

SBB AG 2020 Strategy

SBB has been transporting passengers and goods for over 100 years, making an important contribution to the quality of life in Switzerland and the country's competitiveness.

We believe customer needs are going to change more quickly than ever because of digitalisation and the Internet. Individualised, intermodal mobility and logistics solutions are increasingly in demand, with train stations and other locations serving as mobility hubs and destinations offering an attractive range of services. International long-distance coach travel is now a reality and national long-distance coaches are even being considered. It is also likely that self-driving vehicles will emerge onto the market in the not too distant future.

This is why we feel it is important to understand mobility links and, as a trusted mobility provider, we want to organise these for our customers. Digitalisation and new technologies present opportunities for connecting up the individual elements of the integrated rail system in an improved way and covering those "last few miles" more efficiently. Our team spirit, expertise and passion set us apart from the rest.

We want to continue making considerable, highly targeted investments and promoting innovations to ensure mobility remains an attractive and affordable prospect for customers and ordering parties. We intend to make savings in areas that will not affect customers directly and to work on increasing the occupancy rate of trains. These initiatives reflect a culture that encourages and demands a level of performance commensurate with our values of ambition, responsibility, flexibility, passion and respect.

We will be doing more work on scenarios, because we are not sure when the various developments will actually materialise. This is why we are using our ambitions for 2020 and 2030 to guide our daily operations, from developing mobility and locations to adopting more expansionary measures.

We want to ensure growth is both smart and broad-based, by drawing on digitalisation and new technologies and reflecting the various strengths of rail travel. We aim to be digital and personal at the same time.

The SBB AG 2020 Strategy marks another chapter in our history for employees and customers alike, as we continue to demonstrate the innovation and reliability for which we Swiss are famed. As a strong rail company, trusted mobility provider and attractive development partner, we shape the mobility of the future – simple, personal, connected.



Monika Ribar

Chairwoman of the Board of Directors SBB AG



Andreas Meyer

CEO SBB AG

We are geared towards our mission.

The Federal Council has formulated the following expectations of us with its strategic targets for SBB for 2015–18 (summary):

- SBB provides (attractive, safe, punctual and high-quality) mobility solutions in passenger and freight services, reliably provides infrastructure and manages its real estate professionally. It therefore makes a contribution to providing simple and customer-friendly public transport.
- With its (planning of) network development and service provision in passenger and freight services, SBB makes a considerable contribution towards the overall public transport system and maintains a high level of safety for customers and personnel.
- SBB pursues a sustainable corporate strategy, increases the company value, achieves results in line with industry standards in all business areas and continues to improve its productivity. In doing so, it strives towards a net interest-bearing indebtedness of no more than $6.5 \times$ EBITDA.
- SBB pursues a progressive and socially responsible HR policy and is an attractive employer on the labour market.

We have been a railway company for over 100 years and on the way towards becoming a mobility provider since 1999.

We have a history as one of the world's best rail companies spanning over 100 years. SBB plays a key role in shaping the quality of life and competitiveness in Switzerland. Many generations have helped to build up our company. We can look back on many successes, from the first helical tunnels on the Gotthard route to the introduction of the regular-interval timetable and Rail 2000 to the opening of the Gotthard Base Tunnel.

We build on the strengths of the past in our genes: pioneering spirit, reliability and our burning passion.

SBB was hived off as a railway company in 1999, with the aim of running it in line with economic principles. The Federal Council sets the strategic objectives for four-year periods that the Swiss government wants to achieve as owner of SBB.

We rely on the strengths of the railway and offer mobility services from door to door as an attractive development partner.

We know our **challenges**:

1. **Customer requirements and mobility patterns are undergoing a transformation.** In future, it will become more important than ever to anticipate these customer requirements early. The need to address customers personally, for tailor-made mobility and other services as well as convenience will increase. Customers want combined transport solutions – from door to door.
2. **Competition from other forms of transport is increasing, due not least to increased transparency.** Other mobility providers will start to catch up with the competitive advantages of the railway (environmental friendliness, safety, capacity and flexibility). Thanks to the increased transparency associated with digitalisation, customers can compare mobility offers with increasing ease.

3. **Whilst rail operators are facing rising overall costs, other carriers can potentially cut theirs by half.** In addition, the financial results are also under pressure. This is due to increasing maintenance costs, extensive requirements and conditions as a federal enterprise, high structure costs, expensive infrastructure upgrades as well as large investments primarily in regional services with no dividend entitlement. Other mobility providers will improve their price-performance ratio in the future.
4. **New technology is accelerating developments.** New elements and providers are emerging in the mobility chain, such as long-distance coaches and, in the future, self-driving vehicles. In the passenger services sector, these have the potential to become modes of individual public transport and to close the gap on public transport for the last mile. In freight services, wagonload traffic will face increasing competition from environmentally friendly, flexible offers on the road, such as “platooning”, i.e. heavy vehicles travelling closely together on motorways. In extreme cases, new providers could establish parallel mobility chains alongside the railway.
5. **Coordinated planning of road/rail capacity required.** Existing infrastructures can be better utilised thanks to new technologies, both on the rails and on the road. If capacity utilisation for trains and cars can be increased, expansions could even be avoided and public space would become free, especially in cities.
6. **Regulatory and spatial planning requirements are intensifying.** As a federal enterprise, we are confronted with extensive standards regarding the environment, safety, protection of historic monuments and regional concerns, all of which drive up costs. In terms of data protection, we have stricter conditions than private parties, which will become potential competitors in the future. Internationally, the harmonisation of technical regulations at the European level is felt as a cost-driver. This also inhibits the pace of innovation. In addition, the EU is creating pressure to bring more competition to the railway sector. However, railway companies are increasingly required to combine their strengths to cope with the increasing intermodal competition.
7. **Public funds are growing scarcer.** Both the federal government and the cantons are under pressure to cut costs. The generally growing expenditure on public transport is increasingly having to compete with social security, education, etc. For this reason, the public sector is increasingly expecting us to make savings and efficiency gains on ordered services. User financing of public transport therefore needs to be increased.

On the basis of these challenges, we are striving towards the following **positioning**:

- We coordinate the mobility chain for our customers – simply and flexibly.
- We connect with others physically and digitally.
- We focus on the strengths of the rail system with a healthy price/performance ratio and thus sharpen our competitive edge.
- We develop railway stations and sites into attractive spaces.
- We are the backbone and the driving force behind Switzerland’s public transport and incorporate business management perspectives.
- We are improving the quality of life and competitiveness in Switzerland.

At our core, we are a strong railway company and increasingly a mobility service provider and area developer:

- As a **strong railway**, we are concentrating on the unique selling points of the rail system:
 - Large transport capacity over small areas in urban centres.
 - High level of efficiency without congestion on long routes, with large volumes and regular traffic.
 - Backbone of the public transport and logistics system.
- We are taking on the race for a position in the mobility chain. Today, we already play a strong role as a **digital, personal and trustworthy mobility service provider**; we want to strengthen our central position in the mobility chain. Soon, other mobility providers will also be offering services in the digital domain, so customers will be able to plan and book their journeys from door to door from a single source. In the digital domain, we aim to offer existing mobility services in Switzerland on as many platforms as possible.
- We are also an **attractive development partner**, particularly in railway stations and in area development. Areas in good locations that were required for railway operations in the past are being developed in overall regional perspectives. The increases in real estate yields allow us to contribute to the infrastructure and to restructure the pension fund. In doing so, railway stations are not only becoming mobility hubs with optimal interchanges between individual modes of transport, but they are also becoming destinations in themselves thanks to their attractive range of services for customers. We are driving the implementation of smart cities in Switzerland through innovative, sustainable area development with a focus on integrated mobility and smart buildings.

We want to continue to grow in the road/rail race.

SBB's strategy is based on the "mobility of the future" scenario and the ARE's (Federal Office for Spatial Development) reference scenario as a growth target. It assumes a growth of +51% from 2010 to 2040 in railway passenger transport and +45% in railway freight traffic.

It will be challenging for rail transport to develop as fast as road transport, given the long lead times. However, the integrated railway in the age of the "Internet of Things" has the opportunity to advance its system component with digitalisation and new technologies faster than other carriers.

The future development of mobility is shaped by increasing dynamism and uncertainties. That is why we are increasingly working with scenarios. An important basis for this is the Transport Outlook 2040, drawn up by the Federal Office for Spatial Development. Aspects such as technological, societal and regulatory changes, developments in the mobility market by new market players such as long-distance coaches and cost developments on road and rail are not yet taken into account in this. We will push forward with the development of further technology scenarios for the year 2040 and subsequent years which will deal with these issues.

- Technological developments on the road and rail in passenger and freight transport and their acceptance / impact on mobility behavior.
- Development of long-distance buses and public transport (car sharing, ride sharing, SFF).
- Use of infrastructure capacities and cost developments on the road and rail, in passenger and freight transport.
- Impact of regulatory changes.

We focus on future customer needs in 5 dimensions.

Customer needs and their mobility patterns will see increasing changes. Customers expect simpler and more customised services, greater comfort and connectivity, as well as a better price-performance ratio. They want services to be both digital and personal and want a trustworthy mobility service provider that treats their mobility data responsibly.

To align ourselves with this, we work in 5 dimensions:

- **Targeted innovations and investments in attractive offers** to increase the appeal of the railway for our customers. These investments primarily concern improvements in sustainability, punctuality, safety and service quality. In addition, we are increasing convenience for customers by developing physical transfer points, with area developments and further development of train stations into destinations in themselves. We will promote the digitalisation of customer services and the development of connectivity in trains. We are focussing our strategy on using/developing capacities smartly (expansion step 2030) and increasing them in a differentiated way, especially through digitalisation and by using new reliable technologies. At present, we are focussing on traditional expansions. The use of new technologies will be promoted in parallel with this. As soon as these technologies have been sufficiently developed (safe and reliable), they can replace traditional investments where appropriate. In general, increasing flexibility (e.g. in investment projects), including by reducing the depth and breadth of value generation (less “asset heavy”), is required to respond faster to changes and to better control any remaining complexity. What is especially important is the maintenance of our railway expertise and the addition of new skills as well as preparing all employees for increased automation, working with new technologies and digitalisation.
- The **reduction of overall system costs** – making savings where they are not felt by the customers – is important in order to give customers the right price-performance ratio and to keep rail travel affordable for the ordering parties, the federal government and the cantons. Important leverage points in this regard are digitalisation/use of new technologies, productivity increases and reorganising/reducing workplaces.
- At the same time, **revenues** and train **capacity utilisation** need to be increased. We want to optimise customer behaviour using marketing and a targeted product range and price policy, for example, with flexible working hours or advance bookings for wagonload freight. In addition, the state is testing mobility pricing systems to influence the mobility and financing of transport infrastructures.
- In order to expand our position in the **mobility chain** self-confidently and in cooperation with the public transport sector and partners, we are building a simple and tailor-made door-to-door service. We are focussing on strengthening its role as an innovation driver, mobility integrator and Swiss centre of excellence for the “mobility of the future”. This requires an exploratory, courageous and fast approach to the rapid implementation of programmes and initiatives as well as regularly reviewing progress with the courage and consistency to make adjustments (accelerating/slowing down/adapting/stopping where necessary, e.g. expansion steps every 4 years).
- **The strengthening of the management and performance culture**, as well as an increase in personnel motivation, form the necessary cultural basis – in line with our values: ambitious, responsible, flexible, passionate, respectful.

We measure our performance based on 6 strategic objectives.

Implementing the “mobility of the future” scenario requires a further increase in our performance based on six strategic objectives:

1. **Increasing customer satisfaction:** Developing a simple door-to-door service that is tailored to individual needs. Improving customer appreciation and cultivating trust.
2. **Improving results – securing finances:** Increasing earnings (with nuanced pricing and as few across-the-board price rises as possible), making targeted investments, cutting overall system costs and boosting productivity/capacity utilisation, limiting/reducing debt levels.
3. **Increasing reliability in the integrated rail system:** Ensuring timely and reliable travel and transport services built on a robust infrastructure, attractive stations and personalised advice, including in the event of disruption.
4. **Focusing on our home market and networking with other countries:** Securing market leadership in Switzerland in a confident and cooperative way and strengthening partnerships in international rail traffic.
5. **Driving targeted innovation:** Establishing SBB as a mobility integrator for Switzerland and using new technologies in a network encompassing businesses, higher education institutions and other partners.
6. **Encouraging and recognising the performance of each individual:** With consistent leadership, exemplary behaviour, comprehensive collaboration and expertise fit for the future, we can release the positive energy required to achieve top results.

With our strategic objectives and Ambition 2020, SBB is focusing on the “mobility of the future” target scenario.

The strategy defines financial targets. These are highlighted in the nine corporate goals and in the medium-term and long-term financial planning. The target values relate to the period 2020 (Ambition 2020) and 2030 (Ambition 2030). As an example, SBB will reduce its costs by 2020 by CHF 1.2 billion through the RailFit20/30 program. It plans to reduce 1400 jobs in the coming years. To manage the traffic increase, 200 sites are set up, e.g. with locomotive staff, with engineers or for innovations. Another example is the fund for innovation, which we have set up with CHF 12 million. In addition, a total of 25 RTDs will be set up for innovation by 2018. A total of CHF 22 billion will be invested in the rail system from 2016 to 2020.

The goals are based on current conditions and the support of policy/ordering parties. This includes, for example, the long-distance network concession, the level of freedom in terms of price and product range design in passenger services, the entrepreneurial freedom for SBB real estate and data protection, which also allows for the provision of up-to-date and personalised mobility services as a basis for user financing.

- Moderate liberalization in passenger transport.
- Continuation of relocation policy in freight transport, cabotage-, Sunday- and night-driving-ban as well and 40t weight limits.
- Jointly review the need for the construction phase to start construction.
- Smart use of existing infrastructures, increased capacity through digitalisation and the use of new technologies.
- Joint efforts to increase capacity utilization.

The SBB AG Strategy 2020 is being implemented with more than 100 programmes and initiatives.

The implementation of the SBB Strategy 2020 is being ensured through a project portfolio of more than 100 programmes and strategic initiatives. These are constantly prioritised and carried out in stages. Strategic controlling is established.

The SBB AG 2020 strategy is continuing our story: with our employees, for our customers. With Swiss innovation and reliability. As a strong railway, a trustworthy mobility service provider and an attractive development partner, **we shape the mobility of the future – simple, personal, connected.**