	211.8	346.3
Additions	13.4	2.8	1.6	17.8
Change in scope of consolidation	0.0	0.5	0.0	0.6
Disposals	-4.3	-4.1	-0.8	-9.2
Reclassifications	0.0	2.7	59.0	61.7
As at 31.12.2003	25.8	119.7	271.6	417.2
Accumulated depreciation				
As at 1.1.2003	-7.3	-25.1	-110.1	-142.5
Additions	-19.4	-4.8	-48.6	-72.8
Disposals	4.0	4.1	0.7	8.8
Reclassifications	0.0	0.0	-1.5	-1.5
As at 31.12.2003	-22.7	-25.8	-159.5	-208.0
Net book value 1.1.2003	9.4	92.7	101.7	203.8
Net book value 31.12.2003	3.1	93.9	112.2	209.2

The addition to the goodwill entry includes the goodwill dividends paid on the Rail Italy, Cisalpino and elvetino AG holdings. The amortisation of goodwill complies with the specified valuation principles.

IT projects included in assets under construction were completed and reclassified in the reporting year.

The additions under non-current assets include the reinvested income from the investment of funds to enhance the long-term earning capacity of the company. The corresponding current assets are classified as liabilities. The additions for holdings in associated companies are classified as non-current assets. The increase in the Cisalpino holding is due to the sale of the Cargo Service Center Basel AG holding to the Swiss Federal Railways. The share of Swiss Federal Railways has been reclassified and added under other holdings.

The disposal of other holdings includes the sale of the remaining equity in TCO Switzerland AG. The changes in non-current receivables from third parties include mortgages and building loans granted to railway companies and the repayment, repayment of third party loans and the elimination of accounts receivable from previous years which can no longer be collected and have been completely written off.

The CHF 250 million decrease in non-current receivables from third parties is due to the agreed payment plan for the restructuring of the SBB pension fund. Non-current receivables from third parties are classified as liabilities. The CHF 250 million decrease in non-current receivables from third parties is due to the agreed payment plan for the restructuring of the SBB pension fund. Non-current receivables from third parties are classified as liabilities.

30 Current financial liabilities

CHF millions	31.12.2003	31.12.2002
Current liabilities to banks	10.2	0.3
Financial liabilities to third parties	15.5	30.8
Current financial liabilities	25.7	31.1

The increase in current financial liabilities to banks arises from the reclassification of non-current financial liabilities to banks when due. The financial liabilities include a repayment of loans from Etzelwerke AG amounting to CHF 15 million.

31 Trade accounts payable

CHF millions	31.12.2003	31.12.2002
Trade accounts payable		
to third parties	545.6	532.5
to railway companies	73.3	193.4
to associated companies	3.0	3.3
Trade accounts payable	621.9	729.2

The fall in trade accounts payable to third parties is due to the increased calling of payment liabilities to domestic rail companies at the end of 2003 and to the reduced volume of payments resulting from the non-renewal of joint infrastructure contracts.

32 Other current liabilities

The heading includes liabilities for VAT and social benefit settlements, on-account payment liabilities for overheads, rent and incidental costs.

33 Deferred income and accrued charges

CHF millions	31.12.2003	31.12.2002
Ticket deferrals	373.0	341.4
Accrued interest payable	51.3	44.2
Other accruals and deferrals	497.7	464.1
Deferred income and accrued charges	922.0	849.7

Ticket deferrals include the remaining term of validity of the General Abonnement, Half-Fare Card and point-to-point season tickets. They do not extend to individual tickets. The other accruals and deferrals include the periodic posting of expenses and income.

Liabilities on balance sheet date

The shortfall not yet posted as at 31 December 2003 amounts to CHF 3,657 million. The largest component was CHF 1,583 million, being a shortfall not yet posted in respect of CHF 1,674 million. This amount is amortised across the average number of working years of the active employees covered by the plan (15 years), giving an amortisation rate of CHF 132 million. The shortfall as at 31 December 2002 is CHF 3,425 million, including amortisation.

Net pension costs for the year

CHF millions	2003	2002
Annual service cost	241.0	229.0
Interest on projected benefit obligation (PBO)	620.0	730.7
Anticipated return on pension assets	-655.0	-652.0
Contributions from employees	-161.0	-134.0
Amortisation of the difference	132.0	145.0
Pension costs for the year	277.0	328.7

34 Provisions

CHF millions	31.12.2003	31.12.2002
Current provisions	335.3	357.5
Non-current provisions	2,415.1	2,364.4
Provisions	2,750.4	2,721.9

Break-down of the provisions according to intended purpose

CHF millions	Pension scheme as per ARR 16	Provisions for index-linking of pensions	Environmental provision	Power division restructuring	Vacation/overtime	Other provisions	Total
As at 1.1.2003	833.0	240.6	96.0	687.7	159.5	705.1	2,721.9
Addition	132.0	0.0	0.0	0.0	23.7	178.7	334.4
Utilisation	0.0	-84.3	-6.9	-11.8	-37.6	-87.8	-228.4
Reversal	0.0	0.0	0.0	0.0	0.0	-77.4	-77.4
Reclassification	0.0	0.0	0.0	0.0	0.2	-0.3	-0.1
As at 31.12.2003	965.0	156.3	89.1	675.9	145.8	718.3	2,750.4

The tables below show details of the provision for the pension scheme as per ARR 16 and the provision for cost-of-living increases in pensions.

An expert report prepared by external consultants identified the need for SBB AG to make an environmental provision amounting to CHF 393 million as at 1 January 1999. In view of major uncertainties regarding the amount of this provision, it was agreed with the federal government that the total amount of the provisions should not be entered in the opening balance sheet but that an initial provision totalling CHF 110 million for remediation costs be entered. Expenses in excess of this amount will be assumed by the federal government under the payment agreement. Clean-up operations continued in 2003. The costs arising from the measures taken were charged to the provision CHF 11.8 million of the provision was written back for power costs which exceeded the market price.

The fall in overtime and holiday entitlements in the reporting year enabled provisions amounting to CHF 13.9 million to be written back for each entitlement category. Part of the reduction was due to payments made.

The other provisions relate mainly to insurance provisions to cover claims, provisions for revenue from the disposal of cable-laying rights and other operationally-necessary provisions, including for rolling stock. The new tax provision of CHF 50 million created for 1999–2003 due to the Federal Court ruling of December 2003 on the partial tax relevance of SBB AG for property is also accounted for in this item.

Pension scheme

Development of the pension scheme provision

CHF millions	Provision as per ARR 16	Non-current provision for index-linking of pensions	Current provision for index-linking of pensions	Total
As at 1.1.2003	833.0	156.3	84.3	1,073.6
Payment to pension fund	0.0	0.0	-84.3	-84.3
Addition	132.0	0.0	0.0	132.0
Reclassification	0.0	-32.3	32.3	0.0
As at 31.12.2003	965.0	124.0	32.3	1,121.3

The positive closing balance of the SBB Pension Fund also had a positive effect on the pension liability to be calculated as per ARR 16, resulting in a lower allocation to the ARR 16 provision compared to the previous year. The difference determined on the reference date resulted in an increase of CHF 132 million in the provision as per ARR 16.

Members of the SBB Pension Fund who retired before 1 January 2001 are entitled to the same treatment as retired members of the federal government pension fund. The SBB Pension Fund can only pay cost-of-living increases to retirees if its finances and earnings permit. As the actuarial reserve of the SBB pension fund has failed to reach the specified level, the obligation to pay such cost-of-living increases to the beneficiaries has to be borne by the employer. CHF 84.3 million of the provisions was used for 2003.

The medium and long-term actuarial parameters used for calculating the pension scheme commitments as per ARR 16 can be summarised as follows:

Parameters applied to pension scheme provision

CHF millions	31.12.2003	31.12.2002
Interest discount factor	4.0%	4.0%
Wage increases	2.0%	2.0%
Development of pensions to 31.12.2005	1.0%	1.0%
Development of pensions from 1.1.2006	0.5%	0.5%
Anticipated return on assets	5.0%	5.0%

Financial status of pension scheme commitments

CHF millions	31.12.2003	31.12.2002
Pension scheme assets	11,464.0	11,092.0
Pension scheme commitments	-15,832.0	-15,499.0
Deficit in pension scheme commitments	-4,368.0	-4,407.0
Difference	-3,425.0	-3,574.0
Liabilities on balance sheet date	943.0	833.0

The shortfall not yet posted as at 31 December 2003 amounts to CHF 3,557 million. The target corridor was CHF 1,583 million, leaving a shortfall not yet posted in excess of CHF 1,974 million. This amount is apportioned across the average number of working years of the active employees covered by the plan (15 years), giving an amortisation instalment of CHF 132 million. The shortfall as at 31 December 2003 is CHF 3,425 million, including amortisation.

Net pension costs for the year

CHF millions	2003	2002
Annual service cost	241.0	229.0
Interest on projected benefit obligation (PBO)	620.0	720.0
Anticipated return on pension scheme assets	-555.0	-632.0
Contributions from employees	-161.0	-134.0
Amortisation of the difference	132.0	145.0
Pension costs for the year	277.0	328.0

35 Non-current financial liabilities

CHF millions	31.12.2003	31.12.2002
Bank liabilities	426.0	370.0
Leasing liabilities	2,552.2	2,527.8
Mortgages	43.1	58.6
Bonds	300.0	300.0
Staff savings accounts	1,450.1	1,370.3
Non-current financial liabilities	4,771.4	4,626.7

Non-current bank liabilities have increased due to the refinancing of loans granted to subsidiaries.

The increase in leasing liabilities is due to capitalisation of the leasing payments on existing contracts.

There is no change in the bonds compared to the previous year. Further details can be found in Note 38.6.

The liability to the staff savings account represents a savings credit balance of current and former employees of SBB.

36 Other non-current liabilities

CHF millions	31.12.2003	31.12.2002
Liabilities to third parties	41.6	40.4
Liabilities to the federal government as shareholder	7,852.3	7,985.3
Other non-current liabilities	7,893.9	8,025.7

Composition of the liabilities to the federal government as shareholder

CHF millions	31.12.2003	31.12.2002
Variable-interest loans	1,831.7	1,741.1
Interest-bearing loans for refinancing the SBB Pension Fund	906.8	1,756.8
Interest-bearing loans for the major rail projects fund	880.6	724.0
Variable-interest loans for the major rail projects fund	4,233.2	3,763.4
Total	7,852.3	7,985.3

The interest-bearing loans for the refinancing of the SBB Pension Fund fell by CHF 850 million in the reporting year. The receivables from the federal government as shareholder also fell by the same amount in accordance with the financing plan agreed when the SBB Pension Fund was established.

Investments in Rail 2000 are financed by loans from the major rail projects fund. The interest rates payable on interest-bearing loans are between 2.5% and 3.75%.

Net indebtedness

CHF millions	Note	31.12.2003	31.12.2002
Current financial liabilities		25.7	31.1
Non-current financial liabilities	35	4,771.4	4,626.7
Other non-current liabilities	36	7,893.9	8,025.8
Total financial liabilities		12,691.0	12,683.6

less cash and cash equivalents, bonds and investment in securities	-1,246.3	-1,591.4
less receivables from the shareholder concerning the pension fund	-906.8	-1,756.8
Net indebtedness	10,537.9	9,335.4

Change compared to the previous year

1,202.5	1,125.8
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Net indebtedness increased by CHF 1,202.5 million in the reporting year, primarily due to the use of funds to finance infrastructure and rolling stock for Rail 2000 and the procurement of rolling stock for international freight traffic.

37 Equity

CHF millions	Share capital	Capital reserves/premium	Retained earnings	Total
As at 1.1.2003	9,000.0	2,069.1	564.4	11,633.5
Net profit	0.0	0.0	24.9	24.9
Foreign currency translation	0.0	0.0	1.5	1.5
As at 31.12.2003	9,000.0	2,069.1	590.8	11,659.9

The share capital is divided up into 180 million fully paid-up registered shares with a nominal value of CHF 50 each.

The retained earnings contain a provision for CHF 533 million under Article 64 of the Railways Act (EBG).

38 Statutory information

(If not already shown under the respective headings)

38.1 Sureties, guarantees and pledges in favour of third parties

CHF millions	31.12.2003	31.12.2002
Sureties and guarantees	108.4	113.2
Statutory liability clauses	130.0	138.7
Firm purchase and finance commitments	12.5	13.8
Liabilities from unpaid share capital	104.0	104.1
Miscellaneous	17.2	0.0
Total	372.1	369.8

The SBB Group also has holdings in various civil partnerships with joint and several liability. These are primarily integrated fare-system authorities, collaborations and joint ventures for the management of projects of limited duration.

38.2 Assets pledged

CHF millions	31.12.2003	31.12.2002
Book value of assets pledged	26.5	118.4
Total	26.5	118.4

38.3 Fire insurance value of the tangible assets

The fire insurance value of the tangible assets corresponds to their replacement or new value.

38.4 Liabilities towards staff pension schemes

CHF millions	31.12.2003	31.12.2002
Current liabilities	10.9	0.4
Non-current liabilities	0.0	0.4
Total	10.9	0.8

38.5 Off-balance-sheet leasing commitments

CHF millions			31.12.2003	31.12.2002
Due within 1 year	4,584.1	2,088.1	33.8	34.3
Due within 1–2 years	8.18	0.0	19.7	23.8
Due within 2–3 years	1.5	0.0	11.9	10.5
Due within 3–4 years	8,093.1	2,088.0	7.2	3.6
Due in 4 years or later			1.1	0.4
Total			73.7	72.6

38.6 Bonds

CHF millions		31.12.2003	31.12.2002
4.375% Kraftwerk Amsteg AG bond 1996–2006		150.0	150.0
3.500% Kraftwerk Amsteg AG bond 1998–2007		50.0	50.0
3.750% Kraftwerk Amsteg AG bond 2001–2009		100.0	100.0
Total		300.0	300.0

39 Related parties

The federal government holds 100% of the equity in SBB AG. In the year under review, SBB Group received CHF 1,732.7 million in grants from its shareholder. These break down as follows:

CHF millions		2003	2002
Depreciation of infrastructure		864.4	810.0
Infrastructure operating grant		466.2	494.0
Forwarded to ZVV		–33.0	–30.0
Grants for regional passenger services		323.0	317.1
Train-path charge subsidies for intermodal transport		112.1	110.3
Grant relating to the closure of the St. Gotthard Tunnel		0.0	5.5
Total		1,732.7	1,706.9

For information on the liabilities towards the shareholder (federal government), please see the table under Note 36.

40 Financial instruments

Various investments with fixed values at maturity of CHF 341.5 million were made to hedge contingent liabilities arising from the US lease transactions. These investments are balanced by liabilities with a corresponding counter-value. In the year under review, this valuation was performed on a marked-to-market basis in USD for the first time.

To hedge the foreign currency risks, the following derivatives were outstanding as at the balance sheet date:

CHF millions	Contract values	31.12.2003		Contract values	31.12.2002	
		positive	negative		positive	negative
Currencies	186.7	15.0	0.1	217.2	0.2	0.4
Interest	100.0	0.0	0.0	0.0	0.0	0.0
	286.7	15.0	0.1	217.2	0.2	0.4
Net indebtedness						
Change compared to the previous year						

Net indebtedness increased by CHF 1,203.5 million in the reporting year, primarily due to the use of funds to finance infrastructure and rolling stock for Rail 2000 and the procurement of rolling stock for international freight traffic.

41 Segment information

The segment report is broken down into the Passenger Traffic, Freight and Infrastructure divisions plus Central Services and the new Real Estate unit. Real estate was spun off into a separate unit on 1 January 2003 by resolution of the Board of Directors and with the agreement of the federal government. Real Estate is listed as a separate segment for the first time in the 2003 financial year. Previously it figured primarily under Infrastructure. Reclassification resulted in the transfer of real estate and land from other previous segments to property. Previous years' figures have not been restated. The comparability of the balance sheet and profit and loss accounts with those of the previous year is limited.

As in previous years, operating activity is largely confined to Switzerland. For this reason, there is no geographical breakdown. The segments contain the group companies in accordance with the list of group holdings and associated companies on pages 108 and 109.

Infrastructure subsidy

In the context of the Real Estate spin-off, an agreement was entered into with the federal government whereby the impact of this transaction on Infrastructure accounts would be offset by transfer payments. Payments totalling CHF 141 million to the Infrastructure division for the 2003 financial year were transferred from Real Estate (CHF 44 million) and Central Services (CHF 97 million). The CHF 97 million transferred from Central Services is equivalent to the interest received on liabilities paid by Real Estate to Central Services by way of the capital structure of the opening balance. To ensure the transparency, relevance and comparability of the segment information, the transfer is stated separately in the "bottom line".

Segment information for the SBB consolidated income statement: Passenger Traffic, Freight, Infrastructure, Real Estate and Central Services.

Income statements for the period from 1 January to 31 December.

CHF millions	Passenger Traffic ¹		Freight ¹	
	2003	2002	2003	2002
Operating revenues				
Traffic revenues	1,947.6	1,936.8	1,061.6	1,075.8
Grants	505.2	507.3	18.7	18.3
Rental revenue from real estate	5.0	3.0	3.0	4.5
Other operating revenues	493.7	425.8	136.8	119.4
Other revenues	81.0	82.3	14.2	27.1
Own work capitalised	138.9	119.2	80.3	69.2
Federal government grants for infrastructure	21.4	16.2	0.0	0.0
Revenue reductions	-107.0	-99.4	-31.0	-20.7
Allocation of Central Services costs	0.0	0.0	0.0	0.0
Total operating revenues	3,085.7	2,991.2	1,283.6	1,293.6
Operating expenses				
Expenses for materials	-227.0	-233.5	-135.6	-141.7
Personnel expenses	-1,258.2	-1,262.1	-520.5	-563.6
Other operating expenses	-1,030.2	-914.1	-529.4	-547.1
Depreciation of tangible assets, impairment of financial assets and amortisation of intangible assets	-312.4	-335.3	-91.4	-84.4
Non-capitalisable investment expenses	-48.8	-28.1	-8.3	-1.3
Allocation of Central Services costs	-43.6	-44.8	-21.0	-27.8
Total operating expenses	-2,920.2	-2,817.8	-1,306.2	-1,365.8
Operating income	165.5	173.4	-22.6	-72.2
Net proceeds from sale of assets	0.9	2.3	2.3	0.9
Extraordinary income	0.0	10.0	1.1	0.0
Extraordinary expenses	0.0	0.0	0.0	-2.5
Project "Chance" expenses	0.0	0.0	0.0	0.0
EBIT	166.4	185.7	-19.2	-73.8
Financial income	18.5	17.5	2.7	3.7
Financial expenses	-62.8	-62.4	-1.8	-5.6
Allocation of Central Services costs	-30.2	-31.2	-14.6	-19.6
Profit/loss before taxes and transfers	91.9	109.6	-32.9	-95.4
Taxes	-0.1	-0.2	-1.1	-1.1
Transfers from Real Estate/Centr.Serv. to Infrastr.	0.0	0.0	0.0	0.0
Minority shareholdings	1.6	4.3	0.9	0.3
Net profit/loss	93.4	113.7	-33.1	-96.1

¹ Owing to the transfer of real estate operations to the newly created Real Estate unit as of 1.1.2003, comparability with prior year figures is limited.

² Incl. CHF 132.0 million transfer to provisions as per ARR 16.

Infrastructure ¹		Real Estate ¹		Central Services ¹		Eliminations		SBB Total	
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
579.4	604.2	0.0	0.0	0.3	0.5	-683.3	-700.3	2,905.5	2,917.1
93.4	92.0	0.0	0.0	0.0	0.0	0.0	0.0	617.3	617.6
1.2	325.4	419.7	0.0	1.1	1.1	-142.3	-54.3	287.6	279.6
599.9	393.5	67.0	0.0	345.9	343.9	-889.0	-694.5	754.2	588.0
22.3	46.8	3.3	0.0	10.6	17.7	-23.0	-22.4	108.4	151.5
350.5	345.9	2.1	0.0	4.3	4.1	26.3	10.9	602.5	549.4
1,311.2	1,290.8	0.0	0.0	0.0	0.0	0.0	0.0	1,332.6	1,306.9
-3.8	6.5	-0.2	0.0	0.2	-3.2	23.7	30.6	-118.0	-86.2
0.0	0.0	0.0	0.0	114.1	127.7	-114.1	-127.7	0.0	0.0
2,954.1	3,105.0	491.9	0.0	476.4	491.7	-1,801.7	-1,557.7	6,490.1	6,323.9
-163.1	-151.8	-4.0	0.0	-1.7	-4.4	52.7	65.1	-478.7	-466.3
-1,040.9	-1,107.2	-83.2	0.0	² -280.7	² -330.9	64.6	59.1	-3,119.0	-3,204.6
-940.3	-698.5	-138.8	0.0	-277.1	-288.7	1,565.6	1,310.6	-1,350.2	-1,137.9
-673.5	-724.8	-97.9	0.0	-30.8	-35.2	5.2	0.0	-1,200.8	-1,179.7
-203.6	-292.1	-35.1	0.0	-3.8	-4.5	3.5	1.5	-296.1	-324.4
-44.6	-49.2	-5.0	0.0	0.0	0.0	114.1	121.7	0.0	0.0
-3,065.9	-3,023.6	-364.0	0.0	-594.1	-663.6	1,805.7	1,558.0	-6,444.8	-6,312.9
-111.8	81.4	127.9	0.0	-117.7	-171.9	4.0	0.3	45.3	11.0
8.8	47.7	33.7	0.0	93.8	60.3	-0.6	0.0	138.9	111.2
38.4	22.5	0.0	0.0	2.9	1.1	0.0	-10.0	42.4	23.6
0.0	-2.0	-9.5	0.0	0.0	-12.0	0.0	10.0	-9.5	-6.5
-5.2	-5.9	0.0	0.0	-12.0	-11.4	0.0	0.0	-17.3	-17.3
-69.9	143.6	152.1	0.0	-33.0	-133.8	3.4	0.3	199.8	122.0
12.4	29.0	1.3	0.0	198.6	158.2	-164.6	-68.6	68.9	139.8
-21.9	-29.1	-101.8	0.0	-180.6	-245.6	164.6	68.7	-204.4	-274.0
-31.1	-34.6	-3.5	0.0	79.3	85.5	0.0	0.0	0.0	0.0
-110.5	108.9	48.1	0.0	64.3	-135.7	3.4	0.3	64.3	-12.2
-30.1	-1.9	-8.6	0.0	-0.6	-0.2	0.0	0.0	-40.5	-3.3
141.0	0.0	-44.0	0.0	-97.0	0.0	0.0	0.0	0.0	0.0
-0.1	-0.5	-0.1	0.0	-1.0	-0.5	-0.2	0.0	1.1	3.5
0.3	106.5	-4.6	0.0	-34.3	-136.4	3.2	0.3	24.9	-12.0

Segment information SBB Group balance sheets

Liabilities and equity

Infrastructure ¹		Real Estate ¹		Central Services ¹		Eliminations		SBB Total	
31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
11.1	32.9	11.7	0.0	361.5	547.4	0.0	0.0	604.9	964.7
291.9	281.2	26.9	0.0	81.4	184.3	-253.9	-342.5	557.8	545.7
160.5	227.3	11.5	0.0	608.3	353.1	-943.8	-904.1	239.3	239.7
157.0	142.1	2.4	0.0	0.2	19.9	-2.5	-27.5	281.9	258.1
119.4	95.7	39.6	0.0	60.1	14.3	-168.9	-80.9	364.2	264.8
739.9	779.3	92.0	0.0	1,111.5	1,118.9	-1,369.1	-1,355.1	2,048.1	2,273.0
54.6	62.4	13.4	0.0	6,791.5	7,037.9	-4,636.3	-4,066.5	2,275.2	3,150.3
10,722.4	12,396.1	2,661.6	0.0	3.0	31.1	0.0	0.0	17,894.2	16,941.5
4,927.0	5,284.5	339.7	0.0	30.1	22.1	0.0	0.0	6,351.9	6,214.0
126.8	126.7	5.8	0.0	23.4	37.8	-0.6	0.0	209.2	203.8
15,830.9	17,869.6	3,020.5	0.0	6,848.0	7,128.9	-4,636.9	-4,066.5	26,730.5	26,509.6
16,570.8	18,648.9	3,112.5	0.0	7,959.5	8,247.8	-6,006.0	-5,421.6	28,778.6	28,782.6

Infrastructure ¹		Real Estate ¹		Central Services ¹		Eliminations		SBB Total	
31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
11.1	32.9	11.7	0.0	361.5	547.4	0.0	0.0	604.9	964.7
291.9	281.2	26.9	0.0	81.4	184.3	-253.9	-342.5	557.8	545.7
160.5	227.3	11.5	0.0	608.3	353.1	-943.8	-904.1	239.3	239.7
157.0	142.1	2.4	0.0	0.2	19.9	-2.5	-27.5	281.9	258.1
119.4	95.7	39.6	0.0	60.1	14.3	-168.9	-80.9	364.2	264.8
739.9	779.3	92.0	0.0	1,111.5	1,118.9	-1,369.1	-1,355.1	2,048.1	2,273.0
54.6	62.4	13.4	0.0	6,791.5	7,037.9	-4,636.3	-4,066.5	2,275.2	3,150.3
10,722.4	12,396.1	2,661.6	0.0	3.0	31.1	0.0	0.0	17,894.2	16,941.5
4,927.0	5,284.5	339.7	0.0	30.1	22.1	0.0	0.0	6,351.9	6,214.0
126.8	126.7	5.8	0.0	23.4	37.8	-0.6	0.0	209.2	203.8
15,830.9	17,869.6	3,020.5	0.0	6,848.0	7,128.9	-4,636.9	-4,066.5	26,730.5	26,509.6
16,570.8	18,648.9	3,112.5	0.0	7,959.5	8,247.8	-6,006.0	-5,421.6	28,778.6	28,782.6

1. Due to the transfer of real estate operations to the newly created Real Estate unit as of 1.1.2003, the change with the equity positions due to the provision of the new Real Estate unit is shown.

Segment information SBB Group balance sheets.

Liabilities and equity.

CHF millions	31.12.2003	31.12.2002	31.12.2003	31.12.2002	Passenger Traffic ¹	Freight ¹
	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Liabilities						
Short-term financial liabilities	0.0	0.0	158.0	72.1	185.9	188.9
Trade accounts payable	242.9	458.0	146.6	134.4		
Other current liabilities	43.4	38.5	22.2	25.8		
Deferred income and accrued charges	745.1	701.7	59.2	65.3		
Current provisions	115.7	118.9	52.4	60.1		
Total current liabilities	1,305.1	1,389.2	466.2	474.4		
Non-current financial liabilities	18.4	168.2	0.5	0.0		
Other non-current liabilities	1,688.7	1,511.7	39.6	41.2		
Non-current provisions	123.8	160.2	74.2	58.5		
Deferred tax	0.3	0.3	0.0	0.0		
Total non-current liabilities	1,831.2	1,840.3	114.3	99.7		
Total liabilities	3,136.3	3,229.5	580.5	574.1		
Minority shareholdings	9.7	3.5	-0.4	0.3		
Equity²						
Share capital	1,710.0	1,800.0	670.0	670.0		
Capital reserves	600.2	630.2	2.2	2.2		
Retained earnings	285.9	183.9	87.1	196.3		
Net profit/loss	93.4	113.7	-33.1	-96.1		
Total equity²	2,689.5	2,727.8	726.2	772.3		
Total liabilities and equity	5,835.5	5,960.8	1,306.3	1,346.6		

1 Owing to the transfer of real estate operations to the newly created Real Estate unit as of 1.1.2003, comparability with prior year figures is limited.

2 The changes within the equity positions are due to the provision of the new Real Estate with equity.

Principal subsidiary undertakings. Group companies and associated companies.

Infrastructure ¹		Real Estate ¹		Central Services ¹		Eliminations		SBB Total	
31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002	31.12.2003	31.12.2002
149.6	183.0	164.7	0.0	311.2	518.3	-943.7	-931.0	25.7	31.1
352.5	384.1	50.8	0.0	62.4	86.2	-233.2	-333.6	621.9	729.2
2.4	17.2	2.5	0.0	38.3	64.3	0.0	0.0	108.8	145.7
126.8	89.0	46.3	0.0	136.4	84.1	-192.0	-90.5	922.0	849.7
100.7	73.3	13.4	0.0	53.1	105.2	0.0	0.0	335.3	357.5
732.0	746.6	277.8	0.0	601.5	858.0	-1,368.9	-1,355.1	2,013.7	2,113.2
451.0	527.6	41.1	0.0	4,260.5	3,931.0	0.0	0.0	4,771.4	4,626.7
6,916.6	7,898.7	2,158.8	0.0	909.5	1,823.7	-3,819.4	-3,249.6	7,893.9	8,025.7
900.8	962.2	20.5	0.0	1,299.8	1,183.5	-4.0	0.0	2,415.1	2,364.4
1.5	1.8	0.0	0.0	0.1	0.3	0.0	0.0	1.9	2.3
8,269.9	9,390.3	2,220.4	0.0	6,469.9	6,938.5	-3,823.4	-3,249.6	15,082.3	15,019.1
9,001.9	10,136.9	2,498.2	0.0	7,071.4	7,796.5	-5,192.3	-4,604.7	17,096.0	17,132.3
9.6	11.0	1.5	0.0	2.3	2.0	0.0	0.0	22.7	16.8
6,530.0	7,000.0	500.0	0.0	260.0	200.0	-670.0	-670.0	9,000.0	9,000.0
540.6	1,011.2	123.6	0.0	802.5	425.5	0.0	0.0	2,069.1	2,069.1
488.4	383.2	-6.2	0.0	-142.4	-39.8	-146.9	-147.2	565.9	576.4
0.3	106.5	-4.6	0.0	-34.3	-136.4	3.2	0.3	24.9	-12.0
7,559.3	8,501.0	612.8	0.0	885.8	449.3	-813.7	-816.9	11,659.9	11,633.5
16,570.8	18,648.9	3,112.5	0.0	7,959.5	8,247.8	-6,006.0	-5,421.6	28,778.6	28,782.6

1 = Infrastructure
 2 = Central Services
 3 = Freight
 4 = Passenger Traffic
 5 = Freight
 6 = Freight
 7 = Freight
 8 = Freight
 9 = Freight
 10 = Freight
 11 = Freight
 12 = Freight
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Principal subsidiary undertakings.

Group companies and associated companies.

Company name:		Share capital millions	SBB holding millions	SBB holding % 31.12.2003	SBB holding % 31.12.2002	Seg
Power stations						
Etzelwerk AG, Einsiedeln	CHF	20.00	20.00	100.00	100.00	V I
Kraftwerk Amsteg AG, Amsteg	CHF	80.00	72.00	90.00	90.00	V I
Kraftwerk Rapperswil-Auenstein AG, Aarau	CHF	12.00	6.60	55.00	55.00	V I
Kraftwerk Wassen AG, Wassen	CHF	16.00	8.00	50.00	50.00	E I
Kraftwerk Göschenen AG, Göschenen	CHF	60.00	24.00	40.00	40.00	E I
Warehouses and depots						
Silo AG Brunnen, Brunnen	CHF	0.65	0.00	0.00	53.85	V Z
Cargo Service Center Basel AG, Basel	CHF	3.00	0.00	0.00	100.00	E I
Umschlags AG, Basel	CHF	6.00	2.12	35.33	35.33	E Z
Terzag Terminal Zürich AG, Zurich	CHF	0.20	0.06	30.00	30.00	E I
CTG-AMT Genève-La Praille SA, Lancy	CHF	0.20	0.05	25.00	25.00	E I
Lasag Schaffhausen, Schaffhausen	CHF	2.85	0.00	0.00	20.18	E Z
Real estate and car parks						
BLI Bahnhof Luzern Immobilien AG, Lucerne (merged)	CHF	18.00	0.00	0.00	100.00	V IM
Immobilien-gesellschaft Casa Nostra AG, Berne	CHF	0.05	0.05	100.00	100.00	V Z
Parking Simplon-Gare SA Lausanne, Lausanne	CHF	2.20	1.10	50.05	50.05	V IM
Parking de la Gare de Neuchâtel SA, Neuchâtel	CHF	0.10	0.05	50.00	50.00	E IM
Frigosuisse Immobilien AG, Basel	CHF	0.26	0.11	42.31	42.31	E IM
cevanova AG, Berne	CHF	6.00	2.00	33.33	33.33	E IM
Grosse Schanze AG, Berne	CHF	3.20	1.00	31.25	31.25	E IM
Tiefgarage Bahnhofplatz AG, Lucerne	CHF	3.25	0.75	23.08	23.08	E IM
I.B.O. Immobilien-gesellschaft Bahnhof Ost AG, Basel	CHF	3.00	0.60	20.00	20.00	E IM
Parking de la Place de Cornavin SA, Geneva	CHF	10.00	2.00	20.00	20.00	E IM
Shipping and forwarding						
Schweizerische Bundesbahnen SBB Cargo AG, Basel	CHF	670.00	670.00	100.00	100.00	V G
Swiss Rail Cargo Italy S.r.L., Milan	EUR	13.00	13.00	100.00	0.00	V G
Rail Italy S.p.A., Milan	EUR	0.05	0.05	100.00	0.00	V G
S-Rail Europe GmbH, Singen	EUR	0.25	0.19	75.00	75.00	V G
ChemOil Logistics AG, Basel	CHF	0.25	0.13	51.00	51.00	V G
Swiss Rail Cargo Köln GmbH, Cologne	EUR	1.50	0.77	51.00	51.00	V G
Cargo SI S.p.A., Milan	EUR	0.10	0.05	50.00	50.00	E Z
Cisalpine SA, Berne	CHF	86.00	43.00	50.00	40.20	E P
RAlpin AG, Berne	CHF	0.30	0.09	30.00	40.00	E G
Hupac SA, Chiasso	CHF	20.00	4.77	23.85	23.85	E G
Termi SA, Chiasso	CHF	0.50	0.10	20.00	20.00	E G

Inclusion in scope of consolidation

Seg = segment

V = fully consolidated

E = accounted for by equity method

G = Freight

P = Passenger Traffic

I = Infrastructure

IM = Real Estate

Z = Central Services

SBB AG Income Statement

Report of the group auditor

For the period from January to December

		Share capital millions	SBB holding millions	SBB holding %	SBB holding %	Seg
Company name:				31.12.2003	31.12.2002	
Private railway and shipping companies						
SBB GmbH, Lörrach	EUR	1.50	1.50	100.00	100.00	V P
Schweizerische Bodensee-Schiffahrtsges. AG, Romanshorn	CHF	4.60	4.48	97.39	97.39	V P
Thurbo AG, Kreuzlingen	CHF	75.00	67.50	90.00	100.00	V P
EuroThurbo GmbH, Konstanz	EUR	0.05	0.05	90.00	100.00	V P
RegionAlps SA, Martigny	CHF	0.70	0.49	70.00	0.00	V P
Sensetalbahn AG, Laupen	CHF	2.89	1.89	65.47	65.47	V P
Tourism						
RailAway AG, Lucerne	CHF	0.10	0.10	100.00	100.00	V P
Rail Europe Australasia SNC, Paris	EUR	0.92	0.46	50.00	50.00	E P
Rhealys SA, Luxembourg	EUR	0.05	0.01	25.00	25.00	E P
SwissAccessGroup AG, St. Gallen	CHF	0.40	0.10	25.00	25.00	E P
Miscellaneous						
SBB Insurance AG, Vaduz	CHF	12.50	12.50	100.00	100.00	V Z
elvetino AG, Zurich	CHF	1.50	1.50	100.00	60.00	V P
elvetino management AG, Zurich	CHF	0.10	0.10	100.00	0.00	V P
RailLink AG, Berne	CHF	2.50	1.38	55.00	55.00	V P
Securitrans Public Transport Security AG, Berne	CHF	2.00	1.02	51.00	51.00	V Z
AlpTransit Gotthard AG, Lucerne	CHF	5.00	5.00	100.00	100.00	E

Inclusion in scope of consolidation

Seg = segment

V = fully consolidated

E = accounted for by equity method

G = Freight

P = Passenger Traffic

I = Infrastructure

IM = Real Estate

Z = Central Services

Financial income

Financial expense

Profit/loss before tax

Taxes

Net profit/loss for the year

The Notes are an integral part of these financial statements

Report of the group auditor.

Group companies and associated companies.

To the general meeting of Swiss Federal Railways SBB, Berne. As auditor of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows and notes) of Swiss Federal Railways SBB for the year ended December 31, 2003.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

We further draw your attention to the fact that the 100% investment in AlpTransit Gotthard AG has not been consolidated, but is accounted for under the equity method. On the basis of an agreement between the Swiss Confederation and the SBB, management responsibility lies with the Federal authorities. The requirement of a common management is therefore not met.

Berne, February 27, 2004

Ernst & Young Ltd

Bruno Chiomento

Certified Public Accountant (in charge of the audit)

Rudolf Mahnig

Swiss Certified Accountant

Enclosures:

- Consolidated financial statements (balance sheet, income statement, statement of cash flows and notes)

Division in scope of consolidation

Subsidiary

V = fully consolidated

C = accounted for by equity method

F = Freight

P = Passenger Traffic

I = Infrastructure

BA = Rail Assets

Z = General Services

SBB AG Income Statement.

For the period from January to December.

CHF millions	Note	2003	2002
Operating revenues			
Traffic revenues	1	2 092.0	2,106.3
Grants	2	522.6	593.6
Rental revenue from real estate	3	296.4	282.4
Other operating revenues	4	935.1	778.5
Other revenues	5	53.0	80.1
Own work capitalised	6	591.3	548.0
Federal government grants for infrastructure	7	1,327.0	1,306.9
Revenue reductions	8	-86.1	-65.3
Total operating revenues		5,731.3	5,630.5
Operating expenses			
Expenses for materials	9	-458.4	-433.8
Personnel expenses	10	-2,459.7	-2,488.7
Other operating expenses	11	-1,265.7	-1,084.5
Depreciation of tangible assets, impairment of financial assets and amortisation of intangible assets	12	-1,103.3	-1,227.6
Non-capitalisable investment expenses	13	-289.2	-322.9
Total operating expenses		-5,576.3	-5,557.5
Operating income before transfer to provisions as per ARR 16		155.0	73.0
Staff pension scheme as per ARR 16	14	-132.0	-183.0
Operating income after transfer to provisions as per ARR 16		23.0	-110.0
Net proceeds from sale of assets	15	126.4	112.9
Extraordinary income	16	41.3	82.6
Extraordinary expenses	17	-9.5	-4.0
Project "Chance" expenses	18	-17.3	-17.3
EBIT		163.9	64.2
Financial income	19	81.5	155.9
Financial expenses	20	-184.3	-238.5
Profit/loss before tax		61.1	-18.3
Taxes	21	-38.3	0.0
Net profit/loss for the year	22	22.8	-18.3

The Notes are an integral part of these financial statements.

SBB AG Balance Sheet.

Assets.

CHF millions

Current assetsCash and cash equivalents¹

Trade accounts receivable

Other receivables

Inventories and work in progress

Accrued income

Total current assets**Fixed assets**

Financial investments

Tangible assets

Assets under construction

Intangible assets

Total fixed assets**Total assets**¹ The short-term securities held were converted to cash (cf. Note 23).

The Notes are an integral part of these financial statements.

Note 31.12.2003 31.12.2002

23 512.5 836.5

24 475.3 478.7

298.0 232.2

25 281.4 259.3

318.2 239.3

1,885.4 2,046.0

26 3,333.5 4,022.8

27 16,479.6 15,568.5

27 6,020.4 5,929.3

28 175.1 168.0

26,008.6 25,688.6**27,894.0 27,734.6**

Bruno Chiomento

Certified Public Accountant in charge of

Bf RRA before transfer to provisions as per RRA

Rudolf Mähgig

Senior Certified Accountant

Bf RRA before transfer to provisions as per RRA

Employees

Consolidated financial statements

Profit/loss before tax

Financial income

Financial expenses

Profit/loss before tax

Taxes

Net profit/loss for the year

The Notes are an integral part of these financial statements.

Liabilities and equity.

CHF millions	Note	31.12.2003	31.12.2002
Liabilities			
Current financial liabilities		56.0	3.1
Trade accounts payable	29	522.4	674.3
Other current liabilities		84.0	119.8
Deferred income and accrued charges	30	876.6	782.9
Current provisions	33	280.1	298.2
Total current liabilities		1,819.1	1,878.3
Non-current financial liabilities	31	4,294.7	3,931.0
Other non-current liabilities	32	7,848.2	8,049.5
Non-current provisions	33	2,336.9	2,303.5
Total non-current liabilities		14,479.8	14,284.0
Total liabilities		16,298.9	16,162.3
Equity			
Share capital		9,000.0	9,000.0
Legal reserves			
General legal reserves		2,000.0	2,000.0
EBG 64 reserve		532.7	0.0
Retained earnings	34		
Profit carried forward		39.6	590.6
Profit/loss for the year		22.8	-18.3
Total equity		11,595.1	11,572.3
Total liabilities and equity		27,894.0	27,734.6

The Notes are an integral part of these financial statements.

SBB AG Cash Flow Statement.

CHF millions	2003	2002
Profit/loss for the year	22.8	-18.3
Depreciation of fixed assets, impairment of financial assets and amortisation of intangible assets	1,103.3	1,227.6
Non-capitalisable investment expenses	289.2	322.9
Change in non-current provisions	28.8	-39.5
Net proceeds from sale of assets	-126.4	-112.8
Own work capitalised	-367.1	-548.0
Cash flow	950.6	831.9
Change in trade accounts receivable	3.4	406.5
Change in inventories and work in progress	-22.1	-43.9
Change in other current receivables and accrued income	-130.1	276.8
Change in current liabilities	-112.5	-347.8
Cash flow from operating activities	689.3	1,123.5
Cash flow on the basis of the BLI merger	1.8	0.0
Investments in financial assets	-280.0	-268.6
Disposals of financial assets	151.9	239.8
Investments in assets under construction and tangible assets	-1,937.0	-2,125.1
Disposals of tangible assets	52.8	103.1
Investments in intangible assets	-4.0	-16.8
Cash flow from investing activities	-2,014.5	-2,067.6
Change in current financial liabilities	52.8	-40.8
Change in non-current financial liabilities	299.5	610.3
Change in other non-current liabilities	648.8	668.5
Cash flow from financing activities	1,001.1	1,238.0
Overall change in funds	-324.1	293.9
Cash and cash equivalents at 1 January ¹	836.6	542.6
Cash and cash equivalents at 31 December	512.5	836.6
Change in cash and cash equivalents	-324.1	293.9

¹ The short-term securities held were converted to cash. See Note 23.

Notes to the SBB AG financial statements.

Notes to the financial statements.

0 General

0.1 SBB AG

SBB AG includes the Passenger Traffic, Infrastructure and Real Estate divisions, the Central Services and the Freight division's rolling stock servicing unit. The Freight division was spun off in 2001 to form SBB Cargo AG, a legally independent subsidiary that is not covered by this report. The accounting principles used for the individual statements meet the requirements of Swiss Company Law and the Swiss Accounting and Reporting Recommendations (Swiss GAAP ARR).

The acquisition and establishment of regionally-based subsidiaries allows a growing number of specific traffic and other services to be outsourced. The regional passenger traffic for Eastern Switzerland was outsourced to the Thurbo AG subsidiary in the reporting year.

0.2 Taxes

In its ruling of 23 December 2003, the Federal Court (BG) specified the subjective tax relevance of SBB AG in the cantons and communities in respect of "non-operating" properties. As a result of the new situation, a retroactive provision is required for 1999–2003 for tax on earnings, capital gains tax and capital gains tax on property, for which a corresponding tax provision has been entered on the basis of current knowledge.

0.3 Pension commitments

The financial effects of pension commitments must be entered in accordance with ARR 16, irrespective of the legal form of the pension plans and schemes. This financial approach requires the inclusion of staff pension schemes in the financial statement, although they constitute neither a credit balance nor a liability from a legal point of view. Assets and liabilities relating to the pension schemes are revalued periodically. ATAG Libera AG carries out the calculations for SBB in accordance with ARR 16 using the "projected unit credit" method. The projected benefit obligations (PBO) towards employees covered by the plan are equivalent to the cash value of the pension benefits accrued on the reference date, taking account of assumed future salary and pension increases and the likelihood of the employees leaving. Pension scheme commitments to retirees are expressed as the cash value of the current pensions, taking account of assumed future pension increases. The overall liability is compared with the market value of the assets. If this results in a deficit, at least the debit amount is entered (updating of the previous year's figure). Should the difference (between the debit amount and the actual deficit) exceed the range specified in ARR 16 (10% of the assets of the scheme or 10% of the pension commitments, whichever is higher), the difference over an average remaining period for the insured parties (15 years in the case of SBB) is amortised and hence taken to the income statement.

0.4 Environmental provision

An expert report prepared by external consultants identified the need for SBB AG to set aside an environmental provision amounting to CHF 393 million as at 1 January 1999. In view of major uncertainties regarding the amount of this provision, it was agreed with the federal government that the total amount of the provision should not be entered in the opening balance sheet but that an initial provision totalling CHF 110 million for cleanup costs in the years 1999 to 2002 be entered. Further costs will be assumed after full write-back of said provision by the federal government within the scope of the performance agreements

Notes to the SBB AG financial statements

1 Traffic revenues

CHF millions	2003	2002
Passenger services	1,755.1	1,799.2
Freight services	0.0	0.7
Operation revenues	162.4	148.7
Infrastructure	174.5	157.7
Traffic revenues	2,092.0	2,106.3

Revenues from passenger services fell by 2.5% in the reporting year. This is largely attributable to the outsourcing of the regional passenger services for Eastern Switzerland to the subsidiary Thurbo AG. Global economic and political uncertainties, health risks and increased competition from low-cost airlines had a detrimental effect on international passenger traffic. On the other hand, the revenue from domestic traffic increased, despite the absence of Expo 02 traffic. The increased revenue from domestic traffic could not compensate fully for the losses in international traffic.

The revenue from operations and infrastructure increased, primarily as a result of an increase in services to subsidiaries.

2 Grants

CHF millions	2003	2002
Grants for regional passenger services		
Confederation	282.1	313.4
Cantons	147.1	188.1
Third-party contributions	0.0	0.1
Total grants for regional passenger services	429.2	501.6
Train-path charge subsidies for freight traffic (to Infrastructure)		
for intermodal transport	35.6	32.7
for other freight traffic	57.8	59.3
Total train-path charge subsidies	93.4	92.0
Grants	522.6	593.6

SBB AG's regional passenger services contracted by around 6 million train kilometres due to the outsourcing of regional passenger services in Eastern Switzerland to the subsidiary Thurbo AG. The grant per train kilometre fell to CHF 8.51 in 2003 (2002: CHF 8.88).

The grants for regional passenger services for the cantons make allowance for reclassification of payments forwarded to the Zurich Transport Authority (ZVV) amounting to CHF 33 million, on the basis of the disclosure practice specified by the Federal Office of Transport (BAV) (cf. Note 7).

The purpose of train-path charge subsidies is to reduce the train path charges as an incentive for goods traffic to switch from road to rail. In addition to SBB Cargo AG, other railway companies which purchase train-path services from SBB Infrastructure also benefit from the cheaper train-path charges.

3 Rental revenue from real estate

This figure includes the revenue from the rental of real estate in SBB's property portfolio.

4 Other operating revenues

CHF millions	2003	2002
Contract staff	6.8	4.7
Services	284.7	152.0
Maintenance and servicing work	191.6	171.8
Rental revenues	62.5	50.3
Power revenues	82.4	53.5
Foreign currency exchange	39.0	41.9
Commissions	77.0	106.8
Sales of printed matter and materials	51.5	42.4
Cost participations, contributions	73.6	76.9
Sundry additional income	66.0	78.2
Other operating revenues	935.1	778.5

The gross accounting procedure was applied consistently for the first time in the reporting year for the tour operating business for passenger services (third-party services) and for rental of rolling stock to foreign railways. As a result of the change, the comparability of other operating revenues with the previous year is restricted. The relevant expenses arising from the gross accounting procedure are included under the heading "Other operating expenses" (cf. Note 11).

The revenue from energy was higher because of the relatively high prices on the electricity market.

Commissions decreased due to the absence of the additional Expo 02 services. Lower international passenger traffic figures led to a further reduction.

An increase in sales of spares and scrap material boosted revenues from sales of printed material and other material.

5 Other revenues

The decline in investment work for third parties and the reduction in the release of the power provision resulted in a reduction in other revenues. The purpose of the power provision is to compensate for the power generation costs from own power stations over and above the market price. The reduction in the release is due to higher market prices.

6 Own work capitalised

CHF millions	2003	2002
Investment orders	367.1	343.9
Stock orders	224.2	204.1
Own work capitalised	591.3	548.0

The increase in own work capitalised for investment orders is a result of the additional work for infrastructure and the increase in own work capitalised for the procurement of new rolling stock.

The increase in own work capitalised for stock orders is due in particular to the increased maintenance of rolling stock.

7 Federal government grants for infrastructure

CHF millions

	2003	2002
Depreciation of infrastructure	862.7	810.0
Infrastructure operating grant	464.3	494.0
Contribution for SBB services during St. Gotthard tunnel closure	0.0	2.9
Federal government grants for infrastructure	1,327.0	1,306.9

The increased payments for the depreciation of infrastructure are mainly attributable to the high level of investment activity relating to Rail 2000. On the other hand, the operating grant is lower due to increases in productivity. The federal government's deficit reduction programme resulted in a cut of CHF 13 million in the budget for federal government grants for infrastructure.

The federal government makes a payment of CHF 33 million to SBB AG which is forwarded to the Zurich Transport Authority (ZVV). This amount is not directly linked to services performed by SBB AG. This amount is entered under federal government grants for infrastructure and forwarded to ZVV by deducting it from the cantonal grants for regional passenger traffic, as specified by the Federal Office of Transport (cf. Note 2).

8 Revenue reductions

The increase in revenue reductions is due to the higher balance of exchange rate gains and losses and the change in provisions for bad and doubtful debts.

9 Expenses for materials

Expenses for materials has risen particularly because of the increasing sales of material and printed matter, the increase in own work capitalised and the increased maintenance for rolling stock (Rail 2000).

10 Personnel expenses

CHF millions

	2003	2002
Wages and salaries	2,107.8	2,107.5
Social benefit costs	283.0	301.4
Other personnel expenses	68.9	79.8
Personnel expenses	2,459.7	2,488.7

There is practically no change in wages and salaries compared to the previous year.

The reduction in social benefit costs is due mainly to the increase of the coordination deduction, in effect as from 1.1.2003, and the associated reduction in one-off payments to the pension fund. From the beginning of 2003, SBB will bear the costs for occupational disability in order to help restructure the SBB pension fund. Furthermore, since 1 July 2003, the employees and employer have been paying a restructuring contribution to the SBB pension fund, amounting to 1.5% of the insured salary.

The fall in other personnel expenses is due to lower expense reimbursements and compensation and a reduction in staff restaurant and staff recruitment costs.

11 Rental revenue from real estate

This figure includes the revenue from the rental of real estate in SBB's property portfolio.

11 Other operating expenses

CHF millions

	2003	2002
Lease of installations	24.5	23.1
Services for maintenance, repair and replacement	206.9	196.4
Vehicle costs	89.0	62.9
Property insurance, duties and fees	71.8	55.6
Power and waste disposal costs	201.8	181.9
Administration and information system costs	204.3	211.8
Publicity costs	38.4	52.8
Other operating expenses	175.9	21.5
Operating costs	202.2	232.8
Flat-rate VAT charge/pretax reductions on grants	50.9	45.7
Other operating expenses	1,265.7	1,084.5

The increase in other operating expenses is largely due to the consistent application of gross accounting of purchase of services, described under other operating revenues. In the reporting year, gross accounting was also applied for the first time to the tour operating business and for rental of rolling stock to foreign railways. This means that only a limited comparison with the previous year is possible (cf. Note 4). The increase in third-party services for maintenance, repairs and replacements is predominantly due to the additional commissioning of third parties with work which could not be carried out in-house.

Following the Federal Court ruling of December 2003 on the partial tax liability of SBB AG for property, a tax provision was created and debited against the entry for "Property insurance, duties and fees" for capital gains tax on property, retroactively for 1999–2003.

Power and waste disposal costs have risen as a result of the relatively high energy prices (cf. other operating revenues).

The reduction in publicity costs is due in particular to the end of the intensive publicity campaign during Expo 02.

The expenses entered under the heading "Flat-rate VAT charge / pretax reductions" are mainly attributable to the VAT regulations applicable to public transport operators. SBB AG calculates a 2.7% pretax reduction on the payments it receives, instead of a reduction in proportion to the corresponding share of its total turnover. As the tax payable is contained in these amounts, this arrangement does not affect the SBB AG income statement.

12 Profit/loss for the year

CHF million

Operating income	2,451.1
Operating expenses	(2,451.1)
Profit/loss for the year	0.0

13 Cash and cash equivalents

CHF million

Cash	24.7
Term deposits	4,180.0
Cash in transit	0.0
Securities	0.0
Cash and cash equivalents	4,204.7

The amount shown is the amount available in the bank or cash in hand at the reporting date.

There has been a decrease in cash and cash equivalents, primarily due to the appropriation of the funds account from 2002 to the acquisition of rolling stock amounting to CHF 1,000 million in the previous year.

12 Depreciation of tangible assets, impairment of financial assets and amortisation of intangible assets

CHF millions

Impairment of financial assets

Depreciation of tangible assets

Amortisation of intangible assets

Depreciation of net book values on disposals of tangible assets

Depreciation of tangible assets, impairment of financial assets and amortisation of intangible assets

	2003	2002
Impairment of financial assets	28.4	168.4
Depreciation of tangible assets	984.3	943.1
Amortisation of intangible assets	47.9	42.6
Depreciation of net book values on disposals of tangible assets	42.7	73.5
Depreciation of tangible assets, impairment of financial assets and amortisation of intangible assets	1,103.3	1,227.6

Impairments of financial assets include valuation provisions on the holdings and loans of SBB AG. The high impairment figure in the previous year was attributable to the first valuation provision for SBB Cargo AG amounting to CHF 156 million.

The increase in depreciation of tangible assets is due to the higher depreciation base particularly because of the investments in the infrastructure and rolling stock for Rail 2000.

The depreciation of intangible assets includes depreciation of software, rights and merger-related goodwill.

The reduction in disposals of tangible assets and improved sales revenue results in a lower depreciation of residual book values.

13 Non-capitalisable investment expenses

The decrease in non-capitalisable investments is due to the reduction in the non-capitalisable portions of completed projects.

14 Staff pension scheme as per ARR 16

The slight recovery of the capital markets helped the SBB pension fund to end 2003 with a surplus. This development also had a positive effect on the pension fund valuation under ARR 16. The difference to be amortised over the average remaining enrolment period of the policyholders decreased and no additional contribution to the amount of liabilities was necessary. The allocation to the ARR 16 provision for the reporting year is CHF 132 million. (Details of the staff pension scheme as per ARR 16 can be found in the consolidated financial report under Note 34, in the paragraph entitled "Staff pension scheme".)

15 Net proceeds from sale of assets

The net proceeds from sale of assets arose chiefly from the sale of the last tranche of the holding in TDC Switzerland and from the sale of tangible fixed assets, mainly property.

16 Extraordinary income

Extraordinary income includes repayment credit balances which have been written off and profit shares from previous years' joint ventures.

17 Extraordinary expense

The extraordinary expense is due to the formation of a provision for property from the earlier restructuring of rolling stock maintenance.

18 Project "Chance" expenses

The "Chance" project includes the cost of retraining staff made redundant due to rationalisation or restructuring.

19 Financial income

CHF millions	2003	2002
Financial and investment income from third parties	31.2	90.0
Financial and investment income from group companies	20.9	21.2
Financial and investment income from associated companies	6.9	12.1
Financial income shareholder	1.1	3.0
Other financial income	21.4	29.6
Financial income	81.5	155.9

20 Financial expenses

CHF millions	2003	2002
Financial expenses third parties	121.6	167.8
Financial expenses group companies	0.6	1.5
Financial expenses to the shareholder	55.1	51.6
Other financial expenses	7.0	17.6
Financial expenses	184.3	238.5

The reduction in financial income and expenses is due to the difference in treatment of defeasance interest relating to the leasing transactions compared to the previous year and the generally lower interest rates. Interest and similar expenses payable to third parties consist primarily of interest due on commitments to EUROFIMA.

21 Taxes

Under Article 21 of the SBB Act of 20 March 1998, SBB AG is exempt from tax, including at cantonal level. Following the ruling by the Federal Court in December 2003 on the partial tax relevance of SBB AG in cantons and communities in respect of "non-operating" property, a tax provision for tax on income and capital was formed retroactively for 1999–2003. The remaining taxes come from the subsidiary BLI, which was merged with the new Real Estate division.

22 Profit/loss for the year

CHF millions	2003	2002
Profit for the year from operations eligible for grants under Art. 64 of the EBG		
Infrastructure	-25.0	82.4
Regional passenger traffic (RPV)	8.7	3.6
Profit/loss for the year from operations which are not eligible for grants	39.1	-104.3
Profit/loss for the year	22.8	-18.3

23 Cash and cash equivalents

CHF millions	31.12.2003	31.12.2002
Cash	38.7	38.3
Postal account	34.7	53.5
Banks	418.3	727.2
Term deposits	14.9	13.4
Cash in transit	5.8	3.5
Securities ¹	0.1	0.6
Cash and cash equivalents	512.5	836.5

¹ The short-term securities were stated separately in the balance sheet in previous years.

There has been a decrease in cash and cash equivalents, primarily due to the appropriation of the funds accruing from leasing for the acquisition of rolling stock around the end of the previous year.

24 Trade accounts receivable

CHF millions

	31.12.2003	31.12.2002
Trade accounts receivable		
from third parties	405.9	408.4
from group companies	94.6	91.5
from associated companies	11.2	7.0
Valuation provisions	-36.4	-28.2
Trade accounts receivable	475.3	478.7

The level of trade accounts receivable is almost unchanged compared to the previous year.

25 Inventories and work in progress

CHF millions

	31.12.2003	31.12.2002
Inventories	457.3	424.3
Work in progress	17.7	30.6
Valuation provisions	-193.6	-195.6
Inventories and work in progress	281.4	259.3

The increase in inventories is primarily due to higher inventor production for rolling stock servicing (Rail 2000).

The valuation provisions are a result of write-downs on obsolete stock.

26 Financial investments

CHF millions

	Long-term investments	Holdings	Non-current receivables from third parties	Non-current receivables from Group companies	Non-current receivables from affiliated companies	Non-current receivables from shareholders	Total
Historical costs							
As at 1.1.2003	619.7	1,125.9	625.5	100.7	49.9	1,756.8	4,278.5
Additions	14.6	34.7	49.2	215.9	3.2	0.0	317.6
Disposals	0.0	-57.2	-86.4	-22.9	-1.3	-850.0	-1,017.8
Reclassifications	0.0	0.0	-23.0	23.0	0.0	0.0	0.0
As at 31.12.2003	634.2	1,103.4	565.3	316.8	51.8	906.8	3,578.3
Accumulated depreciation							
As at 1.1.2003	0.0	-214.1	-41.6	0.0	0.0	0.0	-255.7
Additions	0.0	-21.9	0.0	-5.0	-1.5	0.0	-28.4
Disposals	0.0	22.8	16.5	0.0	0.0	0.0	39.3
As at 31.12.2003	0.0	-213.2	-25.1	-5.0	-1.5	0.0	-244.8
As at 1.1.2003	619.7	911.7	583.9	100.7	49.9	1,756.8	4,022.8
As at 31.12.2003	634.2	890.2	540.2	311.8	50.3	906.8	3,333.5

The revenue from the investment of funds for repayment of the leasing commitments is being reinvested, resulting in an increase in the securities constituent of the fixed assets. The corresponding commitments are entered as liabilities.

The addition to the holdings includes the establishment of SBB GmbH and Region Alps SA, the share issues in Turbo AG and the increase in the shareholding in Cisalpino AG. The disposal was a result of the merger of Bahnhof Luzern Immobilien AG (BLI), the disposal of the holdings in Cargo Service Center Basel AG and TDC Switzerland and of the partial sale of Lasag Schaffhausen. Furthermore, restructuring of elvetino AG took place by a reduction in capital and a simultaneous increase.

The reduction in non-current receivables from third parties is due to the repayment and reduced take-up of mortgages and building loans granted to the railway workers' building cooperative and to the write-off of receivables from previous years for which a full valuation provision has been made.

The non-current receivables from the shareholder fell by CHF 850 million. The reduction is related to the payment plan agreed for the financing of the SBB pension fund when it was established in 1999. The long-term commitments to the shareholder fell in line with the account receivable (cf. Note 32).

27 Tangible assets and assets under construction

CHF millions	Vehicles (incl. leasing)	Civil engineering, trackbed and railway fittings	Other tangible assets	Property	Buildings	Total tangible assets	Assets under construction and pre- payments	Total
Historical costs								
As at 1.1.2003	7,924.2	11,871.0	3,667.6	1,444.4	3,214.5	28,121.7	7,074.9	35,196.5
Investments	0.7	28.2	8.4	0.1	7.2	44.7	2,513.5	2,558.1
Addition from the BLI merger	0.0	0.0	0.0	0.0	92.1	92.1	0.0	92.1
Reclassification of assets								
under construction as assets	356.5	1,009.1	300.9	11.7	140.2	1,818.5	-1,818.5	0.0
Investment subsidy	0.0	-61.5	-23.6	-0.3	-13.6	-99.0	0.0	-99.0
Disposals of tangible assets	-78.5	-188.5	-92.0	-5.6	-25.7	-390.2	-444.1	-834.4
Reclassifications	0.0	1.8	-3.8	0.0	0.0	-2.0	-47.3	-49.3
As at 31.12.2003	8,202.9	12,660.0	3,857.5	1,450.3	3,414.8	29,585.7	7,278.5	36,864.1
of which leasing	1,992.1					1,992.1		1,992.1
Accumulated depreciation								
As at 1.1.2003	-4,256.8	-4,005.3	-2,771.8	-21.8	-1,497.3	-12,553.2	-1,145.6	-13,698.8
Additions	-296.8	-384.5	-131.5	0.0	-59.1	-871.8	-112.5	-984.3
Accrual from the BLI merger	0.0	0.0	0.0	0.0	-6.7	-6.7	0.0	-6.7
Disposals	73.5	159.0	77.6	0.0	14.2	324.2	0.0	324.2
Reclassifications	0.0	-1.8	3.2	0.0	0.0	1.5	0.0	1.5
As at 31.12.2003	-4,480.2	-4,232.6	-2,822.5	-21.8	-1,548.9	-13,106.0	-1,258.1	-14,364.1
of which leasing	-674.0					-674.0		-674.0
Net book value 1.1.2003	3,667.4	7,865.7	895.7	1,422.5	1,717.2	15,568.5	5,929.3	21,497.8
Net book value 31.12.2003	3,722.8	8,427.5	1,035.0	1,428.5	1,865.9	16,479.6	6,020.4	22,500.0
of which leasing	1,318.1					1,318.1		1,318.1

The increase in tangible assets is primarily due to the construction of infrastructure and procurement of passenger rolling stock for Rail 2000. Other tangible assets include all installations, IT and telecommunications equipment, and supply and disposal plant. Interest paid on loans with a variable rate of interest for financing Rail 2000 has been capitalised. Capitalised interest expenses amounted to CHF 26.6 million in the year under review (previous year: CHF 22 million).

28 Intangible assets

CHF millions	Rights	Software	Goodwill from merger	Total
Historical costs				
As at 1.1.2003	101.6	174.8	0.0	276.4
Additions	2.8	1.2	3.2	7.2
Disposals	0.0	-0.8	0.0	-0.8
Reclassifications	2.7	46.6	0.0	49.3
As at 31.12.2003	107.1	221.8	3.2	332.1
Accumulated depreciation				
As at 1.1.2003	-15.8	-92.5	0.0	-108.4
Additions	-4.2	-41.7	-2.0	-47.9
Disposals	0.0	0.7	0.0	0.7
Reclassifications	0.0	-1.5	0.0	-1.5
As at 31.12.2003	-20.0	-135.0	-2.0	-157.0
Net book value 1.1.2003	85.8	82.3	0.0	168.0
Net book value 31.12.2003	87.1	86.8	1.2	175.1

The merger of SBB AG (Real Estate unit) with Bahnhof Luzern Immobilien AG (BLI) produced goodwill amounting to CHF 3.2 million.

The reclassifications of software are due to the data processing projects in progress in the systems under construction which were accounted for in the reporting year.

29 Trade accounts payable

CHF millions	31.12.2003	31.12.2002
Trade accounts payable	1,814.9	1,888.0
to third parties	507.6	649.6
to group companies	11.9	21.5
to associated companies	2.9	3.2
Trade accounts payable	522.4	674.3

Trade accounts payable to third parties include those payable to domestic and foreign railway authorities. The fall in trade accounts payable to third parties is due to the increased calling of payment liabilities to domestic rail companies at the end of 2003. It is also due to the reduced volume of payments resulting from the non-renewal of joint infrastructure contracts.

30 Deferred income and accrued charges

CHF millions	31.12.2003	31.12.2002
Ticket deferrals	370.8	341.4
Accrued interest payable	42.7	34.3
Other accruals and deferrals	463.1	407.2
Deferred income and accrued charges	876.6	782.9

The ticket deferrals relate mainly to the General Abonnement, Half-Fare Card and point-to-point season tickets. They do not extend to individual tickets. The other accruals and deferrals include the periodic posting of expenses and income.

31 Non-current financial liabilities

CHF millions	31.12.2003	31.12.2002
Bank liabilities	258.2	32.8
Leasing liabilities	2,552.2	2,527.9
Mortgage liabilities	34.2	0.0
Staff savings accounts	1,450.1	1,370.3
Non-current financial liabilities	4,294.7	3,931.0

Non-current liabilities to banks have increased as a result of the refinancing of loans granted to subsidiaries.

Leasing liabilities have increased due to the capitalisation of leasing interest on existing contracts.

Mortgage liabilities totalling CHF 34.2 million were transferred to SBB AG as a result of the merger with Bahnhof Luzern Immobilien AG.

The liability to the staff savings accounts represents a savings credit balance of current and former employees of SBB.

32 Other non-current liabilities

CHF millions	31.12.2003	31.12.2002
Liabilities to third parties	0.0	11.8
Liabilities to group companies	0.0	52.4
Liabilities to the federal government as shareholder	7,848.2	7,985.3
Other non-current liabilities	7,848.2	8,049.5

Composition of the liabilities to the federal government as shareholder

CHF millions	31.12.2003	31.12.2002
Variable-interest loans	1,827.6	1,741.1
Interest-bearing loans for refinancing the SBB Pension Fund	906.8	1,756.8
Interest-bearing loans for the major rail projects fund	880.6	724.0
Variable-interest loans for the major rail projects fund	4,233.2	3,763.4
Total	7,848.2	7,985.3

The liability to the federal government as shareholder fell by around CHF 137 million in the reporting year, due to the reduction in the liability arising from financing of the SBB pension fund amounting to CHF 850 million (cf. Note 26). On the other hand, the loan for the financing of Rail 2000 and to cover the basic requirements for investment in infrastructure increased by a total of CHF 713 million.

Net indebtedness

CHF millions	Note	31.12.2003	31.12.2002
Current financial liabilities		56.0	3.1
Non-current financial liabilities	31	4,294.7	3,931.0
Other non-current liabilities	32	7,848.2	8,049.5
Total borrowings		12,198.9	11,983.6

less cash and cash equivalents, bonds and investment in securities

less receivables from the shareholder for the pension fund

Net indebtedness

Change compared to the previous year

Net indebtedness increased by CHF 1,374.8 million in the reporting year, primarily due to borrowing for financing infrastructure and rolling stock for Rail 2000.

33 Provisions

CHF millions	31.12.2003	31.12.2002
Current provisions	280.1	298.2
Non-current provisions	2,336.9	2,303.5
Provisions	2,617.0	2,601.7

CHF millions	Staff pension scheme as per ARR 16	Provision for index-linking of pensions	Environmental provision	Power unit restructuring	Vacation/overtime	Other provisions	Total
As at 1.1.2003	833.0	240.6	96.0	687.7	137.4	607.0	2,601.7
Addition	132.0	0.0	0.0	0.0	14.7	125.8	272.5
Addition from the BLI merger	0.0	0.0	0.0	0.0	0.0	4.7	4.7
Utilisation	0.0	-84.3	-6.9	-11.8	-30.3	-62.6	-196.0
Reversal	0.0	0.0	0.0	0.0	0.0	-65.6	-65.6
Reclassification	0.0	0.0	0.0	0.0	0.0	-0.3	-0.3
As at 31.12.2003	965.0	156.3	89.1	675.9	121.8	609.0	2,617.0

Notes on the provisions for the staff pension scheme as per ARR 16 are contained in the consolidated financial statements. The provision of CHF 965 million in the SBB AG accounts is identical to the provision in the consolidated accounts (cf. Note 0.3 "Pension commitments"). Members of the SBB Pension Fund who retired before 1 January 2001 are entitled to the same treatment as retired members of the federal government pension fund. The SBB Pension Fund can only pay cost-of-living increases to retirees if its finances and earnings permit. As the premium reserve of the SBB pension fund has failed to reach its specified level, the obligation to pay such cost-of-living increases to the beneficiaries has to be borne by the employer. CHF 84.3 million of the provisions was used for 2003.

The environmental remediation programme continued in the reporting year. The costs of this work was charged to provisions. Note 0.4 contains further information about environmental pollution.

The purpose of the energy provision is to reduce power generation costs which are over and above the market price. CHF 11.8 million was charged to the provision in the reporting year.

Holiday and overtime entitlements fell by CHF 15.6 million compared to the previous year. The reduction was primarily achieved by time off in lieu. Overtime entitlements were paid out in individual cases.

The other provisions relate mainly to insurance provisions to cover claims, provisions for revenue from the disposal of cable-laying rights and other operationally-necessary provisions, including for rolling stock. The new tax provision of CHF 50 million created for 1999-2003, on the basis of the Federal Court ruling of December 2003 on the partial tax relevance of SBB AG for property, is also included.

34 Retained earnings

CHF millions	31.12.2003	31.12.2002
Profit carried forward		
Reserved under Art. 64 of the EBG	0.0	446.7
Not reserved under Art. 64 of the EBG	39.6	143.9
Total profit carried forward	39.6	590.6
Profit/loss for the year		
Reserved under Art. 64 of the EBG	-16.3	86.0
Not reserved under Art. 64 of the EBG	39.1	-104.3
Total profit/loss for the year	22.8	-18.3
Total retained earnings in accordance with Art. 64 of the EBG	62.4	572.3

35 Statutory information

(If not already disclosed under the respective headings.)

35.1 Sureties, guarantees and pledges in favour of third parties

CHF millions	31.12.2003	31.12.2002
Sureties and guarantees	303.4	332.2
Statutory liability clauses	130.0	130.0
Firm purchase and finance commitments	14.7	15.7
Liabilities from unpaid share capital	147.2	147.3
Total	595.3	625.2

SBB AG has interests in a number of civil partnerships with joint and several liability. These are primarily integrated fare-system authorities, collaborations and joint ventures for the management of fixed-term projects.

35.2 Fire insurance value of the tangible assets

The fire insurance value of the tangible assets corresponds to their replacement or new value.

35.3 Liabilities towards staff pension schemes

CHF millions	31.12.2003	31.12.2002
Current liabilities	10.3	0.0
Total	10.3	0.0

35.4 Off-balance-sheet leasing commitments

CHF millions	31.12.2003	31.12.2002
Due within 1 year	26.2	32.9
Due within 1–2 years	13.0	22.7
Due within 2–3 years	5.6	9.8
Due within 3–4 years	1.5	3.2
Due in 4 years or later	0.1	0.4
Total	46.4	69.0

SBB AG has outsourced a substantial volume of IT work (computer centre/hardware/software/maintenance and service) to third parties.

35.5 Major holdings

Group holdings and affiliated companies are listed on pages 108–109 of the Notes to the consolidated financial statements.

36 Post balance sheet events

None.

Proposal of the Board of Directors on the appropriation of available earnings.

The Board of Directors proposes to the Annual General Meeting that the retained earnings for 2003 be appropriated as follows:

CHF millions	2003	2002
Profit/loss for the year	22.8	-18.3
Profit carried forward	39.6	590.6
Total unappropriated profit in accordance with Art. 64 of the Railways Act (EBG)	62.4	572.3
Appropriation of the profit for 1999 from operations eligible for grants to reserves in accordance with Art. 64 EBG		
Infrastructure		-78.4
Passenger services		-17.6
Appropriation of the profit for 2000 from operations eligible for grants to reserves in accordance with Art. 64 EBG		
Infrastructure		-162.1
Passenger services		-45.4
Appropriation of the profit for 2001 from operations eligible for grants to reserves in accordance with Art. 64 EBG		
Infrastructure		-132.7
Passenger services		-10.5
Appropriation of the profit for 2002 from operations eligible for grants to reserves in accordance with Art. 64 EBG		
Infrastructure		-82.4
Passenger services		-3.6
Appropriation/coverage of the profit for 2003 from operations eligible for grants to or from reserves in accordance with Art. 64 EBG		
Passenger services	-8.7	
Passenger services (Brünig) from 2000-2002	-2.6	
Infrastructure	25.0	
Retained earnings at the disposal of the General Meeting	76.1	39.6
Retained earnings carried forward	76.1	39.6
Profit/loss for the year		
Reserved under Art. 64 of the EBG		
Not reserved under Art. 64 of the EBG		
Total profits for the year	22.8	-18.3
Total retained earnings in accordance with Art. 64 of the EBG	62.4	572.3

Report of the statutory auditors.

To the general meeting of Swiss Federal Railways SBB, Berne. As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement, statement of cash flows and notes) of Swiss Federal Railways SBB for the year ended December 31, 2003.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply, as well as the proposed appropriation of available earnings, with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

The Federal Office of Transportation (FOT) has audited the financial statements for 2003 as supervisory authority in accordance with article 70 of the Swiss Railways Act (Eisenbahngesetz) and approved those financial statements in their report dated March 9, 2004.

Berne, February 27, 2004
Ernst & Young Ltd

Bruno Chiomento

Certified Public Accountant (in charge of the audit)

Rudolf Mahnig

Swiss Certified Accountant

Enclosures:

- Financial statements (balance sheet, income statement, statement of cash flows and notes)
- Proposed appropriation of available earnings