

Annual report 2010



bls cargo

The Alpinists.

BLS Cargo. The Alpinists

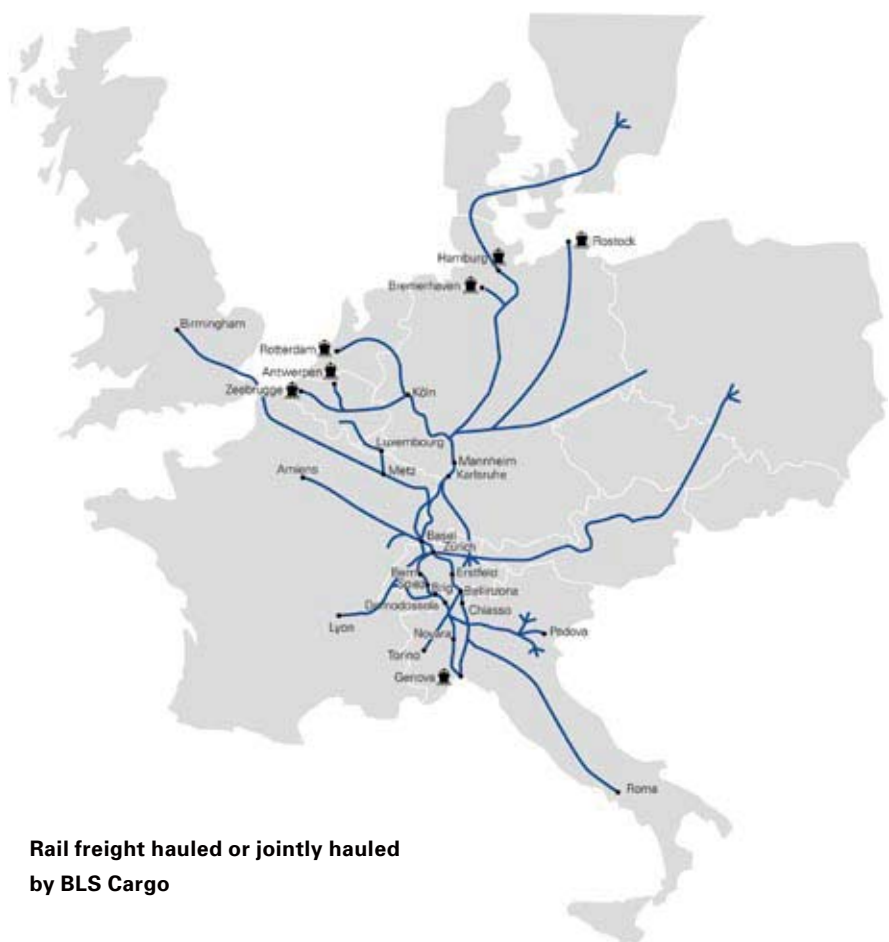
We carry out Alpine transit through Switzerland with professionalism and flexibility. As Alpinists and experts in rail freight, we understand our customers' needs and build on long-standing partnerships. That's why BLS Cargo is the right choice for efficient transport along the north-south corridor as well as within Switzerland.

BLS Cargo is a leading rail freight company operating in Alpine transit through Switzerland. Our business is focused on orders that deploy block trains; here, international trains that transit the Alps via the Lötschberg/Simplon and Gotthard axes constitute the backbone of our services. BLS Cargo offers the following transport services: unaccompanied intermodal transport, conventional wagonload freight as well as the so-called «rolling highway». These transit services are provided in partnership with the cooperation partners DB Schenker and further partner railways in Italy, France and other countries. Our block train operations within Switzerland and in import/export operations constitute an additional pillar.

BLS Cargo was established in 2001. Apart from BLS AG which enjoys a 52% shareholding, BLS Cargo also has a 45% shareholding by DB Schenker Rail Deutschland AG and a 3% shareholding by IMT AG (Italian Ambrogio Group).

BLS Cargo's market share of Swiss transit rail traffic is 43%. This makes BLS Cargo a key player on the Swiss rail transport scene where it makes a major contribution to help achieve the road-to-rail freight transfer objectives of the federal government.

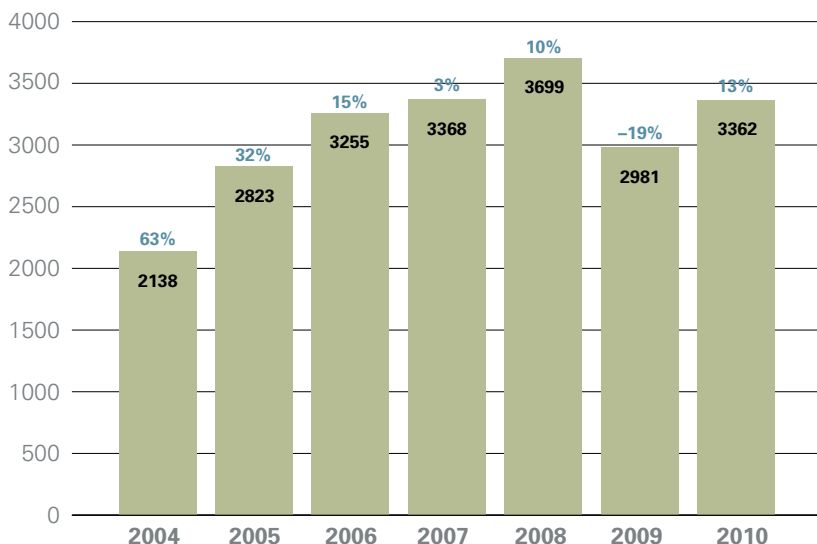
Thanks to its subsidiaries BLS Cargo Deutschland GmbH and BLS Cargo Italia S.r.l. as well as the service centre in Chiasso, BLS Cargo maintains a presence at key border towns. This allows BLS Cargo to have a direct influence on the services associated with its trains and, consequently, also improve the quality of its transportation services.



**Rail freight hauled or jointly hauled
by BLS Cargo**

Key figures at a glance

Development of transport services rendered (in million ntkm)



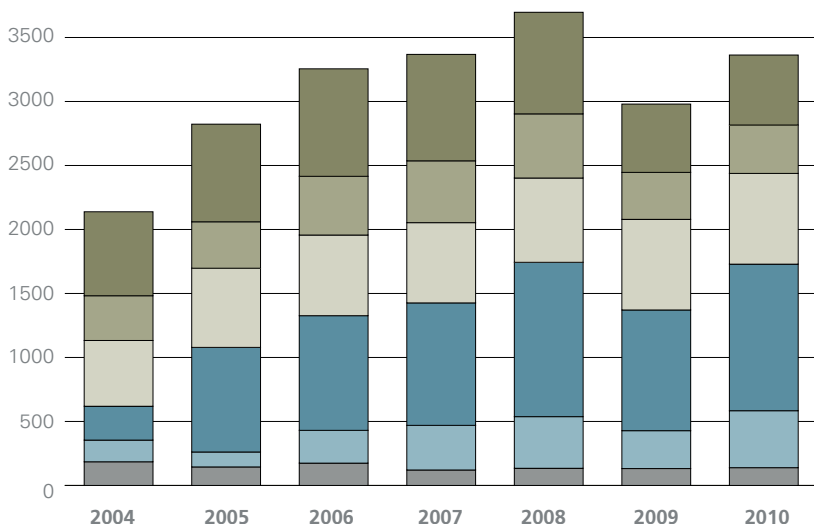
In 2010 BLS Cargo raised its haulage operations by 13%, after the market-led collapse in demand in 2009.

Transport services rendered (in million ntkm)

Transport services rendered in million ntkm	Jan. – Dec. 2009	Jan. – Dec. 2010	Change
Lötschberg/Simplon Transit	1609.1	1633.7	2%
UKV Transit Lötschberg	533.7	546.9	2%
WLV Transit Lötschberg	367.1	377.9	3%
Rolling highway	708.4	709.0	0%
Gotthard Transit	1239.8	1589.6	28%
UIT Gotthard	943.4	1144.6	21%
WLT Gotthard	296.4	445.0	50%
Remaining Switzerland	131.8	138.9	5%
Block trains, remaining Switzerland	131.8	138.9	5%
Summe	2980.8	3362.3	13%

Bottlenecks on the Lötschberg-Simplon axis caused by construction sites led to a temporary transfer of haulage services to the Gotthard axis. This accounts for the above-average growth along the Gotthard axis in 2010.

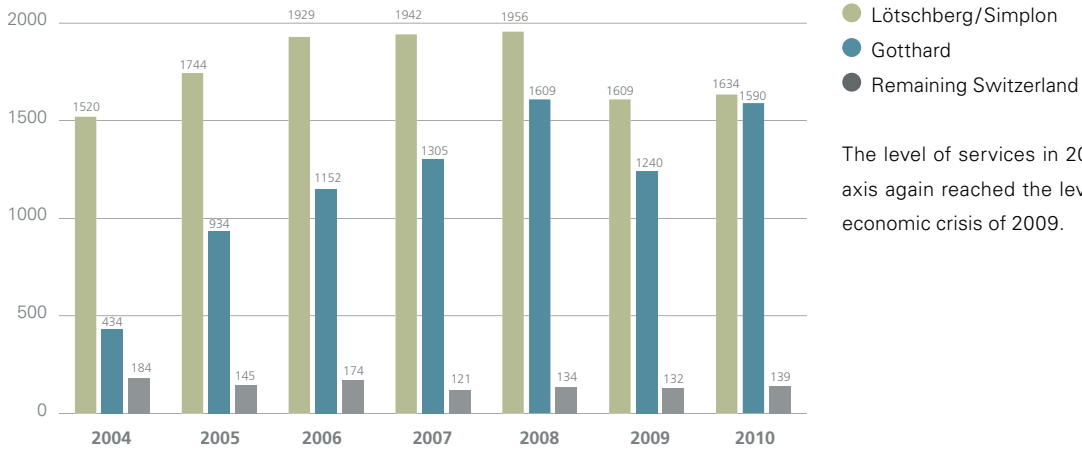
Development of transport services (in million ntkm)



The portfolio of transport operations is well diversified. The rolling highway as well as transit haulage services along the Gotthard grew the strongest.

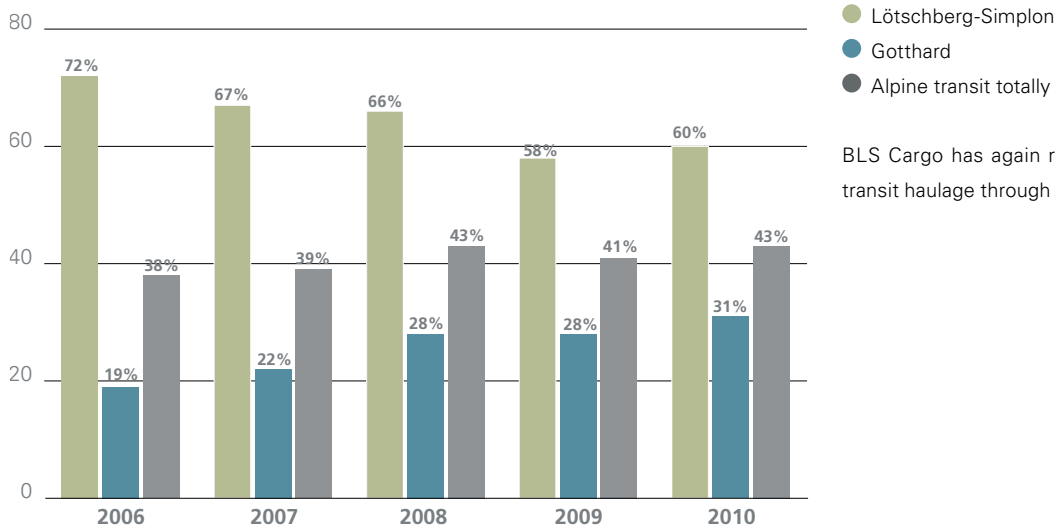
- UIT Lötschberg/Simplon
- WLT Lötschberg/Simplon
- Rolling highway Lötschberg/Simplon
- UIT Gotthard
- WLT Gotthard
- Block trains, remaining Switzerland

Development of transport services by axis (in million ntkm)



The level of services in 2010 along the Gotthard axis again reached the level existing prior to the economic crisis of 2009.

Market shares in Alpine transit (percent, basis: gross tonnes)



BLS Cargo has again raised its market share of transit haulage through Switzerland to 43%.

Number of employees

	2010	2009	Change
Total number of employees	127	134	-5.2%
BLS Cargo AG, Bern	79	82	-3.6%
BLS Cargo Italia	19	23	-17.4%
BLS Cargo Deutschland	8	10	-20%
Servicestellen (Chiasso, Bern)	19	19	0%
MA BLS indirekt *	270	270	0%

* Locomotive drivers, employees at the Spiez workshops

The number of employees continued to fall compared to the level in 2009, and now lies at the number aimed for during the economic crisis.

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Operational success marred by currency losses

BLS Cargo has recovered well from the economic crisis and is operating profitably. The strength of the Swiss franc, which is providing cause for concern, is leading to currency losses.

The international economy has largely made a good recovery from the economic crisis of 2008/2009. Consumption is rising and the order books of industry are filling again. At BLS Cargo too, well utilised resources and new transportation projects are indicative that the economic crisis has been overcome. Over the past year this has allowed us to increase our haulage services by a gratifying 13% to 3,362.3 million net tonne kilometres (ntkm). Although this number of haulage operations still falls short of the pre-crisis level, it still lies considerably over budget and our plans.

«2011: The Way Up» a huge success

In 2009 we responded to the excess capacities and sales losses brought about by the economic crisis by launching the “2011: The Way Up”, an efficiency-raising programme. The objective of the project was to return BLS Cargo to a state where, by 2011, it could achieve sustainable positive trading results again. This required the drawing up and implementation of measures aimed at capacity accommodation and cost reductions (e.g. an expenditure stop) as well as efficiency improvements.

After running the programme for 18 months, we ceased the project at the end of 2010 and transferred the implementation of its measures to our line management. «2011: The Way Up» was one of the most important projects for BLS Cargo in the history of the company. The «way-up» measures delivered an important contribution to efficiency and result improvement; measures aimed at saving around 12 million CHF are contained in the current 2012–2014 medium-term plan.

Positive operating result

BLS Cargo is again showing a positive operating result (EBIT) of 2.4 million CHF for the year 2010, after the market-led downturn in 2009. The result clearly shows that in 2009, BLS Cargo responded correctly and systematically to the economic crisis and subsequent collapse in demand. In addition to the positive operating result, the 13% increase in haulage operations over 2010 demonstrates that resources were re-allocated in a prudent manner and that BLS Cargo acquired the flexibility to again participate in market growth. This was crucially important for the measures which affected the production resources (especially locomotive drivers, locomotives) of BLS Cargo. The gratifying increase in haulage volumes was also due to the intense efforts by our sales department which was again able to acquire haulage contracts for BLS Cargo after the downturn in 2009.

Weak euro places BLS Cargo under pressure

In spite of the pleasing increase in haulage volumes and the positive EBIT, BLS Cargo faces a new significant challenge: the strong appreciation of the Swiss franc with respect to the euro. In spite of growing haulage volumes and increased efficiency as well as a positive EBIT, BLS Cargo shows a trading loss of CHF –2.56 million as at the end of 2010 because of this currency development.

The euro is the key currency in the European transport sector, which is why we largely sell our services in the euro to direct customers, haulage operators in neighbouring countries as well as partner railways. In contrast, the predominant



Dr. Dirk Stahl, CEO; Bernard Guillelmon, President of the Board

portion of our production costs e.g. locomotive drivers as well as route-access costs arise in Swiss francs. This results in a wholly currency-led fall in profitability and margins for the affected services for an otherwise unchanged transit haulage volume. The strong franc therefore exerts a tremendous effect on rail freight services and especially Swiss-based companies such as BLS Cargo that offer transit services, and negatively effects operating results.

Since this structure of revenue in euro and expenditure in francs will not be able to be changed in the short term, and there is nothing to suggest that the franc will weaken in the future, price adjustments for services through Switzerland will become unavoidable. Apart from an adverse effect on relationships with customers, such a change threatens a reverse shift of haulage onto roads or onto transit routes outside of Switzerland. Negative repercussions on the road-to-rail transfer policy must accordingly be expected. BLS Cargo therefore calls for a marked unburdening of rail freight haulage as part of the route pricing reform process planned for 2013. Here as well, currency developments and the competitiveness of prices for infrastructure services within an international context should not be disregarded. In the medium term these must be changed to match European levels.

Outlook and thanks

We envisage a further increase in demand for freight haulage during 2011. Nevertheless we don't expect to already be able to achieve the haulage volumes of 2008. Unfortunately, this more positive forecast for the development of haul-

age volumes is counterbalanced by the increasingly difficult /CHF currency development. The strained currency situation once again requires us to make extremely prudent use of our resources and to continue implementing the measures arising from the «2011: The Way Up» project. In 2011 we shall be hard pressed to deal with the persistent strength of the franc and focus the company to overcoming this challenge. The overriding aim will be to minimise one part of the structural imbalance between euro revenue and franc expenditure in order to secure the competitiveness of BLS Cargo's services.

BLS Cargo will celebrate its 10th anniversary in 2011. In recent years the employees of BLS Cargo have identified very closely with the company and have worked hard to ensure the commercial success of BLS Cargo. This was clearly borne out by the results of the employee satisfaction survey which was carried out last year. We achieved top scores in the areas of «Identification with the company», «Commitment» and «Motivation». Our warmest thanks go out to our employees for such a ringing endorsement. We very much appreciate this preparedness by employees to commit themselves to such an extent on behalf of BLS Cargo.

In particular, we also wish to thank our customers and partners in Switzerland and abroad for their loyalty to and solidarity with BLS Cargo. It is especially in difficult times that partnerships strengthened over many years prove themselves to be resilient and of great benefit to both sides.

Bernard Guillelmon
President of the Board

Dr. Dirk Stahl
CEO

**You may call it top performance.
We call it standard.**



Our Services



Further than you think

BLS Cargo AG has garnered an excellent reputation for itself both in transit transportation as well as in inland and import/export transportation. It operates on the entire Swiss normal-gauge network to provide access to the entirety of Europe via its cooperation partners.

Ever since the establishment of BLS Cargo, we have concentrated exclusively on block trains as well as on customer-specific solutions in Switzerland and in transit services through Switzerland. In the haulage operations we provide, we also operate beyond Swiss borders and accept responsibility on behalf of our customers for the entire north and south axis, as well as east and west axis. We directly influence transport processes, which in turn allows us to offer a high quality standard. Over and above this, our end-to-end incident management system enables us to respond immediately and competently.

Customer partnerships

The customer base of BLS Cargo AG has developed as diversely as the company itself. Our long-standing respected and key direct customers include consignors such as Petroplus, Awilog and Esso, as well as freight forwarders and operators of intermodal transport such as Ambrogio, Hangartner and RAlpin. A close partnership has developed with our customers over the course of the years. Our customers particularly value the tailor-made offers of BLS Cargo. And here it makes no difference whether these are regular planned services, or short-notice additional trains.

Competent customer care

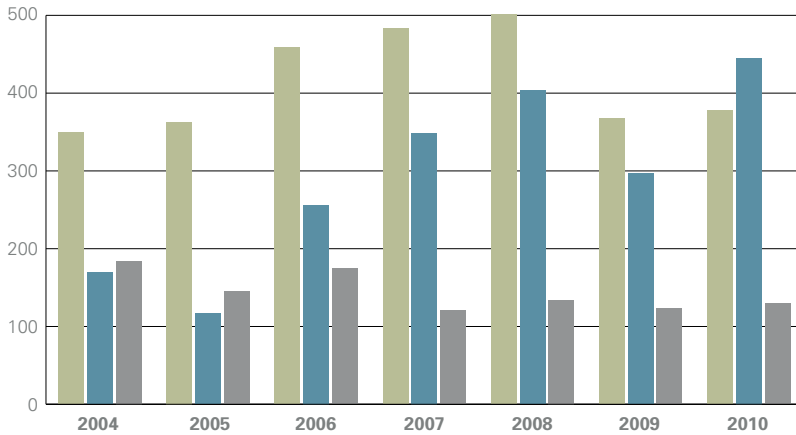
BLS Cargo has a lean sales organisation that is focused on customer needs. All customers have

a designated account manager who serves them as a single point of contact. Our employees all benefit from long-standing railway experience, are multilingual and regard it as their duty to understand customer needs and also satisfy these in the most expedient manner possible. Short-decision making routes and the organisational closeness between sales and production allow us to provide fast and flexible solutions. A particular characteristic of our service is that, linguistically and culturally, we unite our customers and partners north and south of the Alps with one another – we build bridges.

A local personal presence

We operate along the entire Swiss normal gauge network and provide traction services throughout Europe via our cooperation partners in the Benelux countries, in Germany, France, Scandinavia, Great Britain, Austria and Italy. Our planning is increasingly of a cross-border nature when it comes to the resources deployment of locomotives and locomotive drivers. We operate the key border crossing points to Italy, Austria, France and Germany without external assistance. Our own personnel, who attend reliably and promptly to the management of BLS Cargo's freight services, are stationed in Domodossola and Chiasso as well as in Weil am Rhein. By maintaining a local personal presence we are able to respond quickly to the particular requirements of our customers and ensure a consistently high standard of service.

Development of wagonload freight (million ntkm)

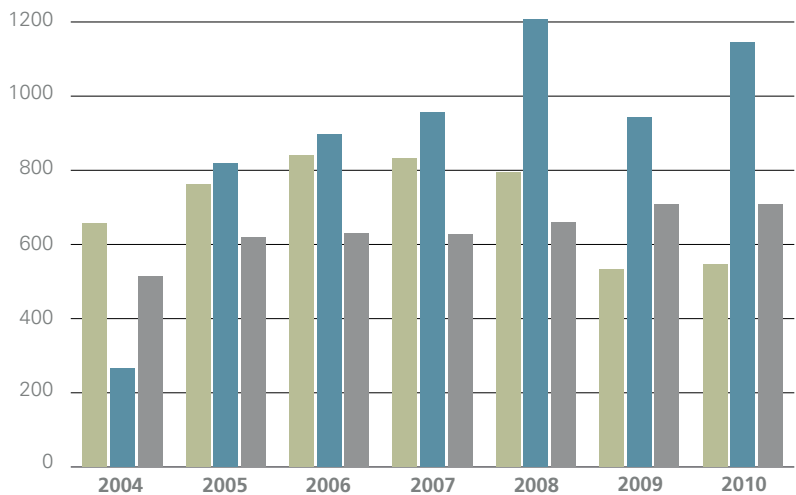


- WLT Lötschberg/Simplon
- WLT Gotthard
- WLT Inland, Import/Export

Key facts and figures 2010

Turnover: 38.9 Mio. CHF
 Transport services rendered (in million ntkm):
 Lötschberg-Simplon: 377.9 (+2.9%)
 Gotthard: 445.0 (+50.1%)
 WLT Inland, Import/Export: 129.5 (+5.3%)
 Number of trains: 7 793 (+6.6%)

Development of intermodal transport (million ntkm)



- UIT Lötschberg/Simplon
- UIT Gotthard
- Rolling highway Lötschberg/Simplon

Key facts and figures 2010

Turnover: 115.5 Mio. CHF
 Transport services rendered (in million ntkm):
 Lötschberg-Simplon: 546.9 (+2.5%)
 Gotthard: 1 144.6 (+21.3%)
 Rolling highway 709.0 (+0.1%)
 Inland, Import/Export 9.4 (+5.6)
 Number of trains: 14 424 (+5.2%)

Intermodal transport in growth

A high quality standard and flexibility on all Swiss transit axes and on transport solutions tailored to customers' needs ranks among the hallmarks of BLS Cargo.

As far as haulage is concerned, unaccompanied intermodal transport as well as the operations of the rolling highway constitute the largest areas of business for BLS Cargo. As the market leader on the Lötschberg-Simplon axis, and with a high volume of traffic on the Gotthard axis, we regard ourselves as a competent specialist in trans-Alpine freight haulage. We are pursuing an ongoing expansion of our block-train haulage services in the fields of import, export and inland transport operations.

Our strong partnerships with numerous European railway undertakings allow us to offer neutral transport services covering the entire international railway network to our intermodal transport customers from a single supplier. On the other hand, we provide high-quality solutions for Switzerland-wide transit on behalf of various partner railways. Our European networking and specialist know-how in transport across Switzerland result in tailor-made transport solutions that we implement at short notice and with high flexibility.

We remain in close and regular contact with our customers. Only in this way do we keep abreast of the requirements and needs of the market, and retain the ability to implement products suited to both the market and customers. With the objective of offering high quality and stability in the long term, BLS Cargo works in a customer-focused and forward-looking manner in every sphere of its activity. Thanks to a modern means of traction and the ability to serve Swiss transit axes optimally, we implement future-oriented approaches in partnership with our customers aimed at optimising haulage operations. For example, in intermodal

transport, we are able to drive trains of up to 700 metres in length with a hauled load of over 1,600 gross tonnes across the Lötschberg-Simplon axis.

Objectives achieved in 2010

In intermodal transport, freight haulage in terms of net tonne kilometres rose by 10% in 2010, the number of trains operated by 5.2%. The unexpected, yet strongly improved economic situation contributed to this gratifying result. This allowed BLS Cargo to more than compensate for haulage operations lost during the economic crisis in 2009 with new haulage operations. Competition and pricing pressure with road-based transport remains very high, however a certain easing was able to be observed towards the end of 2010.

During 2010 the transport operations of the rolling highway remained at the previous year's high level. The rolling highway is the only facet of our operations that has largely remained unaffected by the 2009 economic crisis. In the reporting year, BLS Cargo together with its partners prepared tailor-made transport solutions for RAlpin AG for the open competitive bidding of the rolling highway for the years 2012 - 2018. In the autumn of 2010 the Federal Office of Transport confirmed the continuation of this transport service and awarded a further seven-year contract to RAlpin AG. This also makes BLS Cargo responsible in future for the operations of the rolling highway and allows it to make a substantial contribution to the Swiss road-to-rail transfer policy. Since the 2011 timetable changeover, BLS Cargo has operated the Freiburg im Breisgau – Domodossola route with continuous traction, using its Re 485 multisystem locomotives.



This changeover makes possible the removal of interfaces and leads to an increase in quality.

During 2010 we closely monitored the development in demand together with customers, and were able to satisfy the short-notice tonnage increase requests of customers with excellent quality and flexibility, in spite of limited production capacities.

In 2010 BLS Cargo worked with other railway undertakings in addition to DB Schenker, enabling it to widen its scope of services and raise its degree of brand awareness.

Prospects for 2011

BLS Cargo expects to experience a significant increase in hauled tonnages in intermodal transport during the course of 2011; this is primarily based on the realisation of new projects.

The strong appreciation of the Swiss franc with respect to the euro will be taken into due account during price negotiations with customers, since a weak euro is currently expected to prevail for some time. The issue of currencies and their ramifications presents a considerable challenge for BLS Cargo and its customers.

One example: Ewals Antwerp-Novara

From April 2010, Ewals and BLS Cargo commenced a new haulage service between Antwerp and Novara that sees at least six weekly block trains containing high-profile swap bodies and semi-trailers hauled. In spite of intense competi-

tion and very tight infrastructure capacities along this route, the haulage frequency was raised to five return services at the start of 2011 and it would appear that there is more still growth to come.

Explained in short: Intermodal transport

In intermodal transport, at least two different carriers (lorry, train, ship) are linked to one another in a continuous transport chain. This combines ecological and economic benefits as well as the reliability of rail and shipping services over long distances with the area-wide options offered by road haulage. Goods are generally shipped in standardised load units such as containers, swap bodies, semi-trailers or complete lorries. By providing intermodal transport, BLS Cargo is making a direct contribution to achieving the constitutional objective of transferring freight from road to rail, and an effective reduction in CO² emissions.

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A specialist in block trains

BLS Cargo hauls industrial goods reliably across the Alps and provides a bridging function between the north and south.

When it comes to wagonload freight, BLS Cargo offers both transit operations through Switzerland as well as inland, import and export transport. Integrated in the transport chains of our foreign partners, we take over the transport of block trains through Switzerland. For many years, BLS Cargo has already operated block trains carrying cars, building materials, manure, steel, timber and paper across transit routes. The company also collaborates closely with DB Schenker to haul large numbers of «mixed» trains (for several customers) between Germany and Italy. Our business model is based on close partnerships with cooperation partners in the north and south. On behalf of our partners, we assume the responsibility for a reliable crossing of the Alps by ensuring professional traction within Switzerland. In doing so, we operate on both key transit axes – the Lötschberg-Simplon and Gotthard – as well as on west- and eastbound routes. On selected routes, several customers already benefit from direct contact with BLS Cargo.

In inland haulage, well-known companies in the petroleum and timber industries as well as the waste disposal sector rank among our customers. When it comes to transportation within Switzerland, we are your sole and direct contact. With network access authorisation for all routes in the Swiss standard-gauge network, we can offer our services in Switzerland without restriction or limitation. In inland haulage, we have an especially strong presence in western Switzerland in Cornaux, in Basle's ports and in eastern Switzerland.

BLS Cargo also operates in Swiss import and export transportation. The majority of our cargo comprises freight which we transport on behalf of companies

in the oil and construction industries. We work directly with customers to organise company-specific logistics chains and take over the transportation of trains from their departure point through to their destination. Our customers particularly appreciate the reliability and individual support they receive from BLS Cargo during this service.

Objectives achieved in 2010

Although haulage services have not yet reached the level before the economic crisis, the international transport market is again recovering strongly after the sudden 2008/2009 collapse in demand. Accordingly, haulage of wagonload freight along the Lötschberg-Simplon axis increased by 2.9% and along the Gotthard by 50.1%. Rail freight haulage in inland- /import and export transportation has increased by 5.3%.

We were also able to develop new transport services in Alpine transit during the reporting year, for example hauling «mixed» trains from Domodossola to Sweden via Lötschberg. Similarly, in the middle of the year we were able to gain the trust of an international steel manufacturer, for whom we have since been transporting steel coils from Italy to Germany. Towards the end of the year we were able to secure several new haulage contracts from France in the automotive sector.

However, the decision by a customer to award the largest BLS Cargo inland haulage contract to a competitor was a setback. The reduction of BLS Cargo's services here amounts to a massive setback to the liberalisation of Swiss inland freight haulage. In contrast though, the same customer gave us the go-ahead for a large number of haulage services for freight importation.



Prospects for 2011

Our customers see economic development over 2011 as being positive, which will be reflected in additional enquiries and haulage contracts. As far as wagonload freight is concerned, we are expecting to see an overall increase in transport volumes in 2011. The proportion of haulage operations requiring organisation at short notice will certainly increase again in relation to those services able to be planned over the longer term. The importance of service conditions and processes agreed in advance between customers, partners and BLS Cargo will continue to grow for good quality service provision.

The strong appreciation of the Swiss franc with respect to the euro will be taken into due account during price negotiations with customers, since a weak euro is currently expected to prevail for some time. The issue of currencies and their ramifications presents a considerable challenge for BLS Cargo and its customers.

An example

BLS Cargo operates a return service every week from western Switzerland to Italy on behalf of Hol-

cim (Schweiz) AG. A shunter operated by BLS Cargo is used during cargo collection at the works location, to enable the train to be driven backwards onto the connecting line. The high degree of infrastructure utilisation requires an additional manoeuvre during the southbound return of the train. To begin with, the train is driven several kilometres northwards at which point a change in direction needs to take place. From 2011 petrocoal will be transported in addition to the cement trains, the former being carried out with operational additional trains.

Explained in short: Wagonload traffic

Conventional wagonload freight is the oldest form of rail freight transport. It is particularly suitable for industrial firms with large volumes of heavy goods to transport, such as cars, clay, steel, timber and paper. As most major industrial centres are located primarily in the countries surrounding Switzerland, the demand for international freight services across the Alps is significantly higher than that for inland transport. BLS Cargo functions as a bridge between north and south, carrying industrial goods reliably across the Alps.

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**Flexibility: important in the Alps,
vital in business.**



Production



Optimised for cross-border haulage

BLS Cargo is putting its new locomotives to work in cross-border traction. Work sites along the track infrastructure and increased route access charges are having a counterproductive effect.

The cross-border deployment of the new Re 486 multisystem locomotives between Germany and Italy made a positive contribution to the development of BLS Cargo in 2010. These locomotives have the necessary country-specific signalling and power systems to allow direct cross-border journeys without requiring locomotive changeovers when travelling from Switzerland to Germany, Italy and Austria. In 2010, the Re 486 locomotives have been deployed in a joint production concept with DB Schenker Rail and NordCargo to haul the trains of customers Ambrogio and Hupac along the Lötschberg-Simplon route between Basel and Gallarate, and between Basel and Gallarate as well as Novara on the Gotthard route.

The new traction concept for the rolling highway is a further example of our efforts to improve and optimise the way the company operates. BLS Cargo in partnership with SBB Cargo is the key carrier of this traffic. Since last December the trains providing the rolling highway have been hauled continuously from Freiburg im Breisgau (D) to Domodossola (I) by our Re 485, dispensing with the need for a locomotive change in Basel. Quality improvements and the increased stability of the timetable are some of the positive outcomes.

In addition to cross-border locomotive deployments to Germany and Italy, we shall also continue to press ahead with the cross-border deployment of locomotive drivers. We plan to further strengthen our collaboration with DB Schenker and NordCargo in particular.

Moreover, we will further develop cross-border production in 2011. Our experiences to date within

the DB Schenker rail network show that, by working closely with its cooperation partners, BLS Cargo is able to further improve the procedures at national borders as well as the joint planning and control processes for the benefit of customers. BLS Cargo plays an active role in these projects. This in turn enables the various fields of expertise to become closely and beneficially integrated.

Line accessibility endangered

In 2010, various construction sites along the infrastructure network (Switzerland, Italy, Germany) made optimal production more difficult and were in part very counter-productive on our efficiency efforts in the planning and control of haulage operations, as well as in resources deployment. For example, the engineering work in the helical tunnel at Varzo on the Simplon south ramp was responsible for considerable more effort and expense in the planning and scheduling of BLS Cargo trains. Between 13 June and 11 December 2010 the Brig-Domodossola route only remained passable along a single track and indeed was fully closed to traffic in the windows between 10:00 and 13.00 hrs, as well as 16.00 and 19.00 hrs. We were forced to plan timetable adjustments and re-routings for approx. 60% of our transit trains and also had to contend with considerable delays.

The construction work in 2010 was only a fore-taste of the construction sites planned for the near future along the Swiss north-south transit axes, as well as on key feeder routes in Germany and Italy. For instance, the construction of noise barriers along the single-track section between Cadenazzo and Luino will take place in 2011. Track closures



along route sections require new re-routings of trains. Engineering and refurbishment work in the Simplon tunnel is due to take place between 2012 and 2014; this will be accompanied by renewed restrictions in various phases.

The demands of our customers, as well as the efficient planning and completion of haulage operations, require a high level of quality and stability in the track infrastructure. Since the clear pick-up in demand for rail haulage from 2010 onwards, construction site-related track closures and re-routings have hampered the growth of BLS Cargo and the competitiveness of rail freight haulage overall. If, during the planning of construction sites or during operations, conflicts also arise concerning the prioritisation of passenger and freight trains, then this can influence the implementation of the road-to-rail transfer policy in a damaging way. We therefore urge the authorities and infrastructure operators to safeguard the lines assigned to freight haulage by the Swiss Federal Council and legislation.

Higher line charges ramp up freight costs

The Federal Office of Transport (FOT) plans to introduce a revised line charging system in Switzerland in 2013 and has asked to receive the first sector responses in April 2010. We take the following position to this:

» BLS Cargo supports the basic thrust of the suggestion to take into account capacity, causer and quality-focused price elements in a more consistent manner, however BLS Cargo calls for higher price differentiation (= higher incentives) to be applied to line quality.

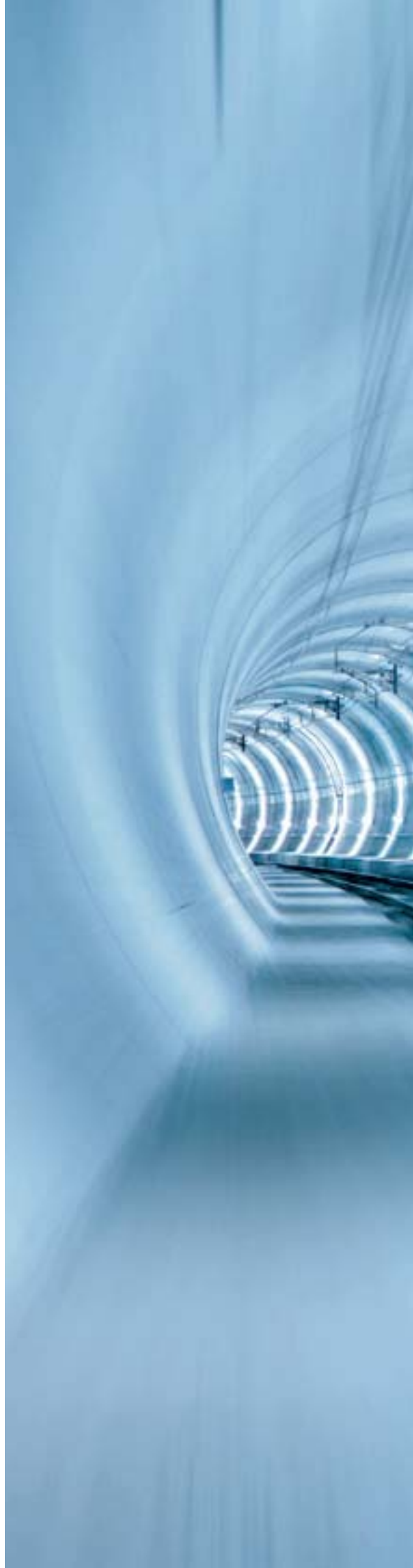
- » BLS Cargo is fundamentally opposed to the introduction of a hazardous goods surcharge.
- » The 2013 route pricing system must not result in additional burdens for rail freight services.
- » If the present line quality for freight haulage and its secondary prioritisation are not improved, then line price reductions should be applied to enable freight haulage and passenger transport to be on a par with one another.

In 2011 the Swiss infrastructure operators raised their charges for line orders and cancellations received at short notice. The new regulation means that railway undertakings will incur extremely high additional charges for line orders and cancellations for long routes that are sent at short notice (period: 60 days prior to fulfilment until the day of fulfilment). We are expecting additional costs of over a million francs per year, of which only a negligible amount will be able to be offset by process-related adjustments.

In the present economic environment, our customers require the maximum possible flexibility, in order not to lose haulage contracts to road-based suppliers. At the same time, the additional costs incurred by railways cannot be fully passed on to customers since the strength of the Swiss franc compared to the euro (see foreword) has already resulted in price increases for customers. The limits of what rail-based freight hauliers as well as their customers will accept have therefore been exhausted.

BLS Cargo will therefore engage in further political dialogue to lobby for a freight haulage-friendly line pricing system and the use of incentives that promote a road-to-rail freight transfer.

**For real mountaineers there's more
than one route to the summit.**



10 Years of BLS Cargo



10 Years of BLS Cargo

BLS Cargo celebrates its 10th anniversary in 2011.

We take a look at the newspaper headlines in past years.

<p>BLS nimmt die Güterkurve <i>BLS CARGO AG / Die Lötschbergbahn gliedert den Güterverkehr in eine selbständige BLS Cargo AG aus. Daran sollen sich die Deutsche Bahn sowie weitere ausländische Bahnen und Speditionen beteiligen. Eine Verdoppelung des Transits bis in fünf Jahren ist das Ziel.</i></p>	<p>2001</p>
<p>BLS Cargo wird international <i>Die deutsche DB Cargo übernimmt 20% der Aktien der privaten schweizerischen Güterbahngesellschaft BLS Cargo (BLS) 2,2% geht an der italienischen Konzerngruppe Ambrogio. Damit entsteht eine neue, durchgehende Achsen-gesellschaft für die Nord-Süd-Transite durch den Gotthard-Tunnel.</i></p>	<p>2002</p>
<p><i>Kooperationen mit Railion auf der Gotthard-Achse</i> BLS Cargo verstärkt Rolle im Alpen transit <i>Zum Fahrplanwechsel vom 14. Dezember 2003 weitet die BLS Cargo AG ihr Angebot im Alpen- und alpennahen Schienen-güterverkehr aus. Die Kooperation mit dem deutschen Partner Railion wird intensiviert. Der Schwerpunkt der zusätzlichen Leistungen liegt im Interesse des Marktes auf der Gotthard-Achse.</i></p>	<p>2003</p>
<p>BLS Cargo boomt <i>Die Schweizer Güterbahn BLS Cargo hat letztes Jahr erneut stark zugelegt und erwartet, nicht zuletzt dank der Expansion auf die Gotthard-Achse, auch dieses Jahr wieder deutlich mehr Ver-kehr. Sie ist dabei, sich stärker als bisher als gesamtschweizerischer Anbieter zu etablieren.</i></p>	<p>2004</p>
<p>BLS Cargo auf fremden Gleisen <i>Marktanteil am Gotthard auf 21 Prozent gesteigert</i> <i>Jeder fünfte Güterzug durch den Gotthard wird mittlerweile von BLS Cargo geführt. Der Anteil der Division Güterverkehr der SBB am gesamten Verkehr auf dieser Achse sack binnen zweier Jahre von praktisch 100 auf 78 Prozent. In Erstfeld und Chiasso hat die Güterverkehrsbranche der BLS Lötschbergbahn total 48 Arbeitsplätze geschaffen.</i></p>	<p>2005</p>

BLS Cargo was founded on 3 April 2001 by the former BLS Lötschbergbahn AG. The initial haulage operations of BLS Cargo followed in July with the first independently operated trains.

Prior to the establishment of BLS Cargo, the BLS Lötschbergbahn had already operated rail-based freight haulage. Though this was mainly restricted to the Lötschberg-Simplon axis and the Simmental. All of the employees who worked on the freight haulage operations of the BLS obtained new posts with BLS Cargo AG. The company commenced operations with a total of 16 employees and its new CEO, Dr. Dirk Stahl.

Still further important milestones in the history of BLS Cargo were laid in 2001. Firstly, BLS and SBB concluded a framework agreement which led to BLS Cargo withdrawing from single wagon freight transport in Switzerland and focusing on block trains making transit journeys through Switzerland. And secondly, 2001 also saw the start of negotiations with potential international shareholders in BLS Cargo. In 2002 the freight transport subsidiary of Deutsche Bahn (today DB Schenker Rail) was followed by the Italian Ambrogio Group in taking a holding in BLS Cargo.



Ambrogio has used BLS Cargo since 2001.



Purchase of modern Re 485 locos in 2002.



BLS Cargo operating DB locomotives on the Gotthard axis in 2003.



BLS Cargo puts together its own service team for the first time.



BLS Cargo strengthens its position on the Gotthard axis.

The further development of BLS Cargo followed quickly, with two-digit growth rates as well as continual positive annual trading results. Transit haulage through the Gotthard in 2003 as well as a successful start to the operations of the rolling highway in 2001 were decisive for the success of BLS Cargo.

BLS Cargo sees the key success factors for the last 10 years as

- » its strategic positioning, established over many years, in the liberalised market and the focus on block train operations along key axes.
- » the solid partnerships with customers and foreign railways, especially the cooperation agreements with shareholders DB Schenker and IMT.
- » the cross-border production concepts which we intend to further develop to Italy in 2011, with the help of the new Re 486 multisystem locomotives acquired in 2010 and the planned cross-border deployment of locomotive drivers.
- » its lean organisational structure and high level of flexibility in the volatile freight transportation market.

<p>Die Kleine ganz gross <i>Starkes Wachstum von BLS Cargo im unbegleiteten Kombiverkehr</i></p>	2006
<p>«Stetig und steil aufwärts» <i>BLS Cargo AG Bahnunternehmen schreibt im Jahr 2006 Rekordergebnisse</i></p>	2007
<p>Was können die SBB von der BLS lernen?</p> 	2008
<p>BLS Cargo fährt weiter Geld ein</p> 	2009
<p>Mit BLS Cargo geht es bergauf - doch das Euro-Tief belastet</p>	2010



To commemorate the 100th anniversary of BLS Lötschbergbahn AG, a stamp is issued in 2006 featuring BLS Cargo.



BLS Cargo drives the first trains through the new Lötschberg base tunnel in 2007.



DB and IMT increase their shareholding in BLS Cargo in 2008.



The first new multisystem locomotive commences operations in 2009.



The decision in 2010 to continue operation of the rolling highway until 2018.

**With so many unknowns, a partner
you can count on is a big help.**



Together to success



Stable partnerships

It is especially in times of crisis that BLS Cargo's long-standing collaboration with shareholders and employees offers certainty.

The business model of BLS Cargo is based on international partnerships. The successful development of BLS Cargo is ultimately based on this close collaboration with its shareholders, a relationship that is developed continually at both a commercial and production level. The shareholders worked with us in the «2011: The Way Up» project to help implement our efficiency measures and agreed to the intensification of this work over the coming years.

BLS services for BLS Cargo

BLS Cargo participates in an intensive exchange of services with its parent company, BLS. This manifests itself in the fact that we operate a joint locomotive driver pool with BLS and purchase part of our overhead services from BLS. The services are planned jointly, agreed in Service Level Agreements and invoiced between the companies.

In times of large fluctuations in demand, it is especially important to be able to respond flexibly when it comes to production resources (locomotive drivers and locomotives). BLS AG put its flexibility to the test during the economic crisis and even far into the year 2010. We were forced to reduce drastically our orders for locomotive-driver hours in 2008 and 2009 because of the economic crisis, which in turn led to severe excess capacities in the pool of locomotive drivers. It was only thanks to the prudent actions of both companies and the high flexibility of locomotive drivers that redundancies and reduced working hours were able to be avoided. Various measures were however introduced to compensate for the excess capacity. Voluntary employment level reductions, transfers to other locomotive driver depots, temporary

placements with other railways and the conversion of additional pay entitlements (night and Sunday shifts) into time off contributed greatly to placing the fixed locomotive driver costs at BLS Cargo on a flexible footing. We very much appreciate the efforts made by BLS' employees and BLS in this regard over the past two years. Whereas the principal advantage of a common pool of locomotive drivers once lay in covering demand peaks as well as in retaining reserve capacities, this model has now also proven its advantages in crisis situations.

The haulage services provided by BLS Cargo increased steadily from the second quarter of 2010 onwards. This led to BLS lifting one part of the way-up measures that applied to locomotive drivers, allowing it to meet our increased order for locomotive drivers with speed and flexibility. It was precisely this high flexibility in responding to the order magnitudes of BLS Cargo that enabled us to participate in the recovery of the general economic situation with matching increases in haulage levels.

Yet, as successful as BLS and BLS Cargo were in retrospect of coming to terms with the crisis, the future remains equally as challenging. The strong franc required us to undertake more work to achieve efficiencies and improvement, and to secure the competitiveness of BLS' services for BLS Cargo at a European level.

Close cooperation with DB Schenker

Inter-company relations with shareholder DB Schenker Rail Deutschland as well as its European affiliated companies are becoming increasingly important. Apart from joint commercial activities,



these come to the fore principally in cross-border production concepts (see pages 14-15). Here, resource deployments are planned jointly and charged to one another. We are convinced that additional potential for improvement in rail-based freight haulage lies in the best possible completion of processes at borders and in the international planning and control of haulage. Further development and an integration within the production network of DB Schenker Rail offers many possibilities in this regard.

Italian competence with IMT

IMT AG, which is wholly owned by our customer Ambrogio Trasporti, has also been a shareholder in BLS Cargo since 2008 with a 3% stake of the share capital. As one of our very first customers, Ambrogio Trasporti has used BLS Cargo since 2001. Livio Ambrogio, CEO of Ambrogio Trasporti SpA voices his opinion on BLS Cargo: «For years, part of my everyday concerns as the head of a company would be about the daily train service. Will there be a train? Will it arrive on time in Belgium? Will it arrive on time in Germany? Will we be able to arrange a special train? Will we always have the information we need? It was continual anxiety, often justified, that was shared with our colleagues abroad. Since I started working with BLS Cargo, I have been able to «forget» about trains and devote all my time to the company, its customers and remain calm because, when I wake up, the train will already have arrived.»

High level of employee commitment

The economic crisis was extremely stressful for the employees of BLS Cargo. After a project dura-

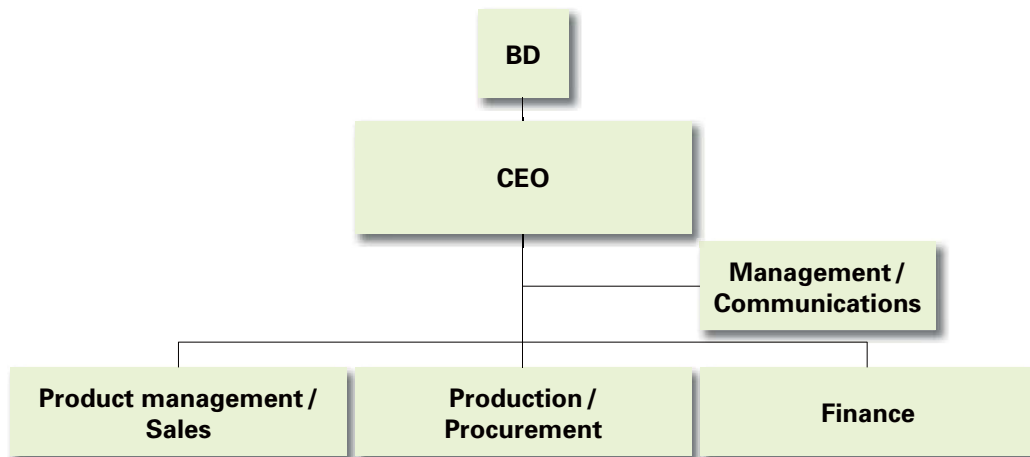
tion of 18 months, the «Way-Up» measures have become firmly entrenched in the company. Even before the economic crisis, our employees were extremely cost aware and demonstrated a strong willingness to adopt continual improvement measures. Both have been further consolidated and developed by «2011: The Way Up».

In 2010 we not only directed our attention to increasing our haulage operations and implementing the «Way-Up» measures. After an intensive period of preparation, the BAV safety audit and the ISO re-certification audit were carried out in October and November. Both audits went well. It was extremely gratifying to receive feedback from the auditors concerning the personal dedication and the commitment of our employees.

These observations were also confirmed in the results of the employee survey which we carried out at the start of 2010. The survey showed that our employees are proud of the company and that the future of BLS Cargo is very important to them. In contrast, employee promotion was singled out for criticism; the economic crisis and cost-savings measures meant that the customary budget was unavailable here and that insufficient attention was paid to this area. We have taken this feedback as an inducement to again make employee promotion more central to our considerations in 2011. In common with previous years, the underlying satisfaction of employees at BLS Cargo is very high.

In view of the difficult situation of BLS Cargo in the past year and the pressure from the project «2011: The Way Up», the results of the employee survey are extremely pleasing.

Lean organisation



Shareholders

BLS AG	52 %
DB Schenker Rail Deutschland AG	45 %
IMT AG (Ambrogio Group)	3 %

Shareholdings

BLS Cargo Italia S.r.l.	100 %
BLS Cargo Deutschland GmbH	100 %

Board of Directors

- » **Bernard Guillelmon, Bern, President**
Chairman of the Board, BLS AG
- » **Hans Flury, Bolligen, Vice-President**
Senior Consultant BLS AG
- » **Josef Küttel, Genolier**
CEO, ERMEWA SA Group
- » **Livio Ambrogio, Torino (I)**
CEO, Ambrogio Trasporti Spa
- » **Dr. Christian Kuhn, Berlin (D)**
CEO, DB Schenker Rail GmbH
- » **Otto G. Niederhofer, Bonn (D)**
Board Member, DB Schenker Rail Deutschland AG

Management



Dr. Dirk Stahl
CEO
Member of the Management,
BLS AG



Joachim Schöpfer
Head of Production/ Procurement,
Deputy to the CEO



Dr. Dirk Pfister
Head of Product Management/ Sales
(from 01.05.11)



Raymond Baraké
Head of Finances



Stefanie Burri
Head of Management
Section/ Communication

The subsidiaries of BLS Cargo

Having its own subsidiaries provides BLS Cargo with direct access to the key processes in international rail freight services at national borders.

BLS Cargo Italia S.r.l.

BLS Cargo Italia S.r.l. was founded on 6 April 2006 as a wholly-owned subsidiary of BLS Cargo AG. The company's head office is in the Domodossola II freight depot in the municipality of Beura-Cardezza. The purpose of BLS Cargo Italia S.r.l. is the provision of services for the freight trains of BLS Cargo AG at the Domodossola I + II border railway stations.

Members of the Board of Directors

- » Dr. Dirk Stahl, President, CEO BLS Cargo AG
- » Joachim Schöpfer, Head of Production/ Procurement, BLS Cargo AG
- » Gianfranco Albini, CEO, BLS Cargo Italia S.r.l.

CEO



Dott.
Gianfranco Albini

BLS Cargo Deutschland GmbH

On 18 July 2007, BLS Cargo Deutschland GmbH was founded as a wholly-owned subsidiary of BLS Cargo AG. The head office of the company is in Weil am Rhein. The purpose of BLS Cargo Deutschland GmbH is the provision of services for the freight trains of BLS Cargo AG in the Basel region.

CEO



Berthold
Gall



Markus
Böhm

Key facts & figures: BLS Cargo Italia

Dispatched trains 2010:

10585 (2009: 11068)

EBIT 2010:

64263€ (2009: 64318€)

Operating result 2010:

6884€ (2009: 7986€)

Number of employees (as at 31.12.10):

19

Key facts and figures: BLS Cargo Deutschland

Dispatched trains 2010:

18564 (2009: 16932)

EBIT 2010:

50924€ (2009: -14608€)

Operating result 2010:

45374€ (2009: -15019€)

Number of employees (as at 31.12.10):

8

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