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SBB faces major challenges.

In the 2003 financial year, SBB was able to significantly improve its performance despite the persistent economic weakness.

Freight operations were turned around. And with Rail 2000 about to be inaugurated, SBB is facing one of its greatest challenges ever.

At CHF 45.3 million, operating income is CHF 34.3 million more than in the previous year. Operating income from freight showed a pleasing improvement, with losses falling from CHF 72.2 million in 2002 to CHF 22.6 million.

Following a ruling by the Federal Court on SBB's tax liability for real estate deemed non-essential to operations, the Infrastructure and Real Estate divisions had to set aside provisions for taxes totalling CHF 50 million. The pension fund deficit meant that provisions had to be increased by CHF 132 million in accordance with ARR (Swiss Accounting and Reporting Recommendations) 16. The sale of the remaining shares in TDC generated a profit of CHF 95.4 million.

Annual profit before ARR 16 and taxes arising from the Federal Court's ruling totals CHF 206.9 million, CHF 35.9 million more than in 2002.

The annual profit for 2003 after ARR 16 and taxes amounts to CHF 24.9 million. SBB had posted a CHF 12 million loss in 2002.

Divisional results.

Turnaround in freight traffic. The Freight division staged a turnaround in 2003. The annual loss was reduced by two thirds on the previous year, improving from CHF -96.1 million to CHF -33.1 million despite the sluggish economy and the closure of the Monte Olimpino II tunnel near Chiasso for a period of several months. With the further expansion of Swiss Rail Cargo Köln (SRCK), the founding of Swiss Rail Cargo Italy (SRCI) and the acquisition of Rail Italy, the foundations for implementing SBB's policy of freight expansion in Europe have been laid. SRCI ran its first train on 15 December 2003.

The significant improvement in the Freight division's performance, achieved in the face of stagnating sales income, is mainly due to the staff restructuring programme initiated in 2002 and vastly improved management of operating costs.

The "New wagonload services" project was launched in Switzerland with the changeover to the new timetable in 2003. By restructuring regional operations it has been possible to achieve a significant reduction in costs. At the same time the action taken to improve wagonload services has enabled the division to maintain a full nationwide service.

Passenger Traffic's operating income down. SBB Passenger Traffic's operating income fell to 165.5 million in 2003 (CHF 173.4 million in 2002). At CHF 93.4 million, the annual profit is CHF 20.3 million less than the previous year.

Nevertheless, traffic revenues increased slightly on 2002, with regional and leisure-time services performing particularly well. The increase in revenue was not sufficient, however, to offset the additional costs.

Passenger services were overshadowed by the severe collision that took place at Zurich Oerlikon on 24 October 2003. A young female passenger suffered fatal injuries as two fast trains collided and over a hundred other passengers sustained lesser injuries.

Apart from the collision, operations were disrupted by a series of other problems (locomotive, rolling stock, power line, points and signalling failures) throughout October and November. The Zurich area was particularly hard hit, with severe disruptions in some cases. SBB responded with specific action targeting rolling stock maintenance, infrastructure and customer information. The situation has stabilised again since December.

Infrastructure meets its target. Infrastructure posted operating income of CHF -111.8 million. After the transfer payments for the spin-off of real estate operations into a separate unit, Infrastructure posted an annual surplus of CHF 0.3 million in 2003, thereby achieving its goal of breaking even. Provisions had to be set aside for possible tax expenses to cover the period from 1999 to 2002 when SBB's real estate still belonged to Infrastructure. These provisions total CHF 41 million.

The sluggish economy, its impact on freight traffic and the closure of the Monte Olimpino II tunnel – highly important for freight services to Italy – resulted in a drop in earnings from infrastructure use by freight trains. When the tunnel was closed, international traffic was routed via other networks. During 2003, Infrastructure completed important work connected with the launch of phase one of Rail 2000 on 12 December 2004.

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Real Estate posts first result as separate division. At the beginning of 2003 Real Estate was spun off from Infrastructure and established within the Group as an independent unit. Operating income totalled CHF 127.9 million and the annual result amounted to CHF -4.6 million. As part of the reorganisation, SBB Real Estate was obliged to pay compensation for the loss of income resulting from its spin-off from Infrastructure. These payments totalled CHF 141 million. The Real Estate division paid CHF 44 million of this amount directly to Infrastructure; the remaining CHF 97 million was paid via the Group as a financial expense. Furthermore, provisions of CHF 9 million had to be set aside to cover possible tax expenses arising from the Federal Court's ruling mentioned earlier.

Dr. Thierry Lalive d'Époy

Chairman of the Board of Directors

Pension fund problem still not resolved.

The problems faced by the SBB pension fund have not been solved. After falling to 83.2%¹ at the end of 2002 for reasons that are now familiar, the pension fund's reserve ratio had climbed back to 84.9% by the end of 2003. In view of the deficit, SBB had to accumulate provisions of CHF 132 million in the year under review in accordance with accounting standard ARR 16.

The stock market's improved performance as of March 2003 aided the recovery of the SBB pension fund. But the pension fund took action too, and a package of measures to make up the shortfall has been in place since mid-2003. Employees covered by the plan and the employer each pay a restructuring contribution of 1.5%. The repayment contribution for bridging pensions paid out in the event of early retirement was also progressively increased. Given the extremely high annuity portfolio, the effects of these restructuring measures are relatively modest.

The Federal Council has decided to examine SBB's request for assistance in managing the problems of its pension fund in greater depth. SBB is hoping for a solution that will secure the pension fund's future at the same time as relieving the company of the burden of having to form provisions every year to comply with ARR 16.

A word of thanks to our employees.

The 28,707 employees of SBB and its subsidiaries showed enormous dedication and commitment in 2003. For a period of many weeks the extremely high summer temperatures made working conditions difficult not only for drivers and train crews but for all other employees too. The large number of operational disruptions in autumn placed a great strain on the workforce. The major Rail 2000 and Swiss Rail Cargo Italy projects moved ahead successfully only thanks to the unstinting dedication of the people working on them. SBB's Board of Directors and management would like to thank the entire workforce for their outstanding commitment.

Outlook: Major challenges.

The SBB faces major challenges. Freight traffic needs to come close to breakeven in 2004 so that it can achieve profitability in 2005. Rapid success on the international transalpine routes is crucial if this goal is to be reached.

Infrastructure is having to contend with growing financial liabilities, which make its target of breaking even a significantly greater challenge. Firstly, Article 3 of the federal law on the Swiss Federal Railways imposes an obligation on SBB to keep the railway infrastructure in good condition and to adapt it to the needs of traffic and the state of the art. Secondly, the commissioning of new infrastructure such as the new line between Mattstetten and Rothrist for Rail 2000 have generated sizable follow-on costs for maintenance and depreciation.

¹ The 2002 Annual Report stated the cover ratio of the SBB pension scheme as 80.5%. The difference between that figure and the 83.2% cited here is due to a change in the calculation method employed. Since 2003 the Federal Social Insurance Office (BSV) has required calculations to be based on the market value of fixed-income securities rather than their nominal value.

The greatest challenge facing SBB, however, is the launch of Rail 2000 on 12 December 2004. This will be a particular challenge to Passenger Traffic and Infrastructure. At the heart of Rail 2000 is the new 45-kilometre line between Mattstetten and Rothrist, with its branch to Solothurn and the line that runs along the foot of the Jura. The new line will have a huge positive impact, shortening travel times across the entire network by substantial margins. The benefits of Rail 2000 to our customers throughout the whole of Switzerland will be a 12% increase in the number of trains, a 14% increase in the number of train kilometres and the retiming and upgrading of 90% of services.

Implementing such a fundamental change in time-tabling on such a heavily used network is the biggest operational challenge that SBB has ever had to face.

Cost-saving efforts by the government and cantons.

In autumn 2002 both the chambers of the federal parliament voted unanimously to award SBB a grants programme totalling CHF 6.025 billion for the period from 2003 to 2006. This sum was reduced by CHF 303 million to CHF 5.722 billion in 2003 in connection with the government's first spending-reduction programme. As a result SBB had to absorb the majority of the cuts implemented in the public transport sector.

The second round of economy cuts is now being discussed. From SBB's standpoint, priority should be given to asset and value maintenance. In view of Article 3 of the federal law on the Swiss Federal Railways, the potential for squeezing further savings out of SBB's budget programme has been exhausted.

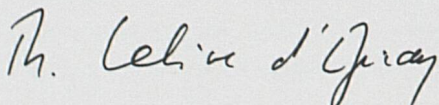
Remembering the consequences of cost-saving efforts.

Any problem encountered by SBB's owner and source of funding also becomes SBB's problem. It goes without saying that SBB understands why the federal government is endeavouring to save money. An open discussion on future rail projects is essential, especially because any major investment generates significant follow-on costs for maintenance and depreciation.

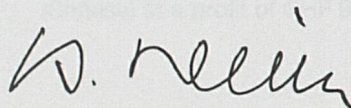
However, the consequences should be borne in mind too. If the savings programmes result in train-path subsidies being further reduced at the same time as the maximum gross weight of trucks rises to 40 tonnes in 2005 – thereby increasing road freight productivity – the impact on efforts to transfer more freight to rail would be both significant and negative, despite the levy on heavy goods vehicles. This applies to both domestic and transit freight traffic.

The further scope for cutting grants for regional passenger traffic is also limited. Experience has shown that reducing regional services achieves relatively little and can very quickly generate detrimental effects for the system as a whole. In addition, in light of the current discussion about public safety, costs are likely to increase rather than fall in future.

This much is clear: In the foreseeable future public transport will be significantly affected by the efforts to save costs being made at all political levels. This transport infrastructure, and especially the smoothly functioning SBB network, are an important factor for Switzerland as a centre of economic activity. It is therefore important to remember that additional cuts in public funding will reduce this advantage.



Dr. Thierry Lalive d'Épinay
Chairman of the Board of Directors



Dr. Benedikt Weibel
Chief Executive Officer