SBB CFF FFS

ShopVille-RailCity at Zurich's main station

Annual Report 2003

SBB – Switzerland from every point of the compass.

An all-round, long-term view – to get us where we want to be.

SBB connects Switzerland and connects with Switzerland: its society, people, markets and environment.

SBB Group

CHF millions	2003	2002
Passenger traffic revenues	**1,796**	1,797
Freight traffic revenues	**990**	985
Operating revenues before appropriation to provisions as per ARR 16	**177.3**	194.0
Operating revenues after appropriation to provisions as per ARR 16	**45.3**	11.0
Group result	**24.9**	–12.0
Total net assets	**28,779**	28,783
Equity	**11,660**	11,634

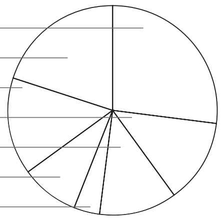
Performance figures

	2003	2002
Number of passengers (millions)	**250.3**	245.3
Passenger-kilometres (millions)	**12,290**	12,232
General Abonnements[1]	**263,707**	247,233
Half-Fare Cards (millions)[1]	**1.92**	1.96
Tonnes of freight transported (millions)	**54.8**	54.9
Tonne-kilometres (millions)	**9,936**	9,732
Train-kilometres (millions)	**138.0**	135.5
Average workforce	**28,707**	28,786

1 Annual average

The “SBB franc”.
Income:
Where does the money come from?

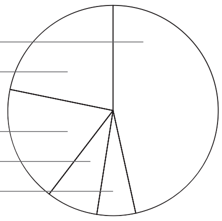
Passenger traffic CHF 0.27
Federal government infrastructure payments CHF 0.20
Freight traffic CHF 0.15
Miscellaneous CHF 0.13
Ancillary income CHF 0.12
Grants CHF 0.09
Rents CHF 0.04

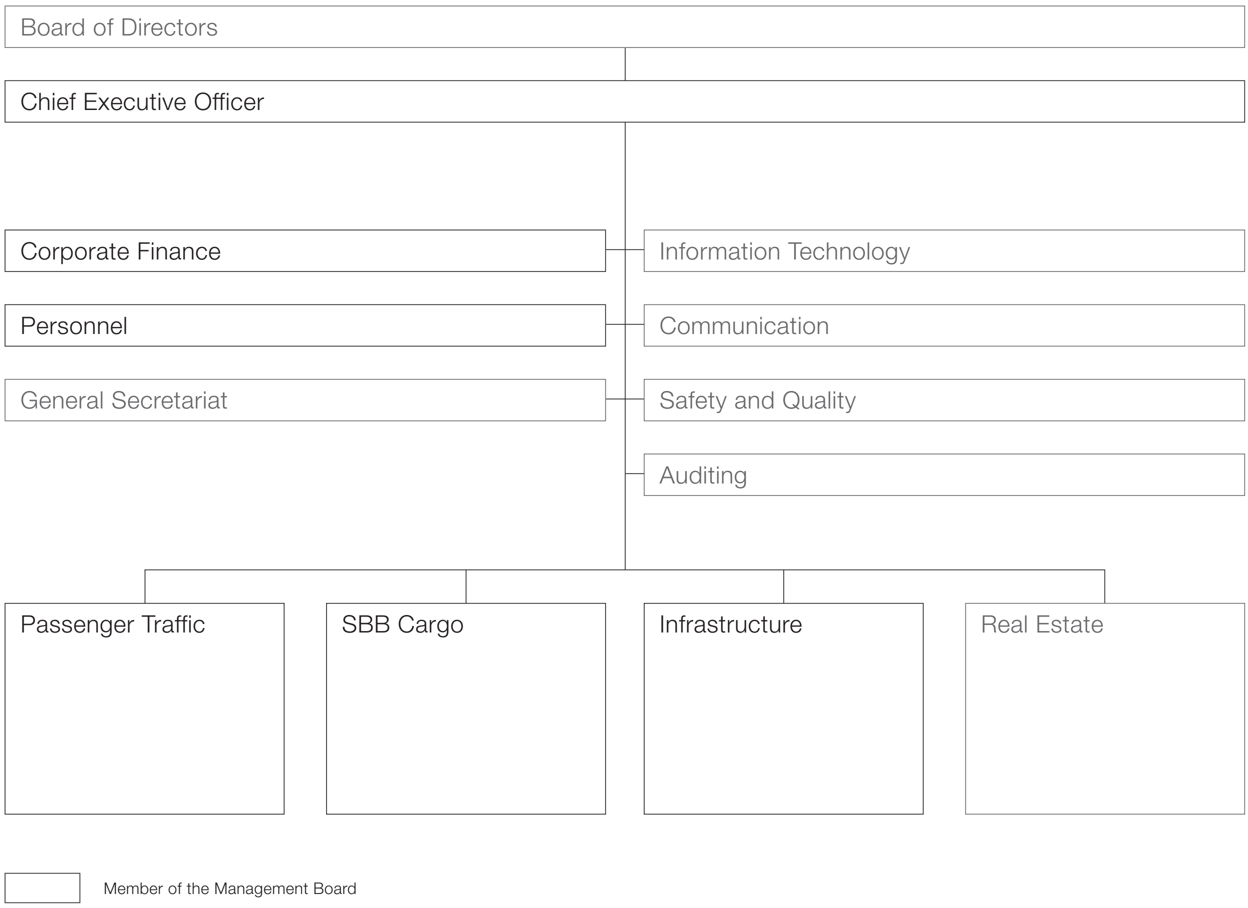


Expense:
Where does the money go to?

Personnel CHF 0.47
Miscellaneous CHF 0.22

Depreciation CHF 0.18
Materials CHF 0.08
Non-capitalisable expenses CHF 0.06




Board of Directors
Chief Executive Officer
Corporate Finance
Personnel
General Secretariat
Information Technology
Communication
Safety and Quality
Auditing
Passenger Traffic
SBB Cargo
Infrastructure
Real Estate
Member of the Management Board

Contents.

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.

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.

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.

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.

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 timetabling 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.

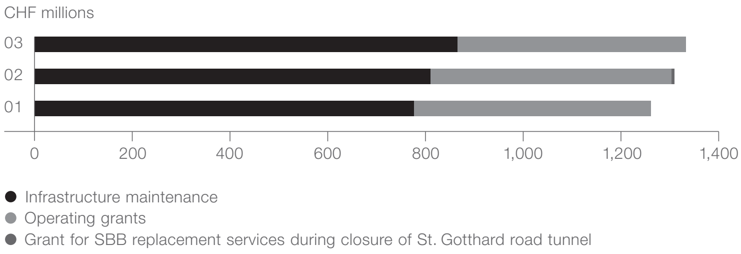
The further scope for cutting grants for regional passenger traffic is also limited. Experience has shown that reducing regional services achieves relatively little and can very quickly generate detrimental effects for the system as a whole. In addition, in light of the current discussion about public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

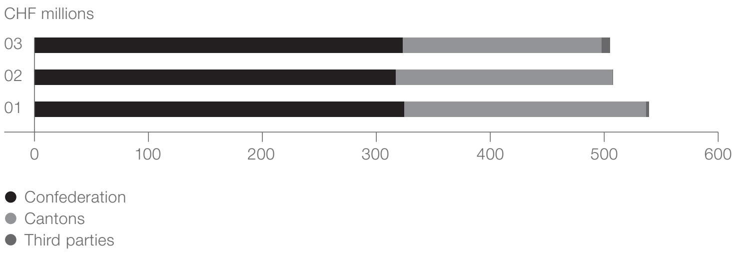
Dr. Thierry Lalive d'Epinay
Chairman of the Board of Directors

Dr. Benedikt Weibel
Chief Executive Officer

Federal infrastructure grants.



Grants for regional passenger traffic.



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.

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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.

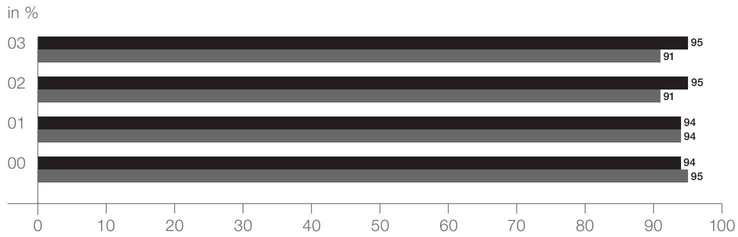
- Quality assurance for clients: customer-oriented, professional and economical management of service centres/transport interchanges and regional stations.
- Increasing both real estate value and customer benefit through higher capital expenditure and portfolio adjustments. For information on Real Estate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

Pension fund: slight improvement.

Thanks to the performance of the capital markets, the financial situation of the SBB pension fund recovered somewhat: the reserve ratio rose to 84.9%. However, further measures will be needed to restore it to health.

The SBB pension fund posted a surplus of CHF 346 million in 2003, reducing its shortfall to CHF 2.331 billion. The reserve ratio, as defined by Ordinance no. 2 to the Federal Occupational Pensions Act (BVV2), rose from 83.2%[1] in 2002 to 84.9% in 2003. The reserve capital totals CHF 13.783 billion, 65.2% of it (CHF 8.991 billion) being allotted to the 30,000 persons drawing pensions and the remaining CHF 4.792 billion to serving employees, who number rather more than 28,000.

Good performance. In order to break even, the SBB pension fund – a civil-law foundation established on 1 January 1999 – needs a return of 4.6% on its reserve capital, or a return of about 5.5% on the average capital it actually held during 2003. Thanks to the recovery in the equity markets that began in mid-March 2003, the very slow rise in interest rates and a stronger euro, the growth it actually achieved was 7.55% – and had it not been for the sharp fall in the dollar, which was only partly hedged, this would have been even higher. The equity exposure in 2003 was slightly reduced, at 26%. Sales of bonds in anticipation of a rise in interest rates boosted liquidity to over CHF 1 billion. No fluctuation reserves exist or have ever existed, so any fluctuations in the capital markets have a direct effect on the financial situation.

SBB injected CHF 84.3 million into the pension fund to finance the 1% inflation increase that took effect on 1 January 2003 for the 28,500 “old pensioners”, i.e. those who retired while SBB was still a state agency or whose pension fund entitlement began before 1 January 2001. They must be treated in the same way as retired civil servants, and are thus subject to provisions over which the Board of Trustees of the SBB pension fund has no control. The inflation-indexed rise is determined annually by the federal government.

1 The 2002 Annual Report stated the reserve ratio of the SBB pension scheme at 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.

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Restructuring measures implemented. The Board of Trustees of the pension fund decided on various restructuring measures to eliminate the reserve shortfall for the categories of "serving employees" and "new pensioners who began to draw benefits on or after 2 January 2001" without external funding. Many of these have already been implemented:

– The companies affiliated to the SBB pension fund have been meeting the additional costs of occupational incapacity since 2003.
– Since 1 July 2003 both employer and employees in the benefits plan and the capital plan have been charged a restructuring contribution amounting to 1.5 % of the insured income.
– Since 1 July 2003 the assumed return on pension assets in the capital plan has been reduced from 4 % to 3.25 %.
– From 1 July 2004 the repayment of the bridging pension on early retirement will be raised from 50 % to 65 %. From 1 January 2005 it will be raised again, to 80 %.

In the medium term these measures will lead to an annual improvement of about CHF 68 million in the reserve ratio. The measures implemented in 2003 have already led to an improvement of about CHF 20 million. They conform with the principles of equal treatment, lawfulness and method.

The following section gives some background on the pension fund's financing to date. By virtue of the modalities agreed with the federal government when the SBB pension fund was set up, SBB is required to pay interest to the government on the CHF 5.1 billion provided as financing. This agreement will end in mid 2004, by when SBB will have paid the federal government a total of CHF 214.7 million in interest.

Furthermore, the government provided the financing in stages between 1999 and 2001, resulting in a loss of investment earnings for the pension fund. Since SBB had to absorb CHF 411.8 million of this loss, the Group's entire financial outlay amounts to CHF 626.5 million.

The pension fund financing provided by the federal government in accordance with Article 4 of the federal law on the Swiss Federal Railways was based on the data available from the former SBB staff provident fund as at the end of 1997. The change in the calculation basis to EVK90 (CHF 292 million) and the entitlements of female members joining in 1988 (CHF 32 million) were not considered. In addition SBB also absorbed the shortfall of CHF 118.3 million for 1998.

Joint quest for solutions with the Confederation. Unlike current employees, pensioners cannot be asked to help to put the SBB pension on a sound footing – either now or after the coming change in the law. But nor can the shortfall in reserve be made good solely by the employers and current employees. SBB and the Board of Trustees are therefore cooperating with the Confederation in an attempt to find solutions. The government is expected to submit its official Message to parliament in the summer/autumn of 2004. The Confederation has already indicated its readiness to help, though this will be conditional on a change from the present defined-benefit scheme to a defined-contribution basis. The Board of Trustees has begun preparations for this. Measures have been taken to ensure coordination with the pension funds of Swiss Post and the Confederation ("Publica").

Strong loyalty to SBB.

SBB employees face tough challenges. The economic environment, competition and relentless cost pressure necessarily result in reorganisation. This may can cause job losses in some areas, but create new ones in others. SBB accepts its responsibility towards those affected, taking measures to minimise the social consequences. Employee satisfaction increased again in 2003.

In 2003, the headcount at SBB (including subsidiary companies) averaged 28,707 full-time-equivalents – just 79 less than in the previous year. These figures do not include apprentices and their supervisors, who in 2002 were integrated into the Login training association. On behalf of SBB, Login trained 1,148 apprentices (1,062 in 2002). Conscious of its responsibilities in the training field, SBB has increased its apprentice intake to 1,200 for the years 2004–2006.

New jobs in security. While certain projects involved substantial job losses, some measures taken last year created new jobs. For example, although 420 jobs were lost in the reorganisation of wagonload traffic and baggage forwarding, around 350 new jobs were created by the expansion of train crews in the Zurich area and of the railway police. A cost-cutting programme in the company's head office will involve about 50 job losses.

Change as opportunity. Job reductions at SBB do not mean dismissals. The collective contract of employment guarantees that responsible solutions will be found, minimising the social consequences of reorganisation for those affected by it. In the year under review the company spent some CHF 19 million on vocational retraining programmes for 213 persons. Staff spend an average of 372 days in the qualifications programme until they find a job, either within SBB or elsewhere. A new programme for employees over 58, designed to offer them various options for the future after losing their jobs, was introduced in 2003.

Satisfaction increased. Job satisfaction among SBB employees increased again in 2003. Satisfaction in the year under review amounted to 61 points out of a possible 100, a two-point increase on 2002. The reversal in the trend has therefore continued. Factors such as level of identification with the company, workplace situation or employees' own customer focus fared better in the latest representative survey, the fourth of its kind at SBB. Satisfaction grew in almost all surveyed divisions, units and professional groups. SBB has set itself the target of further increasing employee satisfaction.

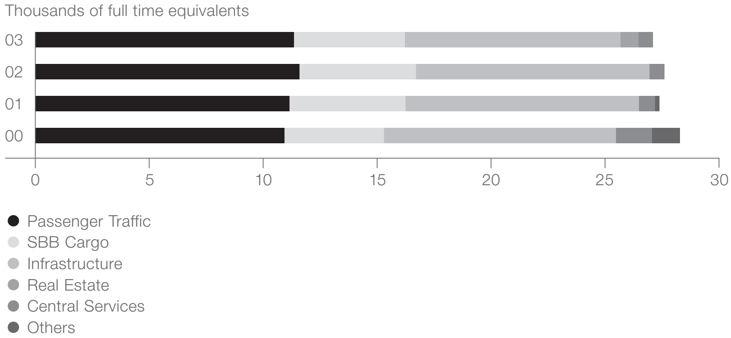
During the year under review the collective contract of employment (GAV), which was scheduled to expire at the end of 2003, was extended for a year by SBB and its staff associations. This was because preparations for the modifications to the contract, particularly the introduction of a new wages system, were taking longer than planned. In the meantime negotiations have started on a new contract.

Professional healthcare management. Like other companies, SBB has experienced an increasing incidence of physical and mental illness. Measures taken in the past to protect the health of employees and improve safety at work need to be stepped up. In 2003 SBB therefore embarked on the creation of a professional occupational healthcare management system. Its objective is to avoid prolonged absences and generally promote the health of employees in collaboration with personnel and healthcare specialists, managers and staff representatives.

Part-time working encouraged. The trend towards new forms of work that has been evident for several years is continuing. Almost one SBB job in ten is now part-time. The higher proportion of men working part-time is particularly striking – the percentage rose from 4.9 % to 5.9% last year. As for female employees, nearly half work part-time. The proportion of women in the workforce continued to rise, reaching 12.2 % at the year-end in terms of numbers. By the end of 2005, SBB expects to bring this figure to 13 %.

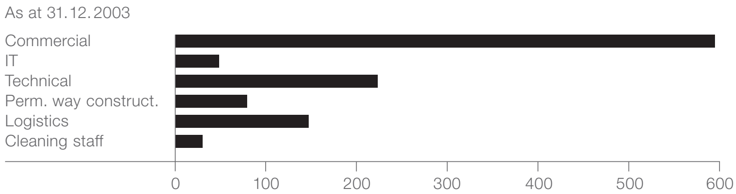
2003 saw the publication of SBB’s second social report, which reviews HR policy in 2001 and 2002. In addition to the four key topics of change, modernisation, careers and job-related stress, the report provides comprehensive facts and figures on all aspects of staffing at SBB. The report can be ordered or downloaded from www.sbb.ch.

Personnel.
Employees[1] by business unit



1 SBB AG and SBB Cargo

Apprentices by vocational group.
(including adults in training)



Improved safety for customers and staff.

Safety shapes and affects all SBB's daily operations. The number of operating incidents fell by 7% in 2003. An all-embracing safety management system ensures that a high level of safety is maintained for customers and staff.

SBB pays particular attention to the safety of its customers. In 2003, sadly, SBB suffered its first major accident involving passenger trains for five years. Two heavily loaded passenger trains collided in Zurich Oerlikon station on 24 October. One passenger lost her life and over a hundred were injured.

Fewer operating accidents: The number of operating incidents (e.g. derailments / collisions, persons killed or injured by trains, accidents at level crossings) fell by 7% in 2003 to 95.

About half of these accidents were caused by passengers and third parties, and generally the victims themselves bear a high proportion of the blame. The main causes of accidents are people crossing the tracks without permission, trespassing on the permanent way and jumping on and off moving trains. SBB is responding to this situation with various educational campaigns, some of them targeting children. Also, 75 more level crossings have been modernised and 24 stations equipped with an automatic system to warn of the approach of non-stop trains. At the same time the number of derailments fell by half, from 27 in 2002 to 14 in 2003; 60% of these incidents took place in connection with shunting operations.

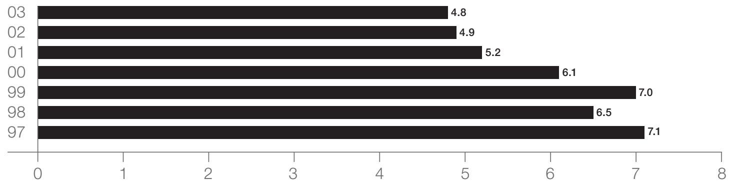
Fewer industrial accidents. Staff safety is also a major concern. SBB is constantly updating its current safety system, taking due account of technical advances, commercial constraints and potential threats.

2003 brought a further improvement in staff safety. Accidents at work are on a downward trend: the rate fell from 4.9 to 4.8 accidents for every hundred employees. There was also a further 5% reduction in the number of days lost due to accidents at work. Work continues on reducing the risk of accident still further: as part of the Stop Risk project, various information campaigns are being conducted to raise awareness of hazards and instruct staff in how to cope with them.

There were fewer attacks on employees in the year under review: the number of cases involving violence against train crews fell by 17%.

Safety at work[1].

Work accidents per 100 employees



1 SBB AG and SBB Cargo

Concern for the environment: a permanent responsibility.

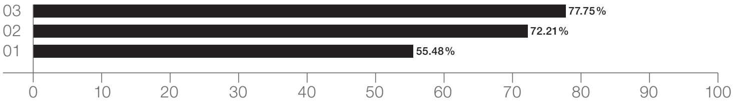
SBB is an environment-friendly company. This is not only our strength, it is also our duty. Our environmental efficiency was significantly improved in 2003.

SBB's environmental policy is designed to further increase the advantage that rail has over other forms of transport. This is the function of the company's internal rail environment centre and its network in the various divisions and business units. In the year under review SBB met 89 % of its energy requirement with hydroelectric power. Energy consumption in relation to transport output continues to decline – more sharply for passenger traffic than for freight.

Less noise. SBB is working to achieve further increases in its environmental efficiency, and this had tangible effects in the year under review. Infrastructure and rolling stock-based measures to reduce noise continued according to schedule. A further 21.4 kilometres of sound-insulating walls had been built by the year-end. 142 older passenger carriages were retrofitted for noise reduction, bringing the total number of carriages with quieter brakes to over 700 as at end-2003. These are in addition to the newer fleets of low-noise disc-braked carriages. 78 % of our rolling stock now qualifies as "low-noise". The proportion of low-noise freight wagons is also ahead of expectations. Refitting the entire fleet of freight wagons with low-noise brake-lining inserts will begin during 2004. A total of CHF 31 million was spent on noise reduction in 2003, thanks to a special credit from the Confederation.

Priority to legacy pollution. Over 4,300 sites have now been identified, subjected to a preliminary examination and entered in the pollution register. About 700 sites need to be investigated in greater depth, and this will be completed by the end of 2004. Provisions of CHF 110 million were formed for this work, CHF 20 million of which has been drawn down so far.

Percentage of low-noise vehicles.

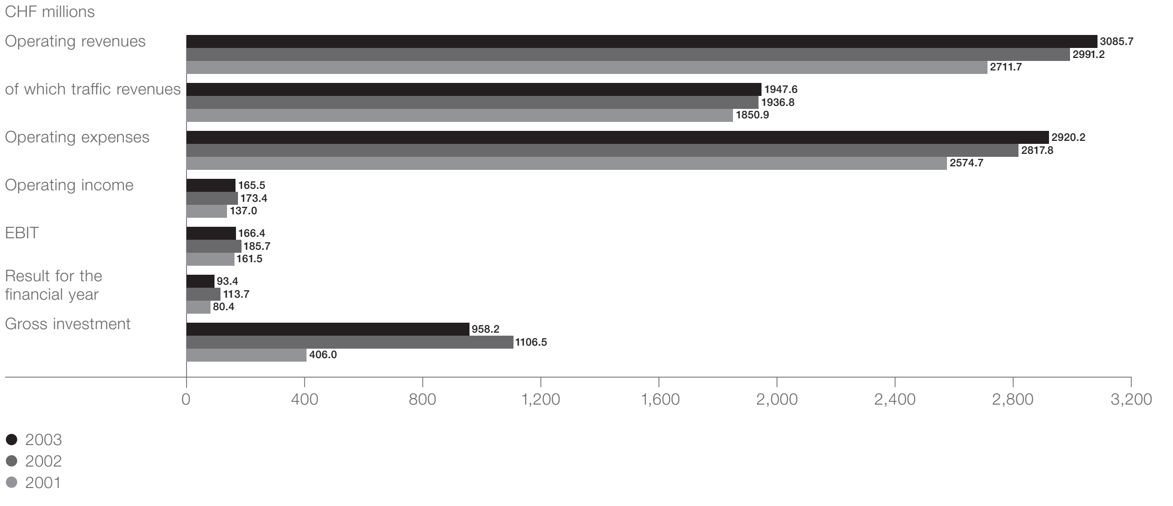


Asbestos problem addressed. To deal with the asbestos problem, in-depth investigations have been carried out to identify buildings, rolling stock and facilities in which asbestos was used in the past. Passenger carriages affected will be taken out of service in the next few years. Asbestos-containing components in other rolling stock are being replaced in the course of normal maintenance work. These materials do not expose passengers to any hazards.

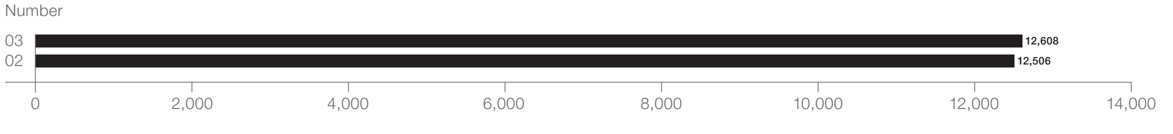
War on waste. Newspapers left in trains and stations are a growing problem for SBB. In 2002 these added up to 4,200 tonnes of waste paper. Since 2002 SBB has been involved in the national "einfach retour" anti-litter campaign that calls on the population to dispose of rubbish appropriately. In 2003 the quantity of waste paper fell to 3,880 tonnes. Since the beginning of 2004 an experiment has been going on at several major stations in which special bins for newspapers are placed on the platforms.

This year SBB will publish a new environmental report with detailed information on developments in individual areas. The last environmental report in 2000/2001 can be ordered or downloaded from www.sbb.ch/umwelt.

Passenger traffic in brief[1].



Employees[2].



1 By segment; Group income and expenses not eliminated.
2 Average workforce in full-time equivalents, including subsidiaries.

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.

Around 7,000 trains carry about 833,000 people every day. This adds up to 250.3 million passengers travelling more than 12.3 billion kilometres by train every year. At half-hourly intervals on most routes. At half price for the 1.9 million-plus holders of Half-Fare Cards. And at a very reasonable annual fee for the 260,000-plus General Abonnement holders.

Traffic revenues rise again.

Passenger Traffic continues to grow. In 2003 the number of passengers increased by a further 2.0% to 250.3 million. Traffic revenues rose by CHF 10.8 million to CHF 1.948 billion. While international travel declined, regional and leisure travel increased. Passenger Traffic's annual profit was CHF 93.4 million (previous year: CHF 113.7 million).

SBB Passenger Traffic generated operating income of CHF 3.1 billion in the year under review, i.e. 3.2% more than in the previous year. Operating expenses also rose, gaining 3.6% to CHF 2.9 billion. The operating result was CHF 165.5 million – CHF 7.9 million below the figure achieved in 2002, which was exceptional on account of the Expo. EBIT declined by CHF 19.3 million to CHF 166.4 million. Annual profit came to CHF 93.4 million, down CHF 20.3 million on the previous year's result.

CHF in millions	2003	2002	± in %
Operating income	3,085.7	2,991.2	3.16%
– Traffic revenues	1,947.6	1,936.8	0.56%
Operating expenses	–2,920.2	–2,817.8	3.63%
Operating result	165.5	173.4	–4.56%
EBIT	166.4	185.7	–10.39%
Annual profit	93.4	113.7	–17.85%

Services expanded to meet demand.

More passengers than ever before. The financial result was affected by a range of factors. Services have continued expanding. SBB's passenger trains covered 109.3 million kilometres, a 4.1% increase. Passengers made good use of the more frequent services: the number of customers rose during the same period to 250.3 million in 2003 (an increase of 2.0% over the previous year)[1]. Passenger-kilometres gained 0.5%[1] to 12.29 billion. Traffic revenues (including revenues from work performed for other divisions) rose 0.6% year-on-year to CHF 1.948 billion in spite of a difficult economic environment. The growth in traffic revenue in 2003 is especially remarkable when one considers the additional revenues generated in 2002 by Expo. The year-on-year decrease in the net result is due on the one hand to the absence of these additional Expo revenues and, on the other hand, to the higher expenditure on rolling stock maintenance in advance of the launch of phase one of Rail 2000.

1 Up to now, passenger-kilometres were measured in two different ways: by extrapolation from ticket sales, and by regular surveys of passenger numbers which were in turn extrapolated. Having found the latter method to be more accurate, SBB has decided on a change of system as of 2003. To ensure comparability with prior years, the figures have been recalculated back to 1990.

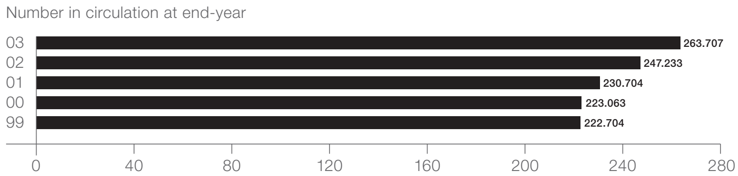
An analysis of the main Passenger Traffic products gives the following picture:

Swiss market: strong growth for the General Abonnemnt (GA).

Standard fares. Sales of ordinary tickets grew 0.4%. Revenues from second-class fares contributed CHF 4.8 million to this rise, while revenues from other standard fares rose by CHF 2.7 million. Revenues from first class fares were squeezed by the sluggish economy.

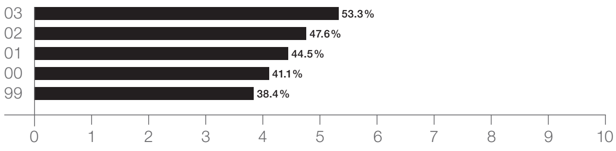
Leisure travel and Day Cards. These products posted a decrease of 41.4% from the previous year. This was due primarily to the absence of the Expo revenues, which had totalled CHF 27 million the previous year. The gap was filled to a great extent by extraordinary growth in domestic leisure travel, as many Swiss citizens decided not to travel abroad. RailAway, the SBB leisure travel subsidiary, reported a sharp 20.5% rise, and sales of Day Cards went up by 11.6%. In 2003, RailAway sold 575,000 one-day excursion packages (train travel plus services such as entrance fees and meals). This total is more than 40% higher than the figure for Expo year 2002, which was already extremely successful. Favourite destinations included Mystery Park near Interlaken, which opened in May 2003. Over 60,000 people visited this theme park with an all-in RailAway ticket.

Sales of General Abonnement passes (GA).



General Abonnements. Passenger Traffic achieved exceedingly good results with its General Abonnement (GA) business. Sales of these travel passes grew 9.9% to CHF 401.3 million. By the end of 2003, a record 263,707 GAs (previous year: 247,233) had been sold. The profitable GA for adults was especially popular: 7,100 more passes were sold than in the previous year. Sales of first-class GAs increased by 290 units, and those of reduced-fare GAs were up by 6,500 units. The GA business is characterised by very high customer loyalty: the repeat sales rate of 80% was just as high as in the previous year. The youth product "Gleis7" posted overall growth of 4.3%.

Percentage of tickets sold at vending machines.



Half-Fare Cards. Sales of Half-Fare Cards eased by 1.2 % to CHF 137.5 million. Moreover, the average number of Half-Fare Cards in circulation fell by 1.9 % to 1.92 million. Even so, almost one in three Swiss hold one of these travel cards. A variety of factors were responsible for the slight year-on-year decrease in sales. In 2002, no deferral was set up for the total allocation of Half-Fare Cards to Swiss Post, Swisscom and the federal government, i.e. the total for the two-year cards was posted entirely to the 2002 accounts. In 2003, these totals were deferred at end-year for the first time. This resulted in a negative difference of CHF 6.9 million compared with the previous year. The price increase in 2002 for the two-year Half-Fare Card (from CHF 222 to CHF 250) and the introduction of the three-year Half-Fare Card, priced at CHF 350, boosted revenue by CHF 7 million. Moreover, a clear shift to the more profitable one-year option is clearly apparent. The sharp parallel increase in sales of the three-year Half-Fare Card reflects people's willingness to make a longer-term commitment.

Integrated fare systems. The number of integrated regional fare systems is steadily increasing in Switzerland. They make access to public transport easier for customers. SBB is currently a member of 19 such systems. Thanks to market growth, revenues rose 4.1% to CHF 233 million in the year under review. Very solid results were achieved by the integrated systems of Bern (+25 %) and eastern Switzerland (+20 %). The importance of these integrated systems continues to grow: new systems are planned, and existing systems are scheduled for expansion. For example, an expanded inter-cantonal system will be established in the Zurich area in December 2004.

Baggage. The volume of baggage transported has been declining for years. Revenues dropped by 13 % (CHF 2.4 million) in the year under review. This decline was felt by both the Swiss market and international traffic (Check-In, Fly-Rail incoming and international). SBB responded to this trend at the beginning of 2003 by re-aligning the entire baggage business, but without substantially compromising the quality of this service.

Internet ticket sales. Since the end of 2002, SBB has been selling tickets through the Internet with its "Click&Rail" booking system. This system, which enables customers to buy cut-price tickets for selected off-peak trains on the North-South corridor, has been performing well. After selecting the train that best suits their needs, customers immediately print out their ticket themselves. In 2003, the programme's first full year of operation, SBB Passenger Traffic sold more than 53,000 tickets online. At the same time, SBB gained experience with Internet sales of tickets for travel to a number of special events in 2003. Online sales of an all-in ticket (travel and admission) for the Orbit IT fair, for example, exceeded the number of tickets purchased from station ticket machines. SBB will continue to pursue this online strategy in 2004.

Online sales are an important part of SBB's distribution strategy. Increased sales through ticket machines rather than at ticket windows are also part of this strategy. In the year under review, over half of all rail tickets (53.3 %) were purchased from machines (vs. 47.6 % in 2002).

International market: numbers down due to travel slump.

International passenger traffic was worse hit than other segments of the long-distance market by the weak economy and the consequences of SARS and the Iraq war. In addition, competition from low-priced airlines grew in the year under review, especially in inter-city traffic. This impacted on revenues to the tune of 12.7% in the 2003 financial year.

A very promising future. Competitive opportunities in international traffic still exist, however. The opening of the Lötschberg base tunnel in 2007 and the Gotthard base tunnel in about 2014 will significantly reduce travel times on the north-south routes. Moreover, important decisions have been taken with regard to linking Switzerland to its neighbours' high-speed networks. SBB's long-distance traffic business has designed its strategy accordingly and is counting on close cooperation with its rail partners in the other European countries. The common goal is to offer competitive products that help the railways regain the market share in long-distance international passenger traffic that has been lost in recent years.

Cisalpino increases its carryings. Cisalpino AG, a subsidiary of Trenitalia and SBB, exemplifies this partnership strategy. On 18 December 2003, Trenitalia and SBB agreed to increase the share capital of Cisalpino AG by CHF 76.5 million to CHF 162.5 million. SBB also increased its minority stake to 50%. In the year under review, the nine trains of Cisalpino AG covered a total of 2.6 million km and transported a total of 3.1 million passengers on its Stuttgart-Florence and Geneva/Basel–Venice routes. Turnover climbed 2.9%. In 2004, Trenitalia and SBB will purchase 14 modern multi-current tilting trains. The investment volume will total about CHF 450 million. The new rolling stock is scheduled to be put into service on the Frankfurt–Basel–Bern–Brig–Milan route after the opening of the Lötschberg base tunnel.

Lyria on a growth path. SBB is also involved in Lyria, a successful joint venture with SNCF, the French national railway. Lyria is the company which operates the TGV trains on the Zurich–Bern–Paris and Brig–Lausanne–Paris routes. In 2003, 1.27 million passengers travelled on these trains – a year-on-year decrease of 2.7%, though revenues were up 2.2%. This joint venture will be further expanded in the future.

The challenges in the areas of interoperability and train-path scarcity are growing steadily. At the same time, the costs of effective marketing and the outlays on new rolling stock are also increasing. As these challenges can only be met through strategic alliances and joint ventures, SBB will continue to pursue such avenues.

CHF 2 billion to be invested in new rolling stock.

The Passenger Traffic division invested CHF 529 million in new rolling stock in the year under review (previous year: CHF 511 million). This level of capital investment will continue in future too: in the next five years, SBB will spend over CHF 2 billion on new rolling stock and related equipment for Passenger Traffic. The trend from robust machines to complex technological systems is continuing. Push-pull operation of trains made up of double-deck and EW IV coaches is necessitating a changeover from single-car to trainset servicing.

In order to meet these new requirements, Passenger Traffic reorganised its maintenance operations in October 2003. Service and Maintenance were combined with Production to form a new business unit know as "Operating". As this allows for closer contact between locomotive and maintenance personnel, coordination has been greatly improved. At the same time, a substantial CHF 6.5 million will be spent over the next two years on staff training. The classic railway maintenance shops of yesteryear are being transformed from industrial operations into high-tech enterprises.

The headcount of the Passenger Traffic Division (including subsidiaries) increased slightly in the year under review to 12,608 full-time employees, a gain of 0.8 %.

The past year was overshadowed by the collision at Zurich Oerlikon station on 24 October 2003. Two limited-stop services, one travelling from Zurich to Konstanz and the other from Schaffhausen to Zurich, were involved in a side-on collision early on this Friday evening. One coach tipped over and other coaches were derailed, leaving one person dead and over a hundred injured. Oerlikon station had to be closed for 36 hours. After the accident, SBB immediately initiated corrective action. Investigations by an independent body are in progress. The dense, round-the-clock operating schedule called for more extensive maintenance and servicing operations than ever before. The heatwave that settled over Switzerland, giving it the hottest summer for more than a century, coupled with peak numbers of passengers, placed heavy strains on traction vehicles and on the electrical systems of air-conditioned passenger cars. This resulted in a series of breakdowns, which attracted a barrage of questions and criticism from the media and the public. Under these unusual loads, the newer Re 460 and Re 450 locomotives revealed system deficiencies and showed premature signs of wear. In November 2003, expenditure of CHF 56.6 million on alterations to the 119 Re 460 locomotives was approved. Zurich S-Bahn services also suffered due to traction vehicle faults, and management set up a special task force to quickly rectify the problems on this network.

All of these projects are being carried out at the same time as the extensive rolling stock expansion and conversion work required for launch of phase one of the Rail 2000 project on 12 December 2004. SBB is successively installing the new cab signalling system in locomotives and tilting trains. As approximately 400 passenger cars are having to be retrofitted for 200 km/hr operation, the workforce in Service and Maintenance is being increased by around 170 employees.

Long-distance services: Rail 2000 to bring 12% more trains.

The launch of the Rail 2000 project will represent a quantum leap for the Swiss public transport system. For the first time since the introduction of the regular-interval timetable in May 1982, passenger services throughout Switzerland will benefit from a new concept that offers 14% more train-kilometres and 12% more trains. There is a further dimension to these improvements: as of the new timetable, the departure times of nine out of ten existing services will change. This is due to the dovetailing of arrivals and departures at hub stations.

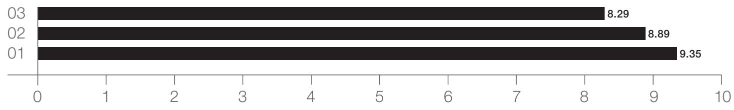
Regional services: efficiency versus politics.

Cooperation boosts productivity. Both the federal government and the cantons stepped up the pressure to cut costs in 2003. SBB's regional traffic operations responded to the harsher economic conditions by proposing a cooperative strategy aimed at boosting efficiency through closer cooperation with locally based private railway companies. The focus is on reducing duplication in maintenance, marketing, administration and sales. In May 2003, Transports de Martigny et Région SA and SBB formed a company called RegionAlps. Last year, the Lucerne–Stans–Engelberg Railway (LSE) and SBB's Brünig Railway laid the groundwork for a joint venture that will be implemented in phases during 2004.

Regional traffic managers hope that this cooperative strategy will help to prevent services from being cut due to declining grants. In this endeavour, SBB is reliant on support from the respective owners and the cantonal decision-makers.

Grants for regional passenger traffic.

CHF per train-kilometre



The average grant per train-kilometre was reduced from CHF 8.89 in 2002 to CHF 8.29 in the year under review, continuing the trend of recent years towards more performance for fewer public funds.

In the coming years, traffic in urban areas is set to increase considerably. The only way to handle this increased traffic volume is to shift more traffic to the rail system. Projects for urban bypass and cross-city lines are thus urgently needed, and the federal government will have to make the necessary funding available for this type of investment. SBB is systematically implementing its strategy of establishing seven urban rapid transit systems throughout the country. One of these, Stadtbahn Zug, will go into operation on 12 December 2004. With modern rolling stock and an attractive timetable, it will set new standards for regional transport services.

Progress in border areas. SBB also made solid progress in areas along its national borders. After SBB had successfully entered the German market through its subsidiary SBB GmbH, which was awarded a contract to operate the Wiesental line near Basel, a contract was signed between Bayerische Eisenbahngesellschaft (BEG) and a Bavarian-Swiss consortium made up of SBB subsidiary Euro Thurbo and the Bavarian company Länderbahn to operate the Munich–Oberstdorf line. Operation began in December 2003 and has been running smoothly ever since.

Thurbo comes of age.

Thurbo AG began operation in mid-December 2002. It is owned by SBB (90 %) and the Canton of Thurgau (10 %). At the moment, Thurbo's network of lines totals about 550 km, including 80 km in Germany. The new company is thus well positioned to successfully operate a regional public transport system in eastern Switzerland and the Konstanz district of Germany that meets both economic criteria and customer needs. In its first year of business, Thurbo AG posted gratifying results: 299 million passenger-kilometres, 8 million train-kilometres and traffic revenues of CHF 44 million. These impressive figures are the result of rigorous efforts to align services to the needs of the market. Innovations include the introduction of late-evening services on the main routes in Thurgau and between Winterthur and St. Gallen, with good connections out of Zurich.

In the next five years, SBB will invest about CHF 400 million in 80 new articulated railcars, which will provide additional capacity and improve riding comfort on the Thurbo line network.

Commitment to on-train catering.

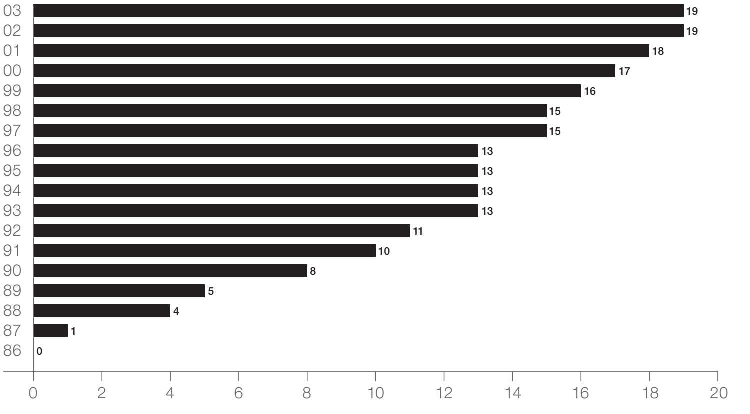
In autumn 2003, SBB restructured ownership of elvetino, its catering subsidiary, when Rail Gourmet Holding Ltd. transferred its remaining shares to SBB. In taking over elvetino – Switzerland's leading rail catering company, with 900 employees – SBB is underscoring its commitment to providing quality catering services on the rails. However, changing eating habits and increased competition from suppliers in and around the stations call for a new strategy to be properly defined and implemented. The cornerstones of the future catering service are expansion and harmonisation of the dining car fleet and greater attention to changing market needs. The ongoing introduction of Intercity tilting trains by 2005 means that 20 new dining cars are being added to the fleet. At the same time, SBB Industrial Works are installing restaurants in the top decks of 16 Bistro double-deck cars. By the end of 2004, the dining car fleet will include 80 units, twice as many as in 1999.

Keeping order.

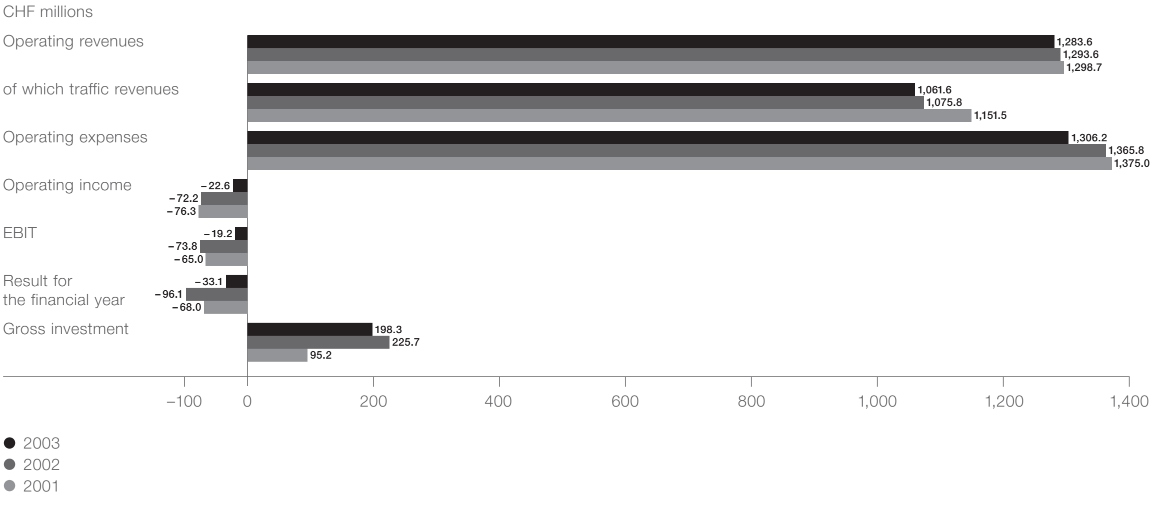
For some years now, SBB has been making strenuous efforts to deal with the growing threats of violence and vandalism (these cost SBB about CHF 6 million every year). With an overall plan that combines prevention and intervention, SBB is making sure that the "house rules" are respected and implemented at stations and in trains. The action taken so far is clearly having an effect: in 2003, for example, the number of persons travelling without valid tickets has begun falling (the percentage of passengers falling into this category was reduced from 4.34% in 2002 to 2.83% by the end of 2003). The company is aware that increasing the subjective feeling of security and safety is a long-term task. By increasing staff numbers in the railway police force, introducing video monitoring in regional services and implementing a new programme of random inspections, SBB is helping to combat the social problems of vandalism and violence.

Greater security means higher costs. SBB and its clients, the cantons, must address this issue and come up with joint solutions that will benefit the travelling public. With its security strategy, SBB is offering a guarantee that the new measures can also be financed and therefore implemented. It is thus making a constructive, customer-oriented solution contribution to improving security.

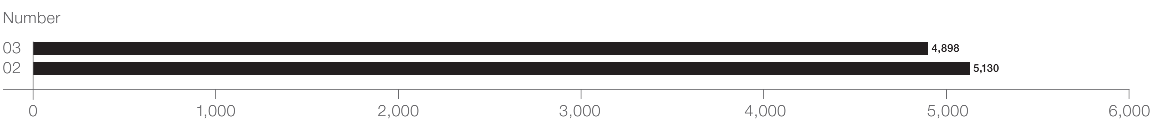
Number of integrated public-transport authorities working together with SBB.
(changes 1986–2003)



Freight traffic in brief[1].



Employees[2].



1 By segment; Group income and expenses not eliminated.
2 Average workforce in full-time equivalents, including subsidiaries.

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.

SBB Cargo operates over 2,300 freight trains daily – an annual total of 9.9 billion tonne-kilometres – serving its customers on a network comprising over 675 delivery points, 600 loading points and 2,450 sidings. In doing so it reduces traffic on Switzerland's roads and in Europe's north-south corridor by over 20,000 truck journeys a day.

On target.

In the past year, SBB Cargo turned around its business, reducing the 2002 loss by 65.6% from CHF 96.1 to 33.1 million. It has thus made great strides towards achieving the targeted positive result. Despite a persistently difficult economic climate, traffic rose slightly in 2003. With the launch of pilot operations in Italy and the implementation of the new wagonload service in Switzerland, SBB Cargo has initiated two key projects.

At 9.94 billion tonne-kilometres (2002: 9.73 billion), freight traffic edged up by 2.1% despite the persistently sluggish economy. At 54.8 million tonnes, the volume of goods transported was virtually unchanged from the previous year (down 0.3% from 54.9 million). Traffic revenues of CHF 1.062 billion (–1.3%) were slightly below the year-back figure of CHF 1.076 billion. Thanks to the growth in turnover, the restructuring measures and strict cost management, SBB Cargo improved its operating result by 68.7% to CHF –22.6 million against the background of a slight (0.8%) fall in operating income to CHF 1.284 billion and a more significant (4.4%) drop in operating expenses. Earnings before interest and tax (EBIT) improved by 74% to CHF –19.2 million. This is reflected in a significantly better result for the year. The annual loss was reduced by 65.6% compared with the previous year and totalled CHF 33.1 million (previous year: CHF 96.1 million). Thus SBB Cargo reached an important milestone on its way to the positive result targeted for financial year 2005.

Increase in traffic in spite of recession and line closure.

Both the persistently weak economic situation in 2003, in which freight transport consolidated at a low level, and the dynamics of the liberalised rail freight market are reflected in traffic performance. While SBB Cargo lost market share to competitors in domestic traffic (and also in transalpine traffic from border to border), it gained market share in traffic outside Switzerland. Overall, the company saw an increase of 204 million tonne-km (+2.1%) in traffic performance, in spite of the economic slump.

Losses due to closure. The total closure of the Monte Olimpino II tunnel south of Chiasso for months on end meant that the company incurred losses estimated at CHF 10 million in revenue from traffic to and from Italy. The tunnel was closed completely due to water damage from the end of November 2002 to 5 May 2003, and until 7 August 2003 only one track was open. As a result, traffic was lost to the Brenner route and to road competition.

The volume of freight hauled from the Basel Rhine ports has plummeted. Because of persistently low water levels and the resulting higher shipping rates, the shippers' first priority was to reduce existing warehouse inventories. Only in a few cases did they select the all-rail option for freight originating at North Sea ports. Although Swiss Rail Cargo Köln was able to profit from this situation by operating a total of 236 special services for chemical and petroleum customers, the overall result was a loss of CHF 15 million in revenues.

Results for the individual traffic sectors.

The individual traffic sectors give the following picture:

- Export traffic continued to decline, dropping to 0.56 billion tonne-kilometres (–21.8 %).
- Transit traffic decreased 4.6 % to 5.02 billion tonne-km.
- Import traffic increased 1.0 % to 1.31 billion tonne-km.
- Domestic traffic increased 2.2 % to 2.4 billion tonne-km.

At 9.94 billion tonne-kilometres (2002: 9.73 billion), freight traffic edged up by 2.1% despite the persistently sluggish economy. At 54.8 million tonnes, the volume of goods transported was virtually unchanged from the previous year (down 0.3% from 54.9 million).

In international traffic, the subsidiary Swiss Rail Cargo Köln (SRCK) was in operation for its first full calendar year and was able to increase traffic performance by 492 million tonne-km to five times the previous level. The success of the German expansion was also reflected by the revenue figure for the year under review, which increased from the previous year's CHF 3.6 million to CHF 34.3 million. With these results, SBB Cargo more than made up for the loss of traffic to its competitors in domestic traffic. For the first time, SBB Cargo also transported a modest amount of freight in Italy.

Traffic performance.

(in millions of net tonne-kilometres)	2003	2002	Change
Domestic traffic	2,403	2,351	+2.2 %
Exports	557	712	–21.8 %
Imports	1,308	1,295	+1.0 %
Transit	5,017	5,261	–4.6 %
Abroad (D/I)	651	113	+474.5 %
Total	9,936	9,732	+2.1 %

Development of client sectors. When sales are broken down according to industrial sector, we find that business decreased in the following areas: agriculture (below-average grain and sugarbeet harvests), construction (loss of clay traffic to competitors), chemical & petroleum, iron & steel (low water levels in the Rhine and losses to competitors), timber/paper (lower demand for paper) and postal service (customer's internal optimisation). Traffic increases were posted by the commerce sector (more shipments for supermarkets, new product "Cargo Domino") and by intermodal transport – the latter in continuation of a longstanding trend.

Transalpine traffic on the Gotthard and Simplon routes.

The decline in transalpine traffic reflects the growing competition in railfreight and the five-month closure of the Monte Olimpino II tunnel. Its closure cost SBB Cargo about 1 million net tonnes in transalpine traffic. As it has had a de facto monopoly of the Gotthard route until now, SBB Cargo loses market share in Switzerland, whereas it gains market share abroad (Germany and Italy). The downturn in tonnage is offset by an increase in the average distance travelled, as a single railway company (competing against other companies) is now increasingly responsible for the entire route. In particular, SBB Cargo has lost traffic in the "mixed-freight" wagonload segment as well as a few block trains. This trend will continue in the years to come. The Rollende Autobahn (Rola) piggyback segment saw a continuation of the trend away from the Gotthard and towards the Lötschberg-Simplon route, whose infrastructure is more suitable for this type of traffic. This has been associated with a change of operator from SBB Cargo to RAlpin, a company which uses BLS Cargo traction within Switzerland. Unlike the Gotthard route, the Lötschberg-Simplon route has been upgraded to accommodate trucks with a corner height of up to 4 metres.

Transalpine traffic.

(in millions of net tonnes)	2003	2002	Change
Wagonload traffic	7.48	8.61	–13.2 %
Unaccompanied intermodal traffic	11.07	11.19	–1.1 %
Rollende Landstrasse (piggyback)	0.70	0.87	–19.3 %
Total	19.25	20.67	–6.9 %

Market entry in Italy.

In December 2002, SBB Cargo decided to form its own subsidiary in order to enter the North Italian market. At the same time, the joint "Transalp" project with FS Trenitalia Cargo was discontinued.

Swiss Rail Cargo Italy s. r. l. (SRCI) was formally established at the end of January 2003. The big day came just under a year later: on 15 December 2003, Swiss Rail Cargo Italy began pilot operation with its first train from Chiasso to Monza-Lecco in northern Italy. SBB Cargo is the first European railway company capable of scheduling and operating freight trains between Germany and Italy and taking responsibility for end-to-end transport. SBB Cargo will begin regular operation in Italy in mid-April 2004 with additional trains departing from Chiasso.

A major challenge. The creation of the Italian subsidiary in such a short time was a major challenge for all employees involved. Important milestones were the legal formation of Swiss Rail Cargo Italy on 29 January 2003, licensing as an Italian railway undertaking on 26 March 2003, and the granting of the safety licence (Certificato di Sicurezza Cesifer) on 27 November 2003. SBB Cargo exerted great effort in training personnel – locomotive drivers, vehicle inspectors, and shunting personnel. The industry needed more time than expected for delivery and approval of the locomotives. SBB Cargo was able to secure the launch by purchasing Rail Italy, a small Italian industrial railway.

By developing Swiss Rail Cargo Italy, SBB Cargo intends to bring the quality and punctuality of rail freight traffic with northern Italy up to a level comparable with Switzerland. The goal is to make rail traffic attractive again for customers in the large northern Italian market and to continue to promote a shift in traffic from road to rail. In order to be closer to its customers, SBB Cargo re-opened its sales office in Milan at the end of 2003.

Competition…

In the second half of 2003, the SBB Cargo subsidiary was already operating about 90 trains per week on the Rhine route in Germany. This shows that SBB Cargo has successfully entered the German market. Customers can now choose between several options for this route: they can book their shipments either with SBB Cargo and its subsidiaries, or with other railways active in the liberalised railfreight business.

This new model is beginning to prevail over conventional cooperative arrangements, which did not achieve the desired quality. A single railway company takes responsibility for the shipment along the entire route and guarantees customers punctuality and cross-border reliability.

This development has considerable implications for the railway companies. The DB Cargo Group will lose its dominant position on the German Rhine-Ruhr route (Cologne-Basel). SBB Cargo will be among the winners on this route and will gain market share here. At the Gotthard end, the situation is exactly the opposite: here SBB Cargo will lose up to one third of its traffic to competing railway companies and will have to cede its dominant position. In northern Italy, a number of new companies are emerging on the market in addition to FS/Trenitalia Cargo and Ferrovie Nord Cargo. The Rail Traction Company, which operates on the Brenner route, played a pioneering role, with SBB Cargo following on at the end of 2003. The DB Group is also working towards market-entry in Italy.

Net tonne-kilometres per personnel unit.

in 1000 tonne-km

… and cooperation.

SBB Cargo is continuing to handle import and export traffic and a portion of its north-south services in cooperation with Railion (DB Cargo) and Trenitalia Cargo. The wide-ranging cooperation with SNCF Fret and Rail Cargo Austria (ÖBB) has been extended. New partners are being acquired in addition to these traditional partners. Since April 2003, for example, Ferrovie Nord Milano (FN Cargo) has been operating trains for SBB Cargo on the Chiasso-Desio route, and additional routes have been established since then.

In October 2003, SBB Cargo and ERS Railways BV, formed a cooperative arrangement in order to improve the quality of railfreight services on the routes between Rotterdam and northern Italy. ERS is a joint venture of the globally active shipping companies Maersk Sealand and P&O Nedlloyd.

Restructuring of wagonload traffic.

Wagonload traffic is the backbone of the Swiss rail freight service. Through a close-knit network of over 650 freight delivery points and 2,450 customers with private sidings, SBB Cargo delivers over 1.2 million freight wagons per year. In 2002, wagonload traffic accounted for a loss of about CHF 36 million in SBB Cargo's income statement. Further savings were no longer possible with the previous production system.

Given this situation, SBB Cargo examined two possible options. The "re-dimensioning" option involved slashing the number of delivery points and thereby saving at least CHF 70 million. With the "optimisation" option, SBB Cargo proposed modifying the structure of regional production, thereby reducing peak loads in the morning and the evening.

Nationwide service retained.

In June 2003, Cargo decided in favour of the second option. The company felt it was important for wagonload traffic to remain a nationwide service. SBB Cargo is saving a total of CHF 29.5 million with the optimisation option. The nationwide service has been retained and will continue to be implemented through the "team station" concept. However, the number of these stations has been reduced from 120 to 43. The teams have been enlarged and now handle a greater catchment area.

Biggest timetable change in decades. SBB Cargo launched the first phase of its "New Wagonload Traffic" project as of the timetable change in mid-December 2003. This was the biggest change in the freight train timetable in decades. Thanks to painstaking preparations, it was accomplished smoothly and with no major problems. A large number of customers were involved in the changeover and played an active role in it. This close cooperation was instrumental in the project's success. The second phase of the project will begin in July 2004. It will include the preliminary work for utilising shunting locomotives with remote radio control systems.

Optimisation of wagonload traffic requires investments in the marshalling yards in Lausanne and Biel/Bienne and in several team stations. SBB has already given the go-ahead for the expansion and modernisation of the Lausanne yard. The expanded facilities will be available by the end of 2006.

Capital investment.

SBB Cargo has made major investments in upgrading its freight locomotive fleet and has ordered a total of 39 locomotives at a cost of about CHF 210 million for cross-border traffic between Switzerland and Italy.

At the end of February 2003, SBB approved an outlay of CHF 9.7 million for three diesel locomotives for non-electrified routes. The supplier is Vossloh Locomotives. The first two Am 840 locomotives have been in operation since December 2003, and the third will follow in early 2004.

On electrified routes, dual-current locomotives that can operate on both the Swiss and Italian systems are being deployed. Siemens Switzerland is supplying 18 dual-current Re 474 locomotives from the Eurosprinter family. Delivery will begin in June 2004. The purchase price is CHF 99 million. Bombardier Transportation is supplying 18 dual-current Re 484 locomotives from the Traxx family. The purchase price for these locomotives, which are scheduled for delivery as of December 2004, is also CHF 99 million.

SBB Cargo has continued to renew its freight wagon fleet. Delivery of flat wagons for transporting Cargo Domino swap-bodies has begun, as has the delivery of 200 modern sliding-wall wagons and 270 Cargo Domino containers of three different types. A new order was placed in the year under review for an additional 400 sliding-wall wagons. All the new freight wagons are equipped with low-noise synthetic brake pads.

Overall, SBB invested CHF 169 million in new rolling stock in the year under review.

SBB Cargo launched the first phase of its "New Wagonload Traffic" project as of the timetable change in mid-December 2003. This was the biggest change in the freight train timetable in decades. Thanks to painstaking preparations, it was accomplished smoothly and with no major problems. A large number of customers were involved in the changeover and played an active role in it. This close cooperation was instrumental in the project's success.

Locomotive upgrades.

The conversion of a further 12 Re 420 locomotives equipped for cross-border working (on the German and Swiss systems) was carried out at the Bellinzona Industrial Works. The new class designation is Re 421. The Bellinzona plant has also retrofitted three Re 420 locomotives with cab air-conditioning. After completion of the test phase, a larger number of locomotives of types Re 420, 430 and 620 will be similarly converted.

Improved safety thanks to derailment detectors.

SBB Cargo was able to complete a project in which 623 freight wagons for the transport of chemicals and petrol were retrofitted with derailment detectors at a cost of CHF 1.3 million. The retrofitting of an additional 1,000 wagons for hazardous goods transport has been approved and is now in preparation.

Basel-Nord gateway.

SBB Cargo has purchased a plot of land measuring some 1000 by 180 metres in the northern part of Basel that was once part of the former German Railways marshalling yard. A gateway for intermodal transport will be built on this 13.7 hectare site and is due to be completed in 2008. The facility will make it possible to receive intermodal trains and reconsolidate them. In contrast to a classic marshalling yard where rail wagons are shunted around, at this site powerful crane systems will be used transfer switch containers and swap bodies. The gateway will also be used for road/rail transhipment for the Basel region, replacing the existing Basel-Wolf container transhipment site.

Clockface timetable for transalpine freight.

When the timetable was changed on 15 December 2003, SBB Cargo introduced a "systematised timetable" on the Gotthard and Simplon routes. As with the regular-interval timetable for passenger services, most SBB Cargo trains now run on a clockface pattern. With this system, SBB Cargo can cut costs and increase productivity. The systematised timetable system lays the foundation for further growth along these routes.

Skilift principle. The new timetable's mode of operation is simple. Based on a principle like that of a skilift, the locomotives on the North-South routes run at regular intervals around the clock. The arriving freight loads are no longer assigned permanently to specific trains but – to put it simply – are hooked up to the next departing locomotive and sent on their way. SBB Cargo is thus able to reduce considerably the unproductive downtimes for both locomotives and drivers forced to wait at the border for trains that are delayed.

SBB Cargo estimates that in 2004 approximately 80 % of the trains on the north-south routes will run at fixed intervals. The other 20 % will be trains still operating outside the regular-interval system. As they require considerably more resources to transport the same quantity of goods, they will gradually be integrated into the new system.

Customer satisfaction falls slightly.

Customer satisfaction fell below the year-back level and averaged 7.32 points on a scale of ten (previous year: 7.47 points). The rating varied according to the importance of the customer group: while smaller customers gave SBB Cargo a significantly worse rating, satisfaction among major customers (who account for 74% of sales) stabilised at the year-back level of 7.4 points. The deterioration in the small-customer sector was due mainly to rigorous invoicing of all add-on services and to errors in invoicing for wagon demurrage. Both factors caused a significant rise in complaints, which could not be dealt with in the desired timeframe. The sales team was rated more highly, especially in terms of professional expertise and reliability. The Customer Service Center in Fribourg was also given a higher rating.

Improved punctuality in domestic traffic. The punctuality of freight trains remained high. Overall, 90.7% of the trains were on time (i.e. arrival within 30 minutes of the scheduled time). In domestic traffic, which is traditionally more punctual, the percentage was even higher: 94.1% of trains (up from 93% in the previous year) reached their destination within this time margin.

Headcount down. The average workforce of SBB Cargo, including its subsidiaries, decreased by 232 full-time jobs compared with the previous year and totalled 4,898 full-time positions by the end of the year. The reduction of 251 jobs in Switzerland resulted on the one hand from early retirements in 2002 which only worked through to the figures in the year under review and, on the other hand, from two new projects: New Wagonload Traffic and Passaggio (simplification of border formalities). In contrast, the average workforce abroad was increased by a total of 19 jobs at the subsidiaries Swiss Rail Cargo Köln (+5) and Swiss Rail Cargo Italy (+14). This trend – a falling headcount in Switzerland but rising staff numbers abroad – will continue in the years to come. In the year under review, personnel expenses were reduced by a total of CHF 44.8 million.

In order to increase the percentage of women employed by the company, SBB Cargo introduced a number of equal opportunity programmes. Among other things, a mentoring programme for women in management positions was introduced.

Outlook.

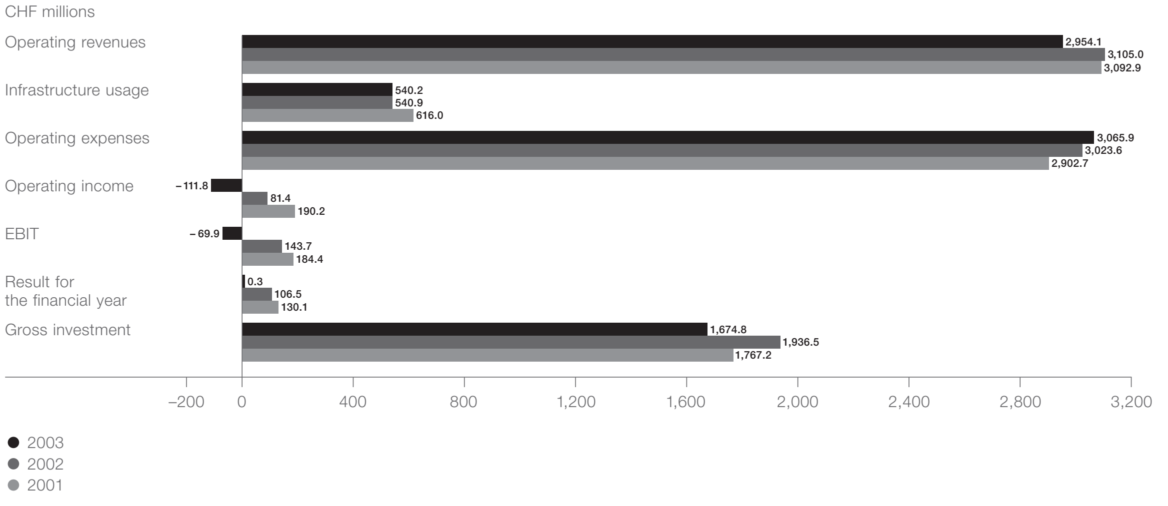
In 2004, SBB Cargo will push ahead with the development of its Italian subsidiary, Swiss Rail Cargo Italy, so that it can handle major freight services as of December as planned. The build-up of Swiss Rail Cargo Köln will also be continued, and SBB's expertise on the north-south routes will be strengthened.

The aggressively competitive policies of DB Cargo and its Swiss partner BLS Cargo will have consequences for SBB Cargo. SBB Cargo is expecting to lose a large portion of its existing transalpine traffic to this competitor. The stiffer competition will also result in falling rates.

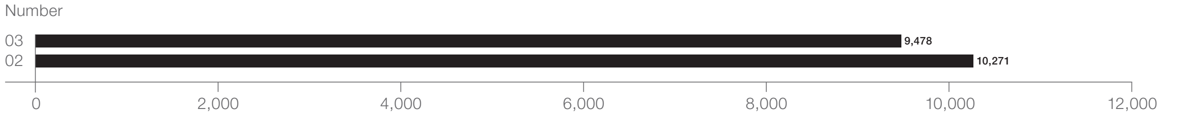
Deterioration in the operating climate. As of 1 January 2005, the performance-based heavy goods vehicle tax (LSVA) will be increased. Because the weight limit for goods vehicles on the domestic road network is set to be raised from 34 to 40 tonnes at the same time, resulting in a significant productivity gain, the operating climate for domestic rail transport will worsen dramatically in the heavy goods segment.

In domestic traffic, the federal government's programme of spending cuts will put additional pressure on wagonload traffic. The train path subsidies, which serve to compensate for the productivity gains accruing to 40-tonne trucks, are set to be eliminated early. This poses a threat to the nationwide domestic freight service, which was optimised last year.

Infrastructure in brief[1].

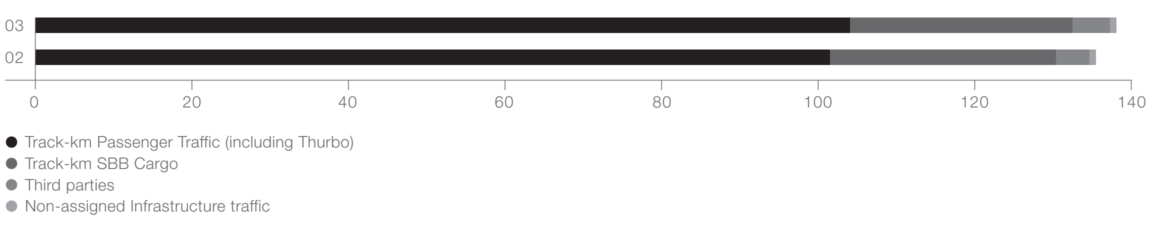


Employees[2].



1 By segment; Group income and expenses not eliminated.
2 Average workforce in full-time equivalents, including subsidiaries.

Changes in track-kilometres.



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.

More than 7,300 km of track, 842 stations, 14,202 sets of points, 28,408 signals, 710 signal boxes, 304 tunnels and 5,982 bridges. Despite running on the most heavily used infrastructure in Europe, 19 out of 20 trains in Switzerland arrive at their destinations on time.

Countdown to Rail 2000.

In 2003, the Infrastructure division achieved a balanced budget despite a number of negative extraordinary factors. Operations are now directed towards the implementation of phase one of Rail 2000 on 12 December 2004. A number of important tasks relating to this landmark event were completed in the year under review.

The Infrastructure division posted a surplus of CHF 0.3 million in 2003 following a CHF 141 million transfer in connection with the spinoff of real estate activities into an independent division (see page 8). A direct comparison with the previous year is possible only to a limited extent due to the establishment of Real Estate as a separate division.

The infrastructure business was shaped by a variety of factors in the reporting year. Traffic revenues were down by CHF 25 million due to reduced demand. Extraordinary factors on both the expenditure and earnings sides had a negative impact of CHF 32 million. Specifically, these factors included possible tax charges in connection with the Federal Court decision regarding taxation of “non-operating” SBB real estate holdings (CHF 41 million – for details, see page 7) and the across-the-board budget cut by the Confederation (CHF 13 million). These setbacks were compensated by positive operating factors, notably the improvement in the field of power generation (+CHF 35.5 million).

Investments benefiting the economy: With gross investments of CHF 1.675 billion, the SBB Infrastructure division contributed significantly to the domestic economy in the reporting year. Roughly a third of all investment (Rail 2000, noise abatement) was met from dedicated resources from the Public Transport Financing Fund (FinöV). Federal funding of the Infrastructure division rose on balance by CHF 44 million to CHF 1.383 billion. Federal contributions to facilities maintenance increased by CHF 49 million and those for basic requirements by CHF 24 million, while those for the operation of the facilities went down by CHF 29 million. Comparisons with year-back figures are complicated by the restitution to SBB of the assets and liabilities of the Lake Constance line previously leased to Mittelthurgaubahn.

A good year for the three networks.

More train-path kilometres: Trains covered a total of 138 million km on SBB's standard gauge network in 2003. This corresponds to an increase of 1.8% over the previous year. Owing to the integration of the Lake Constance Line, operated by Mittelthurgaubahn until December of 2002, passenger train kilometres covered by SBB and its subsidiary Thurbo increased by 2.5%. Passenger train kilometres of other railway undertakings remained unchanged. The train-path kilometres covered by SBB Cargo were down 1.9% year-on-year, while the total for the other railway undertakings increased by 54% (from a much lower level) to 1.9 million km.

Stable power grid and telecommunications network: The SBB power grid was stable over the reporting year. The new "Les Tuileries" transformer substation improved power supply in the Geneva region. Total energy consumed by trains on the SBB network was 2080 GWh, 0.5% more than in the previous year. Despite the hot summer and the increasing number of air-conditioned coaches, the rise in energy consumption was kept below the growth in train-path kilometres.

The SBB telecommunications network posted an availability figure of 99.97% for the reporting year. SBB will invest roughly CHF 100 million over the next years to equip railway tunnels with a radio communications system. This project is being implemented in cooperation with the three Swiss mobile telephony service providers and will thus extend the reception area for mobile telecommunications on routes with tunnels.

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Good time-keeping despite breakdowns.

In the reporting year, 19 out of 20 passenger trains arrived within five minutes of schedule, thus maintaining the very high level of time-keeping. The quality of operations deteriorated significantly in the autumn, when a series of break-downs occurred, especially in the greater Zurich area. A task force deployed in November is implementing a package of measures and is monitoring developments.

Punctuality of freight services in the reporting year was 90.7%. In the traditionally more punctual domestic sector, 94.1% of trains arrived on time, i.e. with a maximum deviation of 30 minutes (previous year: 93.4%). In transit goods, just under 70% of trains were on time. Processing of international freight was hindered by the complete closure of the Monte Olimpino II tunnel south of Chiasso, which remained closed from autumn 2002 until 5 May 2003 due to refurbishment work following serious water penetration. This placed great strains on the operations specialists from the "Centro d'esercizio regionale", the operations centre in Bellinzona, which has been monitoring – and for the most part also controlling – rail traffic in Ticino since 1 April.

Clockface service for freight trains.

The timetable change in December went smoothly. This time it was not the passenger timetable but the freight timetable that underwent major changes. The new "two-wave" system for local delivery of freight wagons called for significant adjustments to freight train marshalling at the major terminals. Track layouts and safety installations in the Biel/Bienne and Lausanne marshalling yards will be extended and updated for this purpose over the coming years.

Since the timetable change in December, freight trains have now also been operating on a clockface schedule. Thanks to internal optimisation and systematisation, timetablers were able to increase the number of available freight paths along the north-south corridor by 20 units per day.

Differing rates of progress in strategic projects.

The strategic objective of the Infrastructure division is to increase the capacity of the network in keeping with the company's growth targets for passenger and freight traffic. Moreover, third parties are to be given the opportunity to operate their own trains on the SBB network under the same conditions. The extension of rail capacity is based on several key projects, the current status of which is as follows:

- Important advances were made in phase 1 of the Rail 2000 project. In close coordination with the requirements of the traffic divisions, the company had invested CHF 5.9 billion in rail network upgrades by the end of 2004. In the reporting year 2003, CHF 559 million (as against CHF 729 million in the previous year) went into construction work for Rail 2000.

  In 2003, the 9.4 km long double-track tunnel between Zurich and Thalwil – the second-largest construction project of the first phase of Rail 2000 – went into operation. Costs were CHF 890 million, including an initial investment of CHF 90 million for the projected tunnel towards Zug as part of the future AlpTransit access route. In the approaches to Zurich Hauptbahnhof, upgrading of the lines from Altstetten, Wiedikon and Wipkingen was completed in mid 2003, enabling more trains to enter and leave the main station at the same time.

  Structural work on the last two tunnels has been completed on the new 45-km Rail 2000 route between Mattstetten and Rothrist. Installation of the rail equipment is proceeding quickly in parallel. In 2003, 285 trains transported over 200,000 tons of ballast, 85,000 sleepers and over 100 km of rail to the longest construction site in Switzerland. Work on the upgraded line to Solothurn and on the "Kriegsschlaufe" ("wartime chord") connecting Rothrist and Zofingen are also close to completion. The third track between Geneva and Coppet was nearly finished at the end of the year, in time for entry into service in February 2004. Also on schedule is the construction of three passing loops with a total length of ten kilometres between Worb and Emmenmatt.

  In addition to the major construction projects mentioned above, many smaller construction projects are in progress right across the SBB network as a part of Rail 2000. These include, for example, the modifications to the Biel/Bienne–Delémont–Basel route for the use of tilting trains. All of these projects are prerequisites for the major service upgrade in December 2004.
- Construction of the GSM-R (Global System Mobile for Railways) radio network commenced in the reporting year. This system replaces the obsolete train, marshalling and engineering-work radio systems and facilitates data transfer between the signal boxes and trains. On the new route, the manufacturer has verified operability of the system for trains running at 200 km/h.
- GSM-R is required for the implementation of ETCS, the European Train Control System. With GSM-R, the signal data are transmitted by radio directly to the driver's cab instead of by line-side signals. Only with the combined ETCS/GSM-R system will it be possible to maintain speeds of 200 km/h on the new route with 2-minute headways between trains. Based on the initial results of ETCS pilot operation between Zofingen and Sempach-Neuenkirch, SBB decided in December 2002 to also equip the new route with conventional signals as a fallback, and thus to accept a reduction of the maximum speed down to 160 km/h. Although pilot operation during 2003 showed that performance was no longer inferior to that on routes equipped with conventional signalling, SBB has adhered to its decision not to rely on ETCS for the launch of Rail 2000 in December 2004. It does, however, expect ETCS to

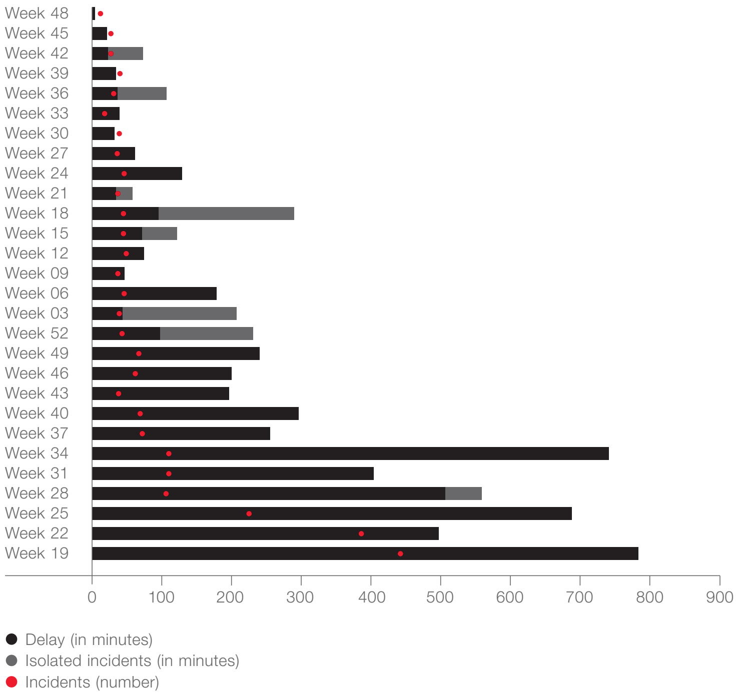
have attained the requisite degree of maturity for commercial operation on the new route by 2006.

– Automation of the network continues under the ATR (Automatisation Télécommande Réseau) project. In 2003, SBB equipped 28 stations with systems for 100 % remote control of points and signals from a re-mote control centre. With the changeover, the personnel previously responsible for operations on site have either transferred to the corresponding remote control centre or taken on purely commercial functions. The largest ongoing project is the automation of the route from Gümligen to Malters by 2005. Investment in remote control of the 28 train stations totals roughly CHF 170 million.
– As the fifth strategic project, all train operations will in future be coordinated from a central operations office in Olten and four regional operations centres. Thanks to short communications channels, the Rail Control Centre (RCC) means that the increasingly dense traffic on the SBB network can be handled even more efficiently. A considerable amount of work still has to be done in the areas of fault management and personnel training before the system finally goes live. Automation of the network is the basic prerequisite for implementation of the RCC.

CHF 946 million spent on network maintenance and renewal.

In 2003, SBB invested CHF 946 million (i.e. excluding FinöV grants) in maintenance and renewal of the rail network. The cantons and communities contributed an additional CHF 146 million, primarily for additional stations and platform underpasses.

A good end-result.
Events per week on ETCS pilot section Zofingen–Sempach-Neuenkirch 2002–3



Prevention and reaction: The goal is to ensure the highest possible availability of control centre, signalling, catenary, high-voltage, information and telecommunications systems. Regular checks and periodic renewal are also required for points, trackwork, catenary, platforms and the many civil engineering structures such as bridges and tunnels.

The heatwave placed excessive strains on rail infrastructure. At SBB, a team of 1800 people ensures the availability and safety of the railway infrastructure. In addition to periodic checks on the fixed installations, a Swiss-wide standby organisation ensures rapid rectification of any defects in the event of a failure. Train services were seriously affected by two significant incidents: a cable fire in the tunnel at Zurich Airport and a total power failure at Zurich Hauptbahnhof. Moreover, the derailments at Brugg, Sursee and Zurich Oerlikon called for infrastructure repairs to be carried out within hours. Responsibility for the maintenance and operation of the infrastructure of the Lake Constance line previously operated by Mittelthurgaubahn was transferred to SBB at the start of the year.

90 kilometres of track completely refurbished.

In parallel, roughly 2700 employees from the Construction Projects Management subdivision were responsible for the periodic renewal of the fixed installations. For example, in the reporting year, SBB invested CHF 39 million in the refurbishment of tunnels. Six tunnel refurbishment projects were completed – including the eight-year-long, CHF 60 million project for the renovation of both Simplon bores, which are nearly 100 years old. Refurbishment of the seven tunnels along the "Axen" route between Brunnen and Flüelen has been in progress since autumn 2003.

A total of CHF 292 million went into the complete refurbishment of close to 90 km of track and the replacement of 429 points. Most of the points were manufactured in the Hägendorf plant and then delivered on site with a 20 wagon-strong fleet of special wagons, just in time and essentially "ready to plug in". SBB invested CHF 32 million in the complete refurbishment of 60 km of catenary over the past year. Moreover, SBB was able during 2003 to reduce the number of barrier-less level crossings by 75 to a total of 561.

Modernisation of 130 regional stations.

Over the past 18 months, SBB has refurbished 130 smaller and medium-sized stations to make them more customer-friendly. All 620 regional stations will eventually be renovated under this "station facelift" programme. To date, roughly CHF 100 million has been invested. Because of the federal government spending cuts, the completion date for this programme (originally in late 2006) will be delayed for several years. Some 40 local stations will be refurbished in the current year, slowing down to about 30 per year in future.

Among the projects nearing completion, six station refurbishments in the reporting year are the most striking:
- Romanshorn station was completely renovated for an investment of CHF 52 million. In addition to high platforms and a modern train control system, the station was equipped with a pedestrian underpass. A double track now extends for a length of 1.5 km towards Egnach, speeding up train operations.
- Brugg station was also equipped with a new safety in-stallation, and platforms were raised to a comfortable boarding height of 55 cm above track level. Track work will be completed in April 2004, with a total budget of roughly CHF 43 million.
- An island platform with access via an underpass has made boarding easier in Emmenbrücke since April 2003.
- Thanks to the island platform completed at Cadenazzo in November 2003, passengers at this station no longer need to cross the tracks in order to reach their train. As part of the same project, the safety installation was also renewed and the track geometry improved. The investment in Cadenazzo came to approximately CHF 24 million.
- At Delémont, SBB invested roughly CHF 27 million in modernisation of the station building. This also involves rebuilding the platforms and installing a mod-ern interlocking system.
- The modernisation of Chur station – a joint project together with the Rhätische Bahn and the city – is still in progress. In an initial phase, a new pedestrian underpass was inaugurated in late May.

Modern interlocking system for the Seetal and Brünig lines.

Following the changeover to tram-type operation on the Seetal line in December 2002, a second phase of the project involves eliminating or improving the many level crossings along this line. SBB has been commissioned by the Cantons of Aargau and Lucerne to improve the safety installations and perform the construction work.

On the SBB's only narrow-gauge route, the Brünig line, all switch-operated signal boxes were replaced over the past two years with electronic systems. Following the investment of CHF 23 million, the entire line can be monitored and controlled remotely from Meiringen. The parallel installation of a train control system further improved operating safety.

In January 2003, as part of a cantonal mandate, SBB commenced construction of six stops for the Zug S-Bahn (urban transit) system.

Strict process structure.

The Infrastructure division has been working with a strict process structure since 1 January 2003. The Sales and Capacity Management (VKM) subdivision is responsible for relationships with the rail network's users, translates their requirements and wishes into concrete timetables, supplies the network with power and manages the operation of some 7000 trains each day.

The Asset Management (ASM) subdivision ensures that the fixed installations are operating properly and defines the refurbishment and renovation programmes for the entire network.

The third subdivision, Construction Projects Management (PBM), acts as the SBB's own construction company, implementing projects on behalf of Asset Management. Construction Projects Management also comprises the Construction Logistics and Procurement unit.

As of 1 November, the technical areas of the Infrastructure division (Telecommunications, IT, ETCS) were subsumed into TIM (Technology and Innovation Management).

Management changes: On average in 2003, the division's headcount was 9,478, i.e. 793 below the number at the end of 2002. As of the end of 2003, Pierre-Alain Urech left SBB after more than eight years at the head of the Infrastructure division.

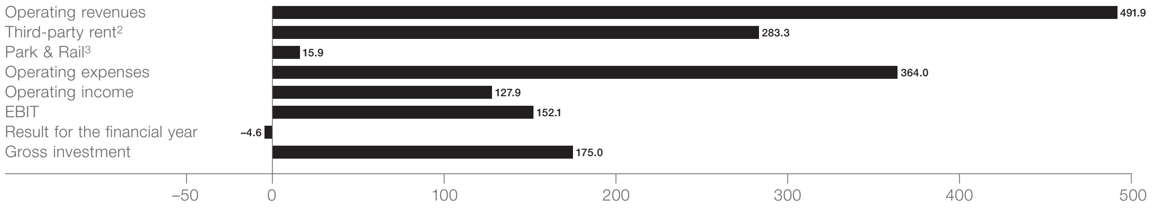
Key strategy issues.

The strategic direction of the Infrastructure division has been reviewed under Hans-Jürg Spillmann, head of the division since 1 January 2004. The main emphasis remains unchanged, although at this time of tight finances, funds will be focused more intensively on maintenance than expansion of the rail network. Under the motto "Forza", Infrastructure management has launched a project to identify possibilities for further improving maintenance of the SBB network with fewer resources. Priority is given to the perfect functioning of the Infrastructure division's three networks – rail, telecommunications and power supply.

Investments in new facilities will be made wherever the Infrastructure division's major customers – Passenger Traffic and SBB Cargo – find market potential. The search for increased rail capacity is geared primarily to improved procedures. An example of this is the systemisation of the freight timetable. In a second step, the opportunities presented by technical advances must be consistently exploited. SBB does not favour expansion of the rail infrastructure until the capacity of specific parts of the network – generally the major urban agglomerations and transit routes where mainline, freight and suburban trains operate in parallel – has been exhausted and changes in processes or electronics cannot bring about any further improvements. Examples of this are the new Zurich cross-city line and the Geneva–Eaux-Vives–Annemasse and Mendrisio–Stabio–Arcisate routes, for which planning is already well advanced. The financing of these projects by the Confederation still remains to be clarified, however.

Real Estate in brief[1].

CHF millions



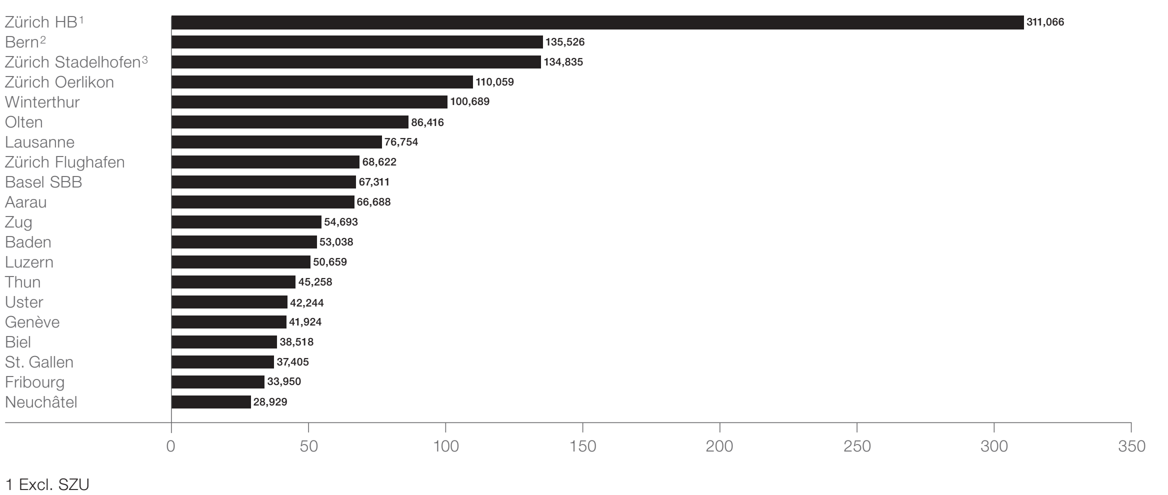
Employees[4].

Number

1 By segment; Group income and expenses not eliminated.
2 Excluding internal SBB rental income.
3 Park & Rail included in Passenger Traffic until 2000.
4 Average workforce in full-time equivalents, including subsidiaries.

Stations: gateways to the city – and to faraway places.
(Average daily number of passengers arriving at and departing from stations in 2000)

Thousands



1 Excl. SZU
2 Excl. RBS
3 Excl. FB

Strategic objectives, Real Estate. Quality assurance for clients: customer-focused, 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.

To take an example: every day over 310,000 commuters in Zurich, 135,000 in Bern, 70,000 in Basel and 77,000 in Lausanne experience a railway station as not just a place to get on or off a train, but as a meeting place and shopping centre. Real Estate manages 5,200 buildings and 27,000 rental contracts, making it Switzerland's fourth biggest real estate company.

Investing in the future.

SBB Real Estate has been successfully launched as an independent corporate division. In its first financial year since being hived off from Infrastructure, Real Estate implemented a new strategy, completed three major station schemes and reported a healthy operating profit of CHF 127.9 million. Its main source of earnings is leasing revenue from third parties. The division reported a loss of CHF 4.6 million for the year under review, but would have posted a profit if it had not been required to set aside provisions for possible tax liabilities.

SBB is not only a leading company in public passenger and freight transport: with 5,200 buildings and 27,000 lease contracts, it is also one of the most important players in the Swiss real estate market. The reported value of these tangible assets totals CHF 3 billion. As part of its corporate reorganisation, SBB has reviewed its position in the real estate market and the importance of the property business to the company as a whole. As of 1 January 2003, all real estate activities were hived off from the Infrastructure division and placed in a separate entity within SBB. This new entity – Real Estate – is managed as a corporate division in commercial and accounting terms, and it prepared its first segmental statements in the year under review.

A good start in operating terms.

At the operating level, Real Estate performed well in its launch year: operating income came in at CHF 491.9 million. The main source of revenue is leasing income, which totalled CHF 419.7 million. Over two-thirds of this figure (CHF 283.3 million) was accounted for by income from third parties. The rest of the leasing income (CHF 136.4 million) came from transactions with clients within the Group. Various factors contributed to this good result. The inauguration of the renovated stations in Bern, Basel and Zug generated additional income, as did higher turnover-related rentals. On the other side of the ledger, operating expenditure – at CHF 364 million – was CHF 24 million above expectations, mainly owing to additional depreciation on facilities under construction. The result was also affected by the merger with station real estate company Bahnhofliegenschaften Luzern AG. The overall result was an operating profit of CHF 127.9 million, while earnings before interest and taxes (EBIT) came to CHF 152.1 million. Despite this good operating, Real Estate ended its first financial year with a result loss of CHF 4.6 million. A number of special factors were responsible for this: Owing to the spinoff of the real estate activities from the Infrastructure division, it was agreed with the Confederation that a grant be paid to this division to compensate it for the loss. The grant for 2003 totalling CHF 141 million has been charged to Real Estate (CHF 44 million) and to Central Services (CHF 97 million). This latter charge corresponds to the interest payments on the funds which, owing to the capital structure in its opening balance sheet, Real Estate is transferring to Central Services. Moreover, the results of SBB Real Estate were impacted by a CHF 9 million allocation to provisions for the possible taxation of “non-operating properties” (see page 7).

Heavy investment in station renovations.

As part of its portfolio realignment, Real Estate realised gains of CHF 30 million from disposals of property in the year under review. At the same time it invested a total of CHF 175 million in 2003. The bulk of this sum went into station renovations in Bern and Basel, new construction work in Zug, the reconstruction of the SBB works in Olten and the expansion of Park&Rail facilities.

Implementation of the new strategy.

Activities in the new division’s first year centred on achieving a good financial result and implementing the new strategy. Real Estate’s prime task is the client-oriented, professional and economical management of SBB’s complex service and transport centres and of its properties in the regions. This calls for focused maintenance and redevelopment activities and an organisation with solid regional foundations. Together with portfolio adjustments, higher investment in expansion and replacements improve client benefits and increase the value of the SBB Group.

The seven major SBB stations – Zurich, Bern, Basel, Lausanne, Geneva, Winterthur and Lucerne – will in future be present on the market under the joint brand name of RailCity. The intention is for them to become even more customer-friendly transport interchanges. The RailCity brand is synonymous with an extensive, needs-oriented choice of retail facilities, a comprehensive range of services and attractive office accommodation in the major stations.

RailCity as growth driver.

The seven major SBB stations – Zurich, Bern, Basel, Lausanne, Geneva, Winterthur and Lucerne – will in future be present on the market under the joint brand name of RailCity. The intention is for them to become even more customer-friendly transport interchanges. The RailCity brand, which is synonymous with an extensive, needs-oriented choice of retail facilities, a comprehensive range of services and attractive office accommodation in the major stations, was applied to Basel in September 2003 and to Lucerne and Zurich in November. By the summer of 2004, Winterthur, Geneva and Lausanne will also make their debut under the new brand. Future activities will focus on preparing a strategy for each individual property, with property-specific development measures for the short, medium and long terms.

Further strategic projects.

Strategic investment criteria. Systematic portfolio management and project prioritisation will ensure that even more focused use is made of scarce resources.

Property-related strategy. As part of its 2003 property-related strategy, Real Estate has developed methods and mechanisms to pinpoint earnings potential, to devise suitable measures for maintaining earnings, and to identify properties suitable for divestment and disposal – and has trained staff to apply them. The first 30 sites were viewed and inspected during 2003.

Estate management. To improve the quality of estate management services, Real Estate put this function out to public tender. As a result, contracts were awarded to Alphaplan and ISS with effect from 1 January 2004.

Interior cleaning. In accordance with the real estate strategy, technical and logistical facilities management is not among the core competencies of Real Estate. In principle, these services are bought in. In the cleaning field, a number of measures have been initiated. Exterior station cleaning and graffiti removal are carried out by Clean, SBB's own service division. Meanwhile, the interior cleaning of buildings is contracted to third parties. It is hoped to enter into a cooperation agreement with ex-ternal cleaning companies, and the Real Estate division has consequently been asked to redefine interior cleaning as of the beginning of 2005. The project team began work at the end of October 2003.

Focus on the market and our clients.

Market situation strained. There was no general let-up in the downward pressure on rents in the year under review.

- In the residential field, demand and prices have stabilised, though with large regional divergences.
- Retail space in good, well-frequented locations remains in demand, but properties in less sought-after locations have great difficulty in finding tenants, even at much lower rents.
- There is currently a glut of office space. With the economy remaining sluggish, very few additional jobs are being created in the services sector. Despite this, more office space came onto the market in 2003. Only at good, central locations are demand and prices relatively stable.
- Large amounts of industrial and storage space are available for rent throughout Switzerland. The weak economy and structural downsizing of industrial operations are making themselves felt in this segment too. Only property that ideally meets specific operational needs is currently in demand.

Better quality assurance for clients. One of Real Estate's most important strategic objectives is to increase client satisfaction, and there are two ways to achieve this: even greater cleanliness and even better security.

- Clean, SBB's new service unit, has a workforce of about 500 employees who ensure professional standards of cleanliness daily at 800 stations. This includes cleaning public areas and tracks, removing graffiti, and snow-clearing, salting and gritting in the winter. New vehicles with the latest cleansers and cleaning appliances together with training in appropriate cleaning techniques support the staff in their work. 2003 was this new division's first financial year, and much of its activities were related to its establishment. Significant investment went into projects and training, and further important projects will be implemented in 2004. Clean has been given new identity featuring the catchline "RailClean – cleanliness in the station".
- Clients need station security. Securitrans operates round-the-clock security patrols at the RailCity stations – Bern, Basel, Geneva, Lausanne, Lucerne, Winterthur and Zurich. Its professional staff guarantee security, maintain order and calm, and prevent crime. The creation of surveillance centres in Bern, Basel and Geneva, where incoming reports of events such as fire, technical faults and the like are coordinated, noticeably improves the security situation – as does the expansion of video monitoring in all sensitive areas.

Better quality assurance for clients. One of Real Estate's most important strategic objectives is to increase client satisfaction, and there are two ways to achieve this: even greater cleanliness and even better security.

New look for stations.

Major celebration at Bern's new station. In record time the old Bern station has been turned into a modern, light, timelessly elegant transport interchange and service centre. SBB's investment totalled CHF 85 million. To mark this transformation in a fitting manner, a major celebration was held in the station on 2–3 May 2003 – and the whole population of the city was invited. The opening hours of Bern's RailCity outlets have been extended until 21.00.

Bridging the tracks – Basel's new walkway. The striking new Passerelle walkway over the tracks in Basel SBB station, along with the station's new southern approach, were officially opened on 12 September 2003. The total investment was CHF 93 million. The opening ceremony also marked Basel station's inauguration as a RailCity featuring 24 new shops with a total of 6,000 m^2 of retail and service space. The opening hours of Basel's RailCity outlets have been extended until 21.00.

Remodelling at Geneva-Cornavin. The booking hall at Geneva-Cornavin, which dates back to the 1930s, no longer meets modern-day requirements and is thus being remodelled. The objective is to improve service quality for travellers and to expand the retail and services space. Part of the station is in the process of being listed as a historic building. The first phase is scheduled for commissioning at the end of 2007.

New showpiece station for Zug. After a good two-and-a-half years' construction work, Zug's impressive new station building was officially opened at the end of November 2003. In addition to performing its transport functions, the CHF 69 million station serves as an attractive business location and a varied shopping mall. Moreover, the light installation by James Turrell makes the station a real showpiece for the city of Zug.

3,000 new Park&Rail spaces. Park&Rail parking spaces are being provided at stations to promote combined road-rail mobility. As an important interface between private and public transport, they support efforts to increase the usage of environmentally-friendly rail services. 3,000 new Park&Rail parking spaces were provided at SBB stations in the year under review, and in 2004 there will be 2,500 more. SBB Real Estate derived income of CHF 16 million from Park&Rail business in 2003.

26 x "Aperto". SBB operates 26 Aperto shops all over Switzerland. In Zug the opening of the new station enabled the Aperto shop to leave its temporary premises and successfully open for business with an integral Mam's Bistro take-away. After ten years' operation, the shop in Geneva was entirely rebuilt to meet the latest convenience-store standards. In Bern and Lausanne the first two "Aperto24" shops were launched: they are open until midnight, 365 days a year. SBB will decide in 2004 whether to sell the Aperto brand. The premises of the Aperto shops are not, however, for sale.

Five new "avec." locations. Operating company Cevanova, a joint venture of SBB AG Bern, Migros Genossenschaftsbund Zürich and k Kiosk AG Basel, currently operates 20 "avec." outlets at SBB stations.

The presence of an "avec." puts life into stations: besides tickets, they also offer attractive convenience facilities – groceries, a café, newspapers & magazines and kiosk products. Five new locations were opened in 2003, in Oberglatt, Au (Zurich), Bad Ragaz, Flawil and Neuhausen. A further four are planned, in Aarberg, Amriswil, Bassersdorf and Bümpliz Süd.

Geneva/La Praille development. Genève-La Praille, the former peripheral city quarter of Geneva, is undergoing a radical transformation. This is reflected in the proliferation of service operations in this area and the plans for an important transport hub accessible by rail, motorway and tram. SBB and the Canton of Geneva have set up a company named Sovalp to develop an area of disused railway land covering some 108,000 m^2. This redevelopment scheme is closely connected with the project for a Cornavin–Eaux-Vives–Annemasse (CEVA) rail link. It will help to fund CEVA and to make the new rapid transit link more profitable. Improved public transport access to the area will also bring about a moderate increase in the utilisation per surface unit. The planning phase extends until mid-2007.

Basel SüdPark development site: planning under way. In the centre of Basel, directly adjacent to the station, SBB is planning a development known as SüdPark Basel. The site, covering approximately 50,000 m^2, features futuristic architecture by Herzog & de Meuron. Together with the new station walkway, SüdPark Basel forms a link between the inner city, the station and the Gundeldingen quarter.

Zurich Hauptbahnhof development site: planning resumes. Despite the scrapping of the Eurogate project, the area surrounding Zurich's central station (Hauptbahnhof) is still of crucial interest. SBB, the City and Canton of Zurich and Swiss Post have agreed to jointly define the basis for redeveloping the area in terms of both buildings and use. An open planning process lead-managed by SBB will bring together three international planning teams and experts from a number of different specialist fields to consider questions such as the identity, the development and the use of the new district. It is hoped that the groundwork will be completed by the spring of 2004. First projects will not take shape before 2007.

Office and administration building: SBB Bern Wylerfeld project. Conversion work at the "Schnellgutbahnhof" Bern Wylerfeld (a former freight facility) is going into a second phase. This involves providing premises for a further 550 office jobs in the SBB Passenger Transport division. Planning permission was received from the City of Bern in 2003, and planning work in 2004 will focus on organising a design-and-build project competition for selecting planners and contractors. Prequalification for the competition will be completed in 2004.

Employee numbers slightly up.

In the first year after Real Estate was reorganised and set up as an independent entity within the SBB Group, its workforce edged up from 775 to 795 (full-time) positions by the year-end. This rise is due to the establishment of the new division and the recruitment that this entailed. Reorganisation of the interior cleaning unit was delayed, however. Personnel work in the first year concentrated on staff development.

Outlook.

The continued implementation of our strategy will remain our principal concern in 2004. We have plans to invest a total of CHF 226 million, the most important projects being the station at Chur, a travel centre at Zurich Airport, the industrial works at Olten Tannwald and Yverdon, and the expansion of our Park&Rail facilities. A considerable number of station renovation projects in the regions are also planned.

Besides proposals designed to increase added value, high priority is also being given to a number of key projects to improve performance and quality assurance. These include such activities as analysis of operating costs, optimisation of purchasing, benchmarking, the continued implementation of our object-related strategy, quality standards for major stations, and cleanliness.

Corporate Governance.

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

Introduction.

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

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

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

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

Legal form of the SBB.

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

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

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Group structure and shareholders.

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

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

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

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

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

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

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

Capital structure.

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

Board of Directors.

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

Thierry Lalive d'Epinay (b. 1944, Swiss)
Chairman of the Board since 1999, Dipl. Ing. ETH, Dr. sc. techn., Managing Partner of management consultancy HPO AG, Freienbach/SZ. Sits on all the committees of the Board of Directors including the Remuneration/Nominations Committee, which he chairs.
Other directorships and mandates: HPO AG, Freienbach, Chairman; von Roll AG, Gerlafingen; Océ (Schweiz) AG, Zurich/Glattbrugg; Foundation "Hoffnung für Menschen in Not", Murten, member of the Board of Trustees

Ulrich Sinzig (b. 1943, Swiss)
Member since 1 January 1999, Vice-Chairman since 1 January 2002, solicitor, Director of Aare Seeland mobil AG (asm), Langenthal. Chairman of the Infrastructure Committee and member of the Passenger Traffic Committee.
Other directorships and mandates: Switzerland Tourism, Zurich, Vice-Chairman; BKW FMB Energie AG, Bern; Alpar, Flug- und Flugplatzgesellschaft AG, Bern; Witschi AG (regional construction company); Kursaal Bern; Bielersee Gastro (asm subsidiary); 3B (consultancy, asm subsidiary); International Union of Public Transport (UITP), Vice-Chairman.

Hans Bieri (b. 1953, Swiss, employee representative)
Member since 1 January 1999, electrician, Secretary of the Swiss Association of Railway and Transport Personnel (SEV). Member of the Personnel and Freight Traffic Committees. Cantonal Councillor in the Cantonal Parliament of Bern (Social Democratic Party).

Hanspeter Brändli (b. 1938, Swiss)
Member since 1 January 1999, Dr. dipl. Physiker ETH, Managing Partner of Top Fifty AG, Zug. Chairman of the Freight Committee, member of the Remuneration/Nominations Committee.
Other directorships and mandates: Power-One Inc., Camarillo (California), member of the Board of Directors; Power-One AG, Uster (Power-One subsidiary), Chairman; ERO-Holding AG, Olten, Vice-Chairman; Top Fifty AG, Zug; Kunsteisbahn Zug AG, Zug.

Mario Fontana (b. 1946, Swiss)
Member since 1 January 1999, Dipl. Ing., Master of Science in Industrial Engineering. Chairman of the Information Systems Committee, member of the Real Estate Committee.
Other directorships: Leica Geosystems AG, Heerbrugg, Chairman; Swissquote Holding AG, Gland, Chairman; Inficon, Bad Ragaz; Sulzer AG, Winterthur; Büro Fürrer, Dietikon.

Yvette Jaggi (b. 1941, Swiss, employee representative)
Member since 1 January 1999, Docteur ès sciences politiques, Chairman of the Pro Helvetia cultural foundation. Chairman of the Real Estate Committee, member of the Remuneration/Nominations Committee.

Paul E. Otth (b. 1943, Swiss)
Member since 1 January 1999, certified auditor. Chairman of the Finance/Audit Committee, member of the Freight Committee.
Other directorships and mandates: Ascom Holding AG, Bern, Vice-Chairman and Non-Executive Lead Director; EAO Holding AG, Olten, Chairman; Esec Holding AG, Cham; Inficon Holding AG, Bad Ragaz, Vice-Chairman; Swissquote Holding AG, Gland.

Paul Reutlinger (b. 1943, Swiss)
Member since 1 January 1999, management consultant. Chairman of the Personnel and Passenger Traffic Committees.
Other directorships: Edipresse Groupe, Lausanne; Büro Schoch, Winterthur; Nagra Public Access, Zug; SkiData, Gartenau (Austria), Chairman.

Olivier Steimer (b. 1955, Swiss)
Member since 12 June 2003, lic. iur. (University of Lausanne), International Banking School in New York. Member of the Finance/Audit and Infrastructure Committees.
Other directorships: Banque Cantonale Vaudoise, Chairman.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management Board.

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

Benedikt Weibel (b. 1946, Swiss)
Chief Executive Officer (CEO) since 1999, Dr. rer. pol. With SBB since 1978, his functions including Secretary General and Head of the Traffic Department, and President of the General Direction of the former SBB state agency from 1993.
Chairman of the Union Internationale des Chemins de Fer (UIC), Paris; Director of SNCF, Paris

Pierre-Alain Urech (b. 1955, Swiss)
Deputy CEO and Head of the Infrastructure Division (since 1999; retiring at the end of 2003), Dipl. Ing. ETH with a postgraduate qualification in railway technology. With SBB since 1980, his functions including Delegate Rail 2000, Director Area Management in Lausanne, Head of the Infrastructure Department and from 1995 one of the General Directors of the former SBB state agency.

Paul Blumenthal (b. 1955, Swiss)
Head of the Passenger Traffic Division since 1999, lic. rer. pol. With SBB since 1981, initially as a graduate trainee, then as a member of the marketing staff and from 1993 as Head of the Passenger Traffic Directorate.

Daniel Nordmann (b. 1955, Swiss)
Member of the Management Board since 1999, initially as Head of Personnel and since 2001 as Head of the Freight Traffic division (SBB Cargo AG), Dipl. Psychologe at the HAP (College of Applied Psychology). With SBB since 1998 as Head of Personnel. Previously Managing Secretary of the Swiss Federation of Trade Unions (SGB).

Claude Alain Dulex (b. 1949, Swiss)
Head of Corporate Finance & Financial Control since 2000, Dr. oec. publ. With the SBB since March 2000. Previously Corporate Finance Officer (CFO) with Knorr CPC and the Siegfried Group, as well as the Novartis Corporation based in New York.

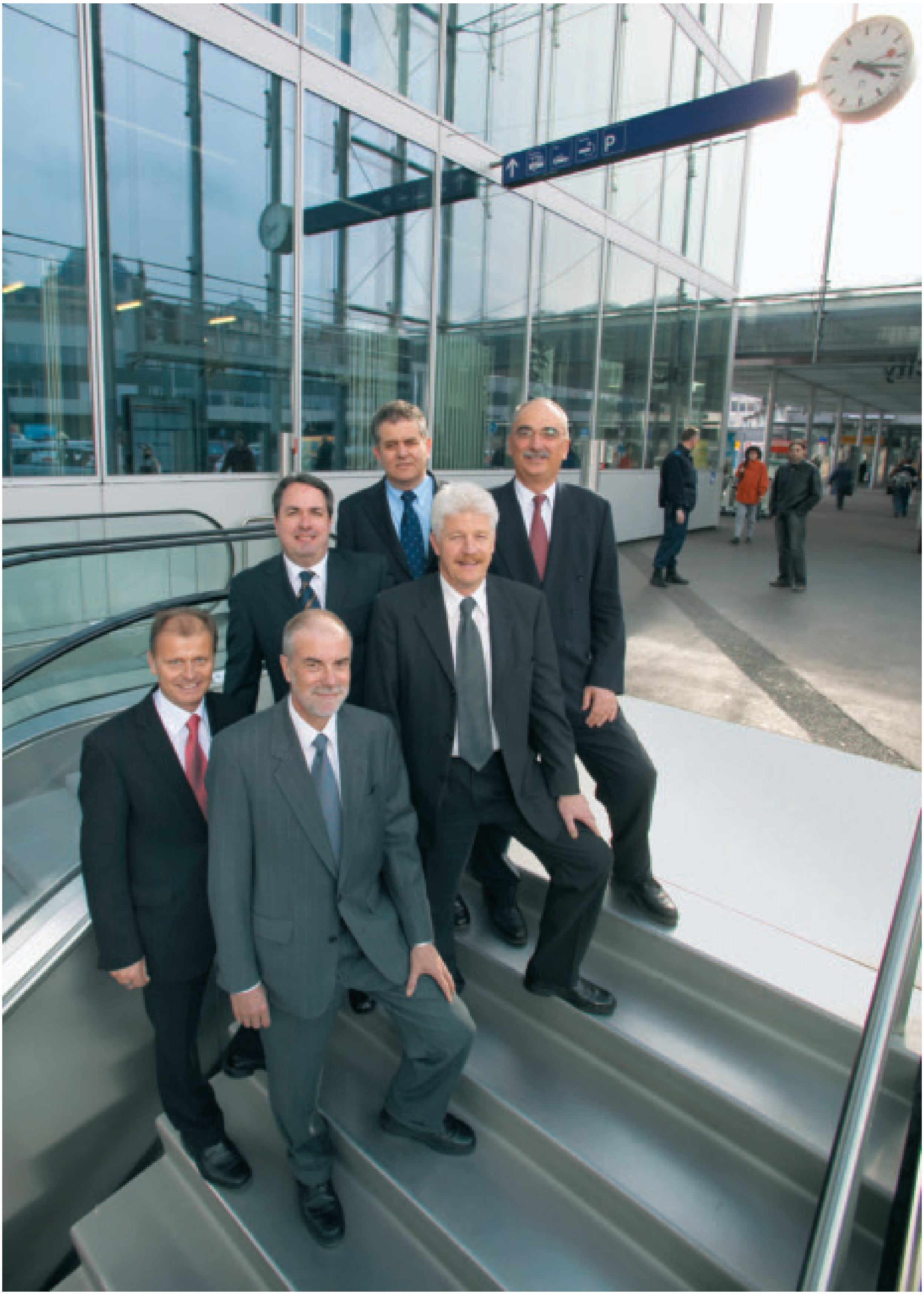
Hannes Wittwer (b. 1958, Swiss)
Head of Personnel (since 2002), secondary school teacher Phil I. With SBB since 1989, his functions including deputy head of the Löwenberg training centre, Head of the International Passenger Traffic business unit, Head of Personnel, Passenger Traffic and Head of Production, Passenger Traffic.

Hans-Jürg Spillmann (b. 1945, Swiss)
Head of Infrastructure since 1 January 2004, Lic. rer. pol. With SBB since 1978. Positions have included head of Marketing Passenger Traffic (1990), Secretary General as of 1993. Appointed as head of Infrastructure Management in 1997 and as head of Management Services at SBB Cargo in January 2001.

Hansjörg Hess (b. 1951, Swiss)
Joining SBB on 1 June 2004 as head of Infrastructure. Dipl. El-Ing. ETH. Has held leading positions at Siemens in Switzerland and abroad in the fields of electrical engineering, communications technology and railway signalling technology. Latterly Chairman of Rail Automation, Braunschweig (Germany).

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

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



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

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

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

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

Compensation.

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

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

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

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

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

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

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

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

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

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

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

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

Shareholders' participation rights / relations with the Confederation.

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

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

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

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

Auditors.

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

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

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

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

Milestones in 2003.

January

9 January SBB buys an additional 21 double-deck carriages and 30 driving trailers. The CHF 170 million investment is aimed at improving passenger comfort on the launch of Rail 2000.

14 January The SBB RailCity brand makes its public debut. It stands for a wide range of convenient shopping, comprehensive services and attractive office facilities at seven major SBB stations.

18 January Thousands of people travel by train for a mass demonstration against the World Economic Forum in Davos, but get no further than Chur station, where they find themselves penned in. The area around Bern station suffers large-scale damage as protestors return home.

February

4 February SBB staff present a CHF 100,000 donation to the Swiss Solidarity aid organization. A total of CHF 500,000 from the Expo Bonus is donated to charitable organisations.

5 February The Brig Contact Center is expanded into the Passenger Traffic division's service centre for telephone and Internet enquiries. Sixty new jobs are created here in the course of the year.

14 February Engineers break through in the Oenzberg tunnel near Herzogenbuchsee. The trackbed of the new Rothrist-Mattstetten section that is being constructed as part of Rail 2000 is now completely clear.

28 February The SBB Pension Fund needs reorganising. After three poor years on the stock markets, its reserve ratio has fallen to just under 80%. SBB approaches the Federal council with the request to assume responsibility for the pensions of employees who retired prior to 2001.

28 February SBB places a CHF 447 million order for 35 new double-deck multiple-unit trains for the Zurich S-Bahn.

March

4 March SBB orders another 384 touch-screen ticket machines, thereby improving services outside ticket office hours and at stations with no ticket office.

6 March SBB Cargo orders the first locomotives for Swiss Rail Cargo Italy. The Italian subsidiary is to receive three Vossloh diesel locomotives built for non-electrified lines. SBB Cargo also orders a further 128 Cargo Domino containers for its domestic services.

11 March The EW4 type restaurant cars are equipped for 200 km/hour operation, and also receive new galley equipment. The work will be completed by the start of Rail 2000.

17 March SBB Cargo purchases a large plot of land adjacent to the DB station Basel Badischer Bahnhof. By 2007, a transhipment yard for European freight traffic will commence operation at this site.

21 March Encouraged by positive experience in French-speaking Switzerland, a first test with video surveillance in a regional train is now also made in German-speaking Switzerland. Cameras reduced vandalism by 80% in the French-speaking part of the country.

22 March Two days after the outbreak of the Iraq war, special trains carry large numbers of people to demonstrate in Bern against this war. The demonstration passes off peacefully and there are no significant incidents on any of the trains.

24 March The Internet-based Click&Rail offers are extended to routes in French-speaking Switzerland. Internet sales in Click&Rail's first four months are far in excess of expectations.

April

1 April Reservations are now mandatory for bicycles on tilting Intercity trains (ICNs).

2 April Employee satisfaction has risen again at SBB. After dipping to 52 points in the previous year, it has climbed back to 59 points in 2002, the same level as in 2000 when the first survey was carried out.

3 April On-train catering services get a new name – "elvetino". SBB buys up the business during 2003 and plans restructuring measures which begin to bear fruit in 2004.

5 April SBB Cargo assumes sole responsibility for the haulage of steel from the Rhine ports to northern Italy, its partner Ferrovie Nord Cargo (FN Cargo) assuming the role of sub-carrier in Italy. The new concept means that the turnaround times for rolling stock are reduced from 5 to 2½ days.

9 April SBB's offering for young people is relaunched. The "Juniorclub" is superseded by "Magicticket".

29 April SBB presents its annual result for 2002. Passenger traffic has reached record heights, but freight is suffering from the effects of traffic disruptions and the economic downturn. The overall result has been pushed into the red by the need to set aside provisions to shore up the pension fund. The company posts a loss of CHF 12 million.

May

2 May Bern station reopens after extensive renovation and rebuilding. It is the first SBB station to assume the RailCity brand name. Switzerland's major stations will all adopt the RailCity brand, emphasising their new additional role as service and shopping centres.

5 May The Monte Olimpino II tunnel south of Chiasso comes back into service after a five-month closure. The closure had given rise to serious problems for transalpine rail traffic, with SBB losing out both to road transport and to the Brenner route.

20 May SBB Cargo orders its first batch of 18 dual-current locomotives for cross-border traffic between Switzerland and Italy.

26 May Yverdon industrial works is expanded at a cost of CHF 33 million. It will become a service centre for complete ICN trains by 2005.

27 May SBB management chooses Olten as the site for the company's new "nerve centre". Olten will be home to the Rail Control Center, which will be completed by 2010. The entire network will be controlled from here with the assistance of four regional centres.

June

13 June The Annual General Meeting re-elects the SBB Board of Directors for a second four-year period of office. Olivier Steimer joins the Board as Beth Krasna's successor. Chairman Thierry Lalive d'Epinay and the other members are all re-elected.

15 June The double-track Zurich-Thalwil tunnel – the second biggest Rail 2000 project – opens for service. Capital expenditure on the 9.4-kilometre tunnel, which increases capacity on routes to Chur, central Switzerland and Ticino, totals CHF 890 million.

26 June In its first month of opening, the Mystery Park attracts 55,000 visitors, over 30 % of whom travel to Interlaken by train.

27 June SBB Cargo decides to streamline its wagon-load services. Responsibility for goods distribution is assigned to 44 team stations. The full-coverage service is retained unchanged.

July

3 July RailAway launches a major summer promotion. Over 250,000 special-offer leisure packages are sold over the next three months as a lot of people opt to spend the hottest summer in over a hundred years in Switzerland. Apart from the heat, the war in Iraq and the respiratory disease SARS deter holidaymakers from travelling further afield.

August

13 August The SBB's rolling stock starts to feel the effects of the long, exceptionally hot summer. Locomotives are overheating and coach air conditioning systems are unable to cope. SBB's own maintenance services are supported by partner railways and industry.

23 August Emmenbrücke becomes the SBB's 100th regional station to get a facelift. Completely revamped, with good lighting and a state-of-the-art passenger information system, the station is the epitome of a progressive, safe railway.

26 August SBB's half-year figures raise hopes of a positive result for the year. Passenger traffic remains at previous-year levels and freight traffic improves

September

8 September SBB management approves the purchase of 12 further locomotives for freight services to and from northern Italy. The decision means that Swiss Rail Cargo Italy will have its own electric motive power by mid-2004.

15 September RailCity Basel is officially opened. As well as improving platform access, the new overhead walkway brings a wide range of new shopping facilities into the station.

17 September The SBB “school train” sets off on tour as part of the “safe and fair” educational campaign to promote cleanliness, safety and respect for others on trains.

24 September Work starts on renewing the Lausanne marshalling yard. The work is geared to the requirements of the new wagonload service concept.

25 September Rail 2000 will use trackside signals during its first year of operation. To reduce risk, SBB decides to commence operations on the new Mattstetten–Rothrist line with conventional signals and then switch over to the ETCS electronic train control system once its operational reliability has been proven. The decision has little impact on train services as timetabled.

October

6 October SBB Cargo and ERS Railways BV, a joint venture of the global seafreight companies Maersk Sealand and P&O Nedlloyd, sign a cooperation agreement aimed at improving the quality of rail services on the routes connecting Rotterdam with northern Italy.

17 October October and November see an unusually high number of disruptions to services, each with a different cause. On 17 October, a faulty computer brings morning commuter services in the greater Zurich area to a complete standstill. The problem is compounded by the simultaneous failure of customer information systems.

24 October Two passenger trains are involved in a side-on collision at Oerlikon station, Zurich. One passenger is killed and over a hundred are injured. This is the worst accident on the SBB network in around five years.

30 October The federal government announces that it is examining the possibility of providing financial support for the SBB Pension Fund. However, the extent of this support is yet to be decided. Government support is also contingent on a changeover from a defined benefit to a defined contribution scheme.

November

6 November SBB decides to build a new pedestrian overpass at the west end of Bern station. The overpass is the last major construction project for the start of Rail 2000.

11 November Morges station becomes the first station in French-speaking Switzerland to be operated primarily by apprentices.

13 November Over 500 girls accompany their father or mother to work at SBB on Switzerland’s nationwide “Take our daughters to work” day. The aim is to attract more young women to professions that have been hitherto regarded as “men only” domains.

19 November To coincide with the completion of the remodelling of Zurich main station's underground arcade, preparations start for the amalgamation of ShopVille and RailCity. The two brands will together symbolise Zurich station's shopping facilities. In addition, all shops now stay open until 9.00 p.m.

21 November The railway police decides to significantly increase the size of its force. By raising the number of officers from 150 to 250 it is possible to double the number of patrols at stations and on trains.

24 November Pierre-Alain Urech announces his resignation as head of SBB Infrastructure and deputy Chief Executive Officer. He leaves the company after 23 years in various positions including Rail 2000 Delegate and Director of Lausanne Area Management.

28 November Zug's imposing new station building is ceremonially opened. As daylight starts to fade, the light installation by American artist James Turrell transforms the station building into an ethereal, luminescent piece of art.

December

4 December SBB agrees a wage increase of 1.5% with employee representatives. In light of the increase in welfare benefit and health insurance costs, the across-the-board rise is paid out as a lump sum of CHF 500 per person.

14 December The changeover to the new timetable brings important changes to freight services. The new collection and delivery system is launched for wagonload services in Switzerland, a clockface timetable is introduced on the North-South axis and the north Italian subsidiary Swiss Rail Cargo Italy commences pilot operations. In southern Germany and the Canton of Schaffhausen, SBB Cargo starts serving freight customers at six DB stations between Gottmadingen and Lauchringen.

14 December Responsibility for regional services in Valais is transferred to a new operator, RegionAlps. The company is a joint venture between SBB and Transports de Martigny et Régions.

15 December Swiss Rail Cargo Italy's first train runs from Chiasso to the northern Italian town of Lecco.

18 December The public consultation development stage of the Zurich cross-city line project is being released. The project involves building a new line from Altstetten to Oerlikon as well as the Löwenstrasse underground station.

19 December The Swiss parliament approves a package of "relief measures" which will involve cutting the SBB budget by CHF 300 million over the next three years. This will lead to the postponement of major investments.

19 December SBB Cargo order its second batch of 18 dual-current locomotives for cross-border traffic between Switzerland and Italy. Delivery is due to begin already in mid-2004.

31 December SBB trains are still as punctual as ever. 95.24% of trains arrived at their destination less than five minutes late – 81% even arrived dead on time. The figures for peak-time punctuality, which was measured for the first time, are only slightly lower. In the freight sector, 90.7% of trains reach their destination within 30 minutes of the scheduled time, and for the traditionally more punctual domestic traffic the figure is even higher (94.1%).

Outlook for 2004.

27 February Trenitalia and SBB expand their cooperation in the Cisalpino AG project and jointly invest over CHF 350 million in 14 modern high-speed trains.

15 April SBB results conference.

3 June RailCity stations in Lausanne and Geneva open.

10 July Third track on the Geneva–Coppet route opens to traffic.

July SBB Cargo takes delivery of its first dual-current locomotives for cross-border traffic with northern Italy.

23–24 October Festivities to mark the inauguration of Rail 2000 in the Olten–Herzogenbuchsee–Solothurn region.

12 December Rail 2000 goes into operation.

Financial Report.

SBB Group Report

SBB AG

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	30	25.7	31.1
Trade accounts payable	31	621.9	729.2
Other current liabilities	32	108.8	145.7
Deferred income and accrued charges	33	922.0	849.7
Current provisions	34	335.3	357.5
Total current liabilities		**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 Rupperswil-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
Grants	**617.3**	617.6

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.

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.

27 Financial investments

CHF millions	Long-term investments	Investments in associated companies	Other holdings	Non-current receivables from third parties	Non-current receivables from uncon-solidated 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).

28 Tangible assets and assets under construction

CHF millions	Vehicles (incl. leasing)	Civil engineer-ing, 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.

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.

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

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	33.8	34.3
Due within 1–2 years	19.7	23.8
Due within 2–3 years	11.9	10.5
Due within 3–4 years	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:

	31.12.2003			31.12.2002		
CHF millions	Contract values	Replacement values positive	Replacement values negative	Contract values	Replacement values positive	Replacement values 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

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] 2003	Passenger Traffic[1] 2002	Freight[1] 2003	Freight[1] 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] 2003	2002	Real Estate[1] 2003	2002	Central Services[1] 2003	2002	Eliminations 2003	2002	SBB Total 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.
Assets.

CHF millions	Passenger Traffic[1] 31.12.2003	Passenger Traffic[1] 31.12.2002	Freight[1] 31.12.2003	Freight[1] 31.12.2002
Current assets				
Cash and cash equivalents	196.0	301.8	24.6	82.7
Trade accounts receivable	205.3	243.2	206.1	179.5
Other receivables	270.1	493.5	132.7	70.0
Inventories and work in progress	89.0	84.5	35.9	39.1
Accrued income	256.3	205.3	57.8	30.3
Total current assets	**1,016.7**	1,328.2	**457.1**	401.7
Fixed assets				
Financial investments	41.9	54.7	10.1	61.7
Tangible assets	3,820.5	3,792.5	686.7	721.8
Assets under construction	927.8	765.4	127.3	142.1
Intangible assets	28.6	20.0	25.2	19.4
Total fixed assets	**4,818.8**	4,632.6	**849.2**	945.0
Total assets	**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.

Infrastructure[1] 31.12.2003	31.12.2002	Real Estate[1] 31.12.2003	31.12.2002	Central Services[1] 31.12.2003	31.12.2002	Eliminations 31.12.2003	31.12.2002	SBB Total 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

Segment information SBB Group balance sheets.
Liabilities and equity.

CHF millions	Passenger Traffic[1] 31.12.2003	31.12.2002	Freight[1] 31.12.2003	31.12.2002
Liabilities				
Short-term financial liabilities	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
Equity[2]				
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 equity[2]	**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.

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

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 Rupperswil-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
Immobiliengesellschaft 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. Immobiliengesellschaft 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
Cisalpino 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

Company name:		Share capital millions	SBB holding millions	SBB holding % **31.12.2003**	SBB holding % 31.12.2002	Seg	
Private railway and shipping companies							
SBB GmbH, Lörrach	EUR	1.50	1.50	100.00	100.00	V	P
Schweizerische Bodensee-Schifffahrtsges. 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
Miscellaneou							
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	I

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

Report of the group auditor.

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)

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	Note	31.12.2003	31.12.2002
Current assets			
Cash and cash equivalents[1]	23	512.5	836.5
Trade accounts receivable	24	475.3	478.7
Other receivables		298.0	232.2
Inventories and work in progress	25	281.4	259.3
Accrued income		318.2	239.3
Total current assets		**1,885.4**	2,046.0
Fixed assets			
Financial investments	26	3,333.5	4,022.8
Tangible assets	27	16,479.6	15,568.5
Assets under construction	27	6,020.4	5,929.3
Intangible assets	28	175.1	168.0
Total fixed assets		**26,008.6**	25,688.6
Total assets		**27,894.0**	27,734.6

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

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

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

CHF millions	**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 11.1.2003	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 Thurbo 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		
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		–1,146.7	–1,456.2
less receivables from the shareholder for the pension fund		–906.8	–1,756.8
Net indebtedness		**10,145.4**	8,770.6
Change compared to the previous year		**1,374.8**	883.3

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

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

SBB's Annual Report 2003 is published in German, French, Italian and English.
It can also be downloaded from www.sbb.ch.
The printed German version is authoritative.

Publishing details:

Published by
SBB AG, Hochschulstrasse 6, CH-3000 Bern 65

Concept and design
külling partner identity, Zurich

English version by
bmp translations, Basel

Photos
Gerry Amstutz, Zurich
Franz Rindlisbacher, Zurich

Typesetting
Baltisatz, Gockhausen

Lithos
Reprotechnik Kloten AG

Printed by
W. Gassmann AG, Biel

Paper
Munken Lynx,
Eurobulk (pictures)

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