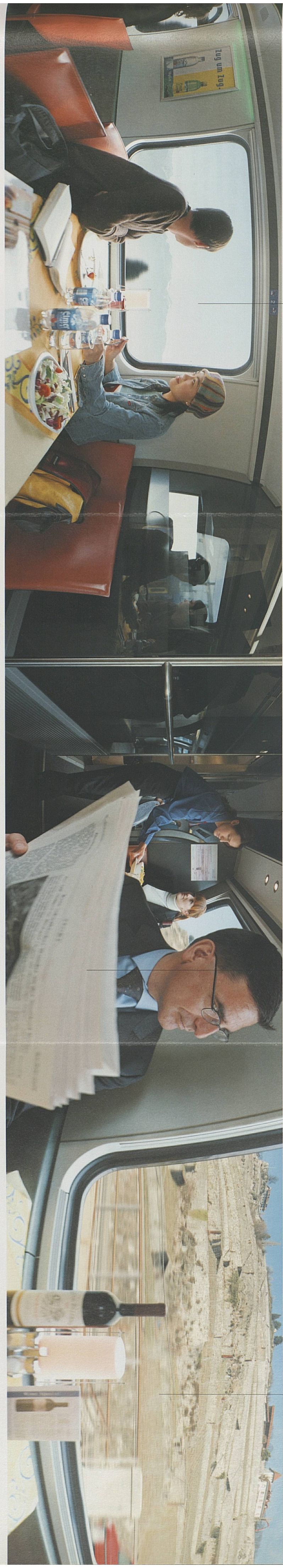
Making work a pleasure. The Business Coach features power sockets for laptops and everything else you need to get down to work.
Efficient travel – combining business with pleasure.

Glad to be on time. Over 95% of all passenger trains arrive at their destination within 5 minutes of schedule.
81% of customers are satisfied with SBB's services. After all, taking the train means you can also drink a coffee, have a chat or relax and take in the view.

elvetino dining car, St. Saphorin



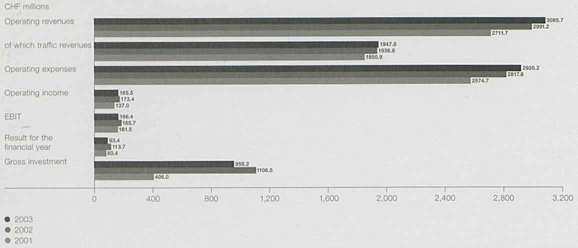
Bringing people closer. SBB brings all sorts of people together. Every day, over 800,000 people travel on the network. Travelling by train gives them time to do what they like – getting into conversation, for instance.

Destination: good service. The 900 or so staff employed by elvetino Restaurants work tirelessly to ensure that passengers are properly catered for. Every day, they serve some 2,700 sandwiches and 16,500 cups of coffee. By the end of 2004, the dining car fleet will have grown to 80 units, twice as many as in 1999.

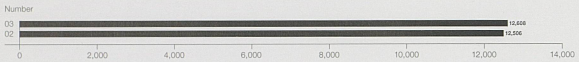
Better with a travel card. More and more passengers – and especially the hundreds of thousands of commuters – appreciate the convenience of travel cards. Hence the growing popularity of the Half-Fare Card and the General Abonnement pass. These attractive fare offers are one of SBB's big success stories.

Cultural integration. SBB brings Switzerland's regions – and its different cultures – closer together. Switzerland's appeal as a tourist destination is apparent from a glance out of the window. And thanks to close cooperation with other European railways and to important decisions aimed at linking the Swiss network to the neighbouring countries' high-speed lines, this appeal will be enhanced still further.

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:

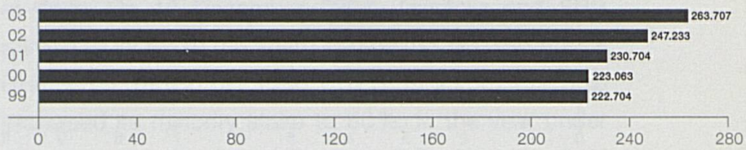
Swiss market: strong growth for the General Abonnemnt (GA).

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.

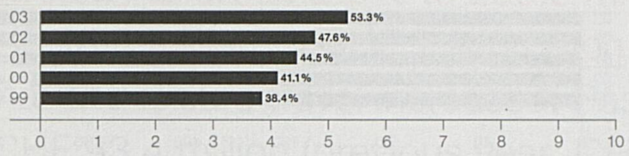
Sales of General Abonnement passes (GA).

Number in circulation at end-year



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.

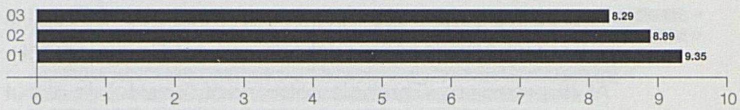
Regional services: efficiency versus politics.

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)