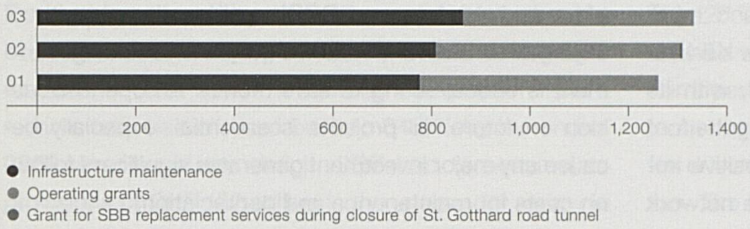
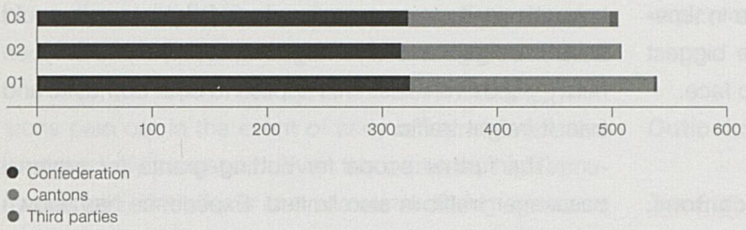
Federal infrastructure grants.

CHF millions



Grants for regional passenger traffic.

CHF millions



SBB strategic objectives. To strengthen the position of public transport and increase SBB's market share. To make a significant contribution to shifting transport from road to rail and to maintaining high service-quality standards. To continuously improve productivity in the traffic and infrastructure divisions. To maintain and improve quality and punctuality. To ensure and maintain a high level of safety for customers and staff by applying a safety management system that reaches beyond the division borders. To continually improve customer satisfaction. To develop and implement an environmental policy enabling the advantages of rail over other forms of transport to be further enhanced.

Turnaround in freight operations.

In spite of a difficult economic situation, SBB's 2003 result was a substantial improvement on the previous year: the Group posted a profit of CHF 24.9 million for 2003. Passenger Traffic achieved a good result, but was not quite able to repeat its exceptional Expo-year performance, while the Freight division made significant progress towards breaking even. Infrastructure finished the year at break-even. The key events of 2003 included the redevelopment and expansion of three major stations.

After posting a loss in 2002, the SBB Group returned to profit in the 2003 financial year in spite of the sluggish economy. Against operating expenditure of CHF 6.313 billion (+3.0 %), operating earnings totalled CHF 6.490 billion (+2.6 %). Operating profit from normal business activity, before taking account of the provisions for the staff provident scheme that were necessary under ARR 16, declined from CHF 194 million to CHF 177.3 million, but the figure remaining after taking ARR 16 into account improved from CHF 11 million to CHF 45.3 million. Earnings before interest and tax (EBIT) also rose, from CHF 122 million to CHF 199.8 million. As a result, the SBB Group – having reported a loss of CHF 12 million the previous year – ended 2003 with a profit of CHF 24.9 million.

This result was affected by several extraordinary factors:

- The repeated provision required by the Swiss Accounting and Reporting Recommendations (ARR) 16 because of the shortfall in the staff provident scheme had an additional impact on the income statement. However, the improvement in the pension fund's performance reduced the size of the provision needed for 2003 to CHF 132 million, as against the 2002 figure of CHF 183 million. More information can be found in the chapter on the pension fund, which begins on page 14.
- In December 2003 the Federal Supreme Court determined that SBB AG, as an independent company, is liable to tax in respect of land that is not required for operations. Tax provisions totalling CHF 50 million were therefore retroactively formed for the years 1999–2003. CHF 41 million of this is attributable to the Infrastructure division, to which Real Estate belonged from 1999 to 2002, and CHF 9 million to SBB Real Estate, which was founded on 1 January 2003.
- SBB sold the final tranche of its equity holding in TDC (Sunrise) at a profit of CHF 95.4 million.

Traffic revenues at a high level.

The SBB Group's consolidated traffic revenues totalled CHF 2.906 billion – 0.4% less than in 2002. The total therefore came close to the previous year's good result, which was assisted by fare changes and other factors. As the main source of earnings, the Passenger Traffic division generated CHF 1.796 billion on a consolidated basis – barely 0.1% behind the result achieved in the exceptional Expo year of 2002. Performance was boosted by moderate growth in consolidated earnings from freight traffic, up 0.4% to CHF 990 million – despite the sluggish economy and the temporary closure of the Monte Olimpino II tunnel near Chiasso, which is essential to transit freight traffic.

Divisional results in brief.

Passenger Traffic. 2003 was satisfactory for passenger traffic, though there were mixed developments. International traffic suffered from the decline in tourism triggered by the Iraq war, SARS and the poor economic situation, while regional and leisure traffic benefited from improvements in services and from flourishing weekend and recreational travel in Switzerland. Passenger Traffic reported profits for the year of CHF 93.4 million compared with CHF 113.7 million in 2002. This decline is due firstly to the absence of the additional services provided for the Expo and secondly to the increase in rolling stock maintenance costs in preparation for the launch of the first phase of Rail 2000. For detailed information on Passenger Traffic see page 24 ff.

Freight. The Freight division staged a turnaround in 2003. SBB Cargo slashed its operating loss by CHF 49.6 million to CHF 22.6 million – while its overall loss for the year fell by 65.6%, from CHF 96.1 million to CHF 33.1 million. The restructuring measures initiated in 2002, stringent cost management and optimisation of wagonload services all contributed to this positive trend. SBB Cargo slightly increased its traffic performance, despite the difficulties mentioned above. Though it lost market share to competitors in Switzerland, SBB Cargo more than made up for this through its operations in Germany and Italy. For detailed information on Freight see page 34 ff.

Infrastructure. The Infrastructure division reported a modest surplus of CHF 0.3 million on operating income of CHF 2.954 billion despite a slight decline in traffic revenues, a CHF 13 million cut in federal subsidies, and tax provisions of CHF 41 million in connection with the Federal Court's ruling (see page 7). At CHF 540 million, earnings from infrastructure use remained unchanged. However, operation revenues fell by CHF 24.1 million due to a drop in demand. The agreement with the federal government, under which a sum has to be transferred to Infrastructure to balance its accounts following the spin-off of Real Estate, made a significant contribution to the profit for the year (see next section). For detailed information on Infrastructure see page 44 ff.

Real Estate. The real estate business has been managed as an autonomous business unit within the Group since 1 January 2003, and it therefore presented its first annual divisional result in the year under review. As part of the spin-off from Infrastructure, property and land belonging to other divisions (Passenger Traffic and Freight) were transferred to the new Real Estate division. The Real Estate division closed its launch year with a loss of CHF 4.6 million on operating income of CHF 127.9 million. The result before taxes and grants to Infrastructure was CHF 48.1 million. The division's principal source of income is earnings from rents, which total CHF 419.7 million. Over two-thirds of this income – i.e. CHF 283.3 million – came from third parties, while the remaining CHF 136.4 million is derived from intra-Group rentals.

As part of the hiving off of Real Estate, an agreement was reached with the federal government under which a grant would be transferred to balance the Infrastructure division's accounts following the spin-off and the associated loss of income from rents. The Infrastructure division's grant of CHF 141 million for 2003 was paid by Real Estate (CHF 44 million) and Central Services (CHF 97 million). The grant paid by Central Services corresponds to the interest from liabilities that the Real Estate division pays to Central Services by virtue of the capital structure of the opening balance sheet. Provisions of CHF 9 million had to be formed in connection with the Federal Court ruling already referred to (see page 7). For detailed information on Real Estate see page 52 ff.

Capital expenditure of CHF 2.9 billion.

SBB was again one of Switzerland's largest capital spenders. The company spent a total of CHF 2.92 billion in 2003 (CHF 3.01 billion in 2002), thus giving substantial support to the economy. Most of these funds went into rolling stock and infrastructure projects.

SBB operates a systematic risk management system which is lead managed by the General Secretariat. In 2003 the Management Board twice conducted standardised risk assessments with the responsible units (the "risk owners"). It then notified the Board of Directors in writing of the current risk situation and of the countermeasures that it proposed to take.

Risk management and value-oriented management mechanisms.

Risk management. SBB operates a systematic risk management system which is lead managed by the General Secretariat. In 2003 the Management Board twice conducted standardised risk assessments with the responsible units (the "risk owners"). It then notified the Board of Directors in writing of the current risk situation and of the countermeasures that had been initiated.

Value-oriented management mechanisms. The SBB is committed to a value-oriented management system designed to control and improve its cost/benefit efficiency. The Group's Corporate Governance structures include an integrated planning and reporting system featuring mechanisms that monitor the actions of management; these are described in "Mechanisms for the monitoring and supervision of the Management Board" in the Corporate Governance chapter, page 63. In addition, meetings are held at regular intervals with the shareholder – the Federal Department of Environment, Transport, Energy and Communications, the Federal Department of Finance and the Federal Office for Transport – at which, inter alia, reports on the achievement of the Confederation's strategic objectives are discussed. Corporate Finance and Controlling (CFC) prepares monthly financial reports that are submitted to the Management Board and Board of Directors.

Rail policy and its effects on SBB.

The political environment in the year under review was dominated by the Confederation's budget relief programme, the aim of which is to improve the federal budget by a total of CHF 3.4 billion. Having already been cut by CHF 67 million, the grants payable under the SBB's Performance Agreement for 2003 to 2006 were again reduced by a further CHF 236 million.

Superordinate objectives.

In its "owner's strategy", which covers a four-year period, the Confederation specifies superordinate objectives for SBB and its divisions. SBB then develops plans and strategies for achieving them, at both company and divisional level.

SBB strategic objectives:

- To strengthen the position of public transport and increase SBB's market share.
- To make a significant contribution to shifting transport from road to rail and to maintaining high service-quality standards.
- To continuously improve productivity in the traffic and infrastructure divisions.
- To maintain and improve quality and punctuality.
- To ensure and maintain a high level of safety for customers and staff by applying a safety management system That reaches beyond the division borders. For detailed information on safety see page 18 ff.
- To continually improve customer satisfaction.
- To develop and implement an environmental policy enabling the advantages of rail over other forms of transport to be further enhanced. For detailed information on environmental activity see page 20 ff.

Strategic objectives, Passenger Traffic.

- Expansion: gradual evolution to a business with international operations spreading out from its home market of Switzerland.
- Alliances: taking advantage of the opening of international markets to achieve growth in partnership with strong partners. For information on Passenger Traffic see page 24 ff.

Strategic objectives, Freight Traffic.

- European market: exploiting opportunities for growth on the heavily-used routes between Benelux/Germany and Italy. Strong growth with high productivity.
- Swiss market: growth with new products, increased productivity. For information on Freight Traffic see page 34 ff.

Strategic objectives, Infrastructure.

- Safeguarding high-quality operations and service reliability as network capacity utilisation increases.
- High standards of punctuality, safety, availability and productivity as financial resources become increasingly scarce.
- Prioritising capital expenditure in terms of maximum customer benefit. For information on Infrastructure see page 44 ff.

Strategic objectives, Real Estate.

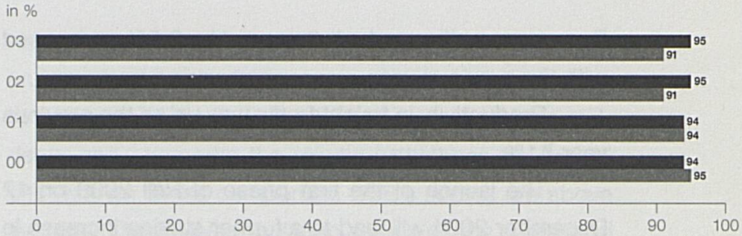
- Quality assurance for clients: customer-oriented, professional and economical management of service centres/transport interchanges and regional stations.
- Increasing both real estate value and customer benefit through higher capital expenditure and portfolio adjustments. For information on Real Estate see page 52 ff.

From the corporate perspective the year under review was dominated by major challenges to be overcome:

- SBB Cargo made steady progress in the international arena. The division's German subsidiary Swiss Rail Cargo Köln (SRCK) improved its results, thus more than making up for the inroads into market share suffered in Switzerland. Italian subsidiary Swiss Rail Cargo Italy (SRCI) commenced operations on 14 December 2003. SBB had thus succeeded in establishing a company of its own in Italy, overcoming all the political and economic hurdles and commencing operations within just one year.
- Preparatory work for the first phase of Rail 2000 went according to plan. A tight control system ensured that the greatest attention was concentrated on the most sensitive points. Prominent among these is the provision of rolling stock. To avoid further risks an early decision was taken with regard to train control on the new line: in the first phase at least, conventional lineside signals will be used instead of digital technology based on the ERTMS (European Rail Traffic Management System) standard. This system has not yet achieved technological maturity, and industrial delivery times are subject to major delays. Consequently, it is not feasible to equip the SBB network with the digital ETCS (European Train Control System) at this stage. Launch of the first phase of Rail 2000 on 12 December 2004 has top priority.

- Punctuality. There was a slight improvement in punctuality in the year under review. On average, 95.24% of passenger trains arrived on time, i.e. less than five minutes late; the figure for the previous year was 94.93%. In freight traffic, 90.7% of all trains on the SBB network arrived on time, i.e. less than 30 minutes late. This was also a slight improvement on the previous year's figure of 90.52%.

Punctuality of trains on arrival.



● Passenger trains less than 5 min late
● Passenger trains less than 30 min late[1]

1 New criteria and measurement methods applied as of 2002.

- Customer satisfaction. Customer satisfaction in passenger traffic was maintained at the previous year's level: 81% of customers are satisfied with SBB's services. Insufficient seating capacity remains the most frequent cause for complaint, but help is at hand: the first phase of Rail 2000 will substantially increase capacity. There was a slight decline in satisfaction among freight customers: on a ten-point scale the rating in the year under review was 7.32, down on the previous year's figure of 7.47, although satisfaction levels among key-account customers remained stable at 7.4. The lower rating by smaller customers is due mainly to rigorous invoicing of all add-on services and to errors in invoicing for wagon demurrage.

- Safety management. There was a 7% fall in operating incidents. At the same time, the number of industrial accidents at SBB fell from 4.9 to 4.8 accidents per 100 employees. For more on the subject of safety, see page 18ff.

- Market leader in regional traffic: Passenger Traffic further consolidated its position as the market leader in the provision of regional traffic services, with an increase of 6.8%.

Productivity.

Passenger traffic productivity eased by 0.5% composed with the previous year.

Productivity in freight traffic was up on the previous year 7.1%.

The launch of the first phase of Rail 2000 on 12 December 2004 will lead to a further striking increase in productivity.

More services at less cost.

SBB receives subsidies to run unprofitable services that the state considers essential. Although services were substantially increased, total subsidies in 2003 remained more or less unchanged from the previous year at CHF 617.3 million (CHF –0.3 million). Details are as follows:

- Subsidies paid to regional passenger services fell by CHF 2.1 million to CHF 505.2 million at the same time as the services themselves were increased by around 3.9 million train kilometres. As a result, subsidies per train kilometre decreased from CHF 8.89 to CHF 8.29 and the ratio of subsidy to service on local routes improved by 6.8%.
- Train-path charge and freight subsidies are intended as an incentive for goods traffic to switch from road to rail. Train-path charge subsidies rose by CHF 1.94 million in 2003 to CHF 93.4 million. The cheaper train-path charges benefit not only SBB Cargo, but also other train operators that purchase train path services from the SBB's Infrastructure division. Consequently, CHF 6.9 million, or 7.4%, of the total CHF 93.4 million paid in train-path charge subsidies goes to other train operators. At CHF 18.7 million, the additional subsidies paid to SBB Cargo for intermodal traffic remained virtually unchanged from the previous year's figure of CHF 18.3 million. For detailed figures on subsidies, please see page 85 of the Financial Report.

Federal government grants for infrastructure.

As part of the state's provision of basic services, SBB is tasked by the Confederation with maintaining and operating the existing rail infrastructure and developing it further, for which SBB receives financial compensation from the Confederation. The federal government's grants for rail infrastructure rose by 1.9% to CHF 1.33 billion. This is essentially the result of the activation of further projects associated with Rail 2000. For detailed figures on subsidies for infrastructure, please see page 87 of the Financial Report

Further selected fields.

IT "Project Factory".

Opus, SBB's new company-wide office platform, was set up in 2003. The installation of the first of over 11,000 workstations began shortly before the year-end. Rollout will extend into the spring of 2004. The three-year plan sets new strategic directions. It safeguards the performance of the SBB's company-wide IT systems and prepares them for future requirements. In the newly-established "Project Factory", teams from central IT, the divisions and external collaborators work together on ambitious IT projects. Corporate University, a long-term programme of basic and advanced training, has been launched.

A highly regarded company.

As well as continually measuring customer satisfaction and the modal split, SBB carries out annual representative surveys of the company's image among Swiss residents and compares the results with those for the 35 best-known Swiss companies. SBB's scores are above average. The Swiss population sees it as the archetypal Swiss company par excellence, ranking it ahead of other typically Swiss brands. It also has the top slot among especially environmentally-friendly companies. SBB enjoys an excellent reputation as an attractive employer and as a particularly appealing, trustworthy company whose future prospects are seen as outstandingly good.

Preserving cultural heritage.

As part of its mission to preserve the nation's cultural heritage, SBB supports the SBB Heritage Foundation (SBB Historic). The foundation is responsible for collecting, documenting and preserving information and artefacts relating to the history of the railways in Switzerland. More information can be found at www.sbbhistoric.ch