




Deutsche Bahn 

Annual Report 1999

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Key figures

Passenger Transport			1999	1998
Passengers	DB Reise&Touristik	million	146.5	148.9
	DB Regio	million	1,533.6	1,519.5
	Total	million	1,680.1	1,668.4
Passenger kilometers	DB Reise&Touristik	million pkm*	34,897	34,562
	DB Regio	million pkm*	37,949	37,291
	Total	million pkm*	72,846	71,853
Number of trains per day	DB Reise&Touristik		1,441	1,370
	DB Regio		29,036	28,534
	insgesamt		30,477	29,904
Operating performance	DB Reise&Touristik	million train-path km	177.5	181.5
	DB Regio	million train-path km	552.4	536.6
	Total	million train-path km	729.9	718.1
Rolling stock	ICE 1 driving units		120	120
	ICE 2 driving units		46	46
	ICE T driving units		17	0
	Locomotives		2,934	3,077
	Motor coaches (incl. rail buses)		4,571	4,350
	Passenger carriages		13,810	14,157
	Seats			
	DB Reise&Touristik	thousand	278	276
	DB Regio	thousand	1,169	1,167
	Total	thousand	1,447	1,443

Freight Transport			1999	1998
Freight carried	million t		279.3	288.7
Transport performance	million tkm **		71,494	73,273
Number of trains per day			~ 7,000	~ 7,000
Mean transport distance	km		256	254
Operating performance	million train-path km		220.3	223.5
Locomotives			4,341	4,631
Freight wagons			128,958	136,461
Carrying capacity of the freight wagons	thousand tons		5,249	5,976

Track Infrastructure			1999	1998
Operating performance	million train-path km		976.7	946.5
Operating length	km		37,525	38,126

Passenger Stations			1999	1998
Number of active stations			5,876	5,948

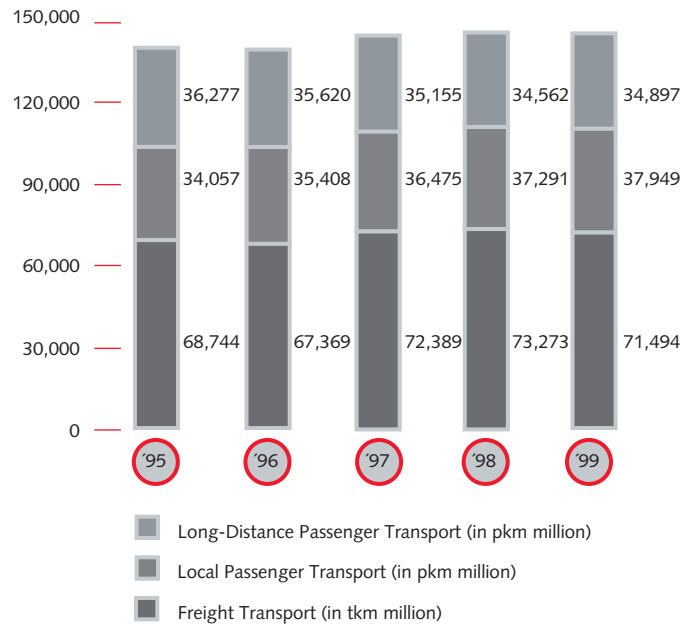
* Passenger kilometers (pkm): product of number of passengers and mean travel distance
** Ton kilometers (tkm): product of freight carried and mean transport distance



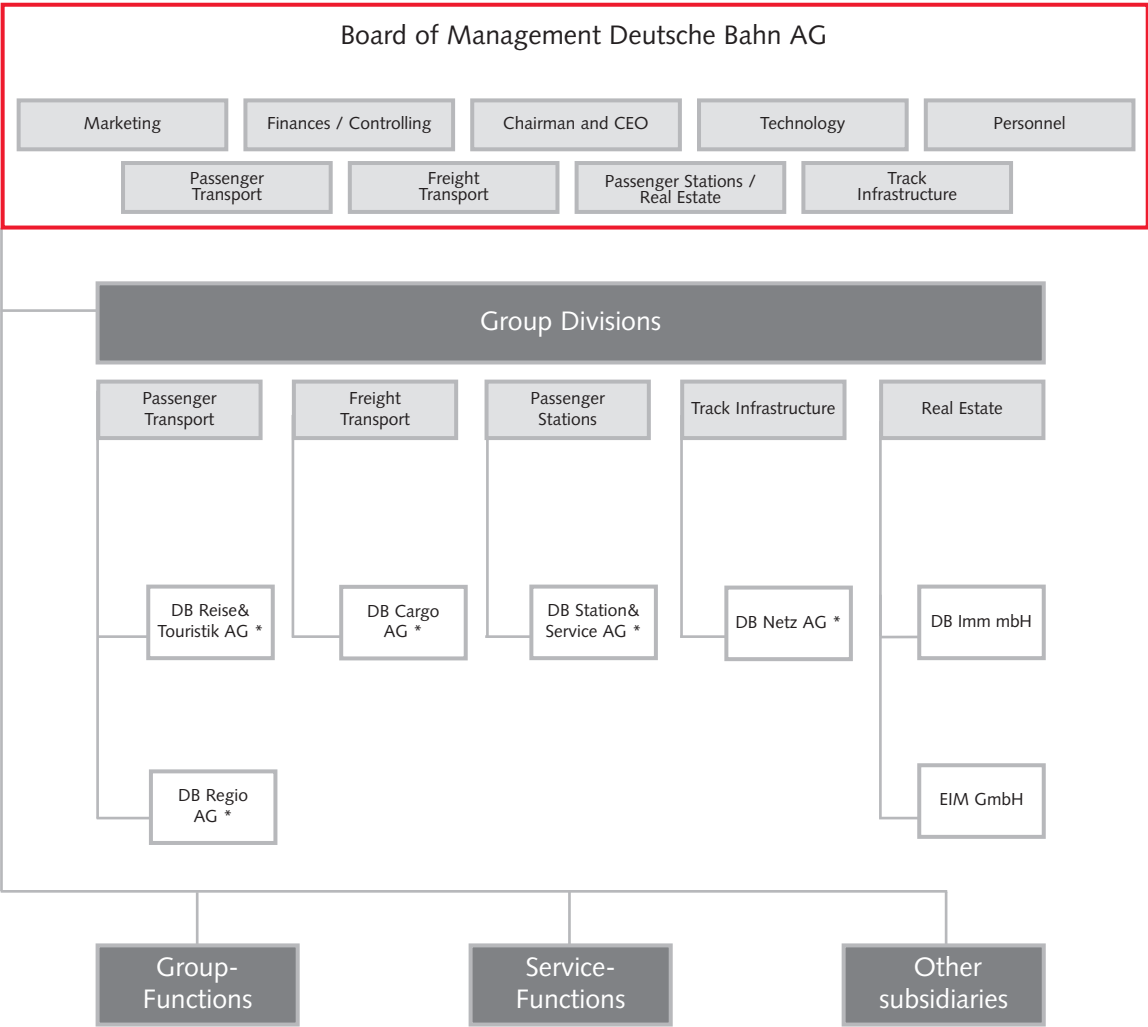
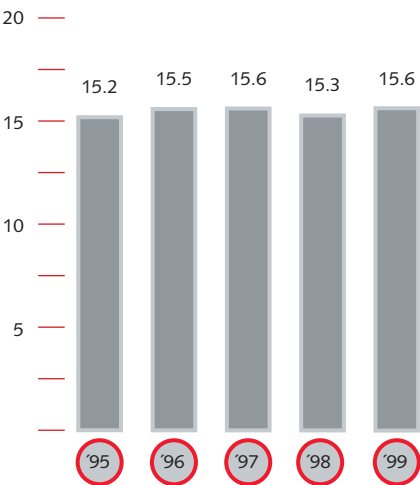
	1999	1998	1997	1996	1995
	in € million	in € million	in € million	in € million	in € million
Revenues	15,630	15,348	15,577	15,452	15,249
Income before taxes	91	201	183	369	283
Fixed assets	33,495	31,739	30,531	24,744	22,182
Equity	8,701	8,528	8,422	6,711	6,278
Balance sheet total	37,198	34,961	33,892	29,622	26,620
Gross capital expenditures	8,372	7,660	7,136	7,771	7,329
Net capital expenditures *	3,229	3,040	6,223	5,056	5,107
Depreciation	1,965	1,737	1,620	1,387	1,148
Cash Flow (before taxes)	2,107	1,985	1,833	1,777	1,445
Employees (as of 31 Dec)	241,638	252,468	268,273	288,768	312,579

* Gross capital expenditures less investment grants from third parties

Transport performance
in ptkm million



Revenues
in € billion



* and related subsidiaries

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<http://www.bahn.de>

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Report of the Supervisory Board

Meetings of the Supervisory Board

In the last financial year, four regular meetings of the Supervisory Board were held. During the meetings, the Management Board provided the Supervisory Board with detailed information on the business position of Deutsche Bahn AG and its Group member companies as well as on material business transactions and proposed corporate policy. Personnel-related decisions were made in two specially-called meetings.

Between these two dates, the Presidential Committee and the Management Board remained in regular contact to discuss material issues of business policy. The Chairman of the Supervisory Board remained in permanent contact with the Management Board, particularly with the CEO, and was continually briefed on all important business developments.

Main areas of work

The Supervisory Board has been extensively involved in the work of the Management Board and the company's position and development. Above all, it has been concerned with in-depth consultations on business transactions subject to the approval of the Supervisory Board due to either legal or statutory provisions. Whereas the first half of the year was marked by the implementation of the second stage of the rail reform, the latter half of the year saw discussions focussing especially on measures aimed at achieving an ability to access the capital market for equity capital. The Executive of the Management Board's medium-term planning directed at this target was discussed in the Supervisory Board's meeting of 1 December 1999 and was approved in the first stage for the year 2000. In its July meeting, the Supervisory Board dealt with the 'Netz 21' concept, among other issues. Issues covered in December included the major construction projects of 'Stuttgart 21', the new Cologne-Rhine/Main route and the north-south link of the Berlin hub – particularly in terms of their cost risks. These topics were elaborated upon in the first meeting of the year 2000 and, because of their importance, will continue to occupy the Supervisory Board over the course of the current year.

The Supervisory Board obtained regular progress reports on the conversion of data processing facilities for the year 2000. The transition at the end of the year 1999 to the new millennium proceeded smoothly.

Financial statements

The annual accounts prepared by the Management Board and the Management Report of Deutsche Bahn AG together with the corresponding Group documents were audited and given an unqualified Auditors' Certificate by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, the auditors selected by the Annual General Meeting. The Auditor's Report was examined in detail at the joint meeting of the Supervisory Board, Auditors and Management Board, held on 10 May 2000.

The Supervisory Board has examined the annual accounts and management report of Deutsche Bahn AG as well as the Group accounts and management report for the financial year 1999 and has raised no concerns. The annual financial statements of Deutsche Bahn AG have been approved. They have thus been endorsed.

The Auditor has also examined the report on the relationships with associated companies prepared by the Management Board and given it an unqualified certificate of endorsement. The Supervisory Board has examined this report and has raised no objections to the Management Board's final declaration nor to the result of the audit by PwC.



Changes in the composition of the Supervisory Board and the Management Board

The following members of the Supervisory Board retired from office in the last financial year: Mr Willi Klussmeier on 30 June, Mr Bernhard Ivo on 8 July, Mr Heinz Herrmanns on 31 July and Mr Lothar Schote on 30 November 1999. The Supervisory Board thanked them for their committed work.

On 24 February 1999, Dr.-Ing. E.h. Heinz Dürr resigned as Chairman of the Supervisory Board of Deutsche Bahn AG and retired from office. During his time as CEO of Deutsche Bahn AG from 1991 to 1997 and as Chairman of the Supervisory Board, Dr. Dürr made many lasting contributions to Deutsche Bahn AG. The Supervisory Board thanks him for his major contributions directed at modernizing Deutsche Bahn and at guaranteeing its future.

On 7 July 1999, Mr Rudi Schäfer retired from the Supervisory Board. He had been its Deputy Chairman since 1994. He had also served as Chairman of the German Railway Workers' Union for over eleven years. The Supervisory Board thanked him for his valuable service to Deutsche Bahn AG.

With effect from 30 September 1999, Mr Werner Mössinger left the Supervisory Board and, on the same day, entered retirement after more than 40 years' service to Deutsche Bahn. The Supervisory Board thanked Mr Mössinger for his outstanding efforts in shaping the company during his time as a member of the Supervisory Board and during his many years as Chairman of the Group Works Council.

Report of the Supervisory Board

New appointments to the Supervisory Board were as follows: Dr.-Ing. Dieter H. Vogel on 24 March 1999 as Chairman, Mr Horst Hartkorn on 1 July, Mr Lothar Krauss and Mr Günter Ostermann on 8 July, Mr. Horst Fischer on 1 August, Mr Günter Kirchheim on 14 November and Mr Rolf Schökel on 1 December 1999.

On 7 July 1999, Mr Norbert Hansen was elected as Deputy Chairman of the Supervisory Board and as a member of the Presidential Committee. Mr Günter Kirchheim was also elected as a member of the Presidential Committee on 1 December 1999.

Effective from 31 July 1999, Mr Peter Reinhardt retired as Director of the Board Division responsible for 'Real estate, legal affairs and passenger railway stations'. The Supervisory Board thanked him for his work within the company.

With effect from 1 August 1999 the management company DB Station & Service AG has been awarded the same status as the other management companies with respect to its representation on the Management Board of DB AG. Mr Dieter Ullsperger was appointed as a regular member of the Management Board of Deutsche Bahn AG, with responsibility for the sector of 'Real estate and passenger stations'.

On 30 September 1999, Dr. Johannes Ludewig retired as Chief Executive Officer of Deutsche Bahn AG with the consent of the Supervisory Board. The Supervisory Board thanked Dr. Ludewig for his enormous contribution to the company in times of difficulty.

In an extraordinary meeting on 24 September 1999, the Supervisory Board appointed Mr Hartmut Mehdorn as his successor. Mr Mehdorn entered service on the Management Board of Deutsche Bahn AG as Chief Executive Officer on 16 December 1999.

Dr. Axel Nawrocki retired from his positions as a member of the Management Board of Deutsche Bahn AG and as Chief Executive Officer of DB Reise&Touristik AG on 30 September 1999. The Supervisory Board thanked Dr. Nawrocki for his commitment in serving the company. Dr. Christoph Franz was appointed his successor for both positions, effective from 1 October 1999.

The Supervisory Board thanks the Management Board, all employees and employees representatives of Deutsche Bahn AG and of its associated companies for their performance in the financial year 1999.

Berlin, May 2000

For the Supervisory Board:



Dr.-Ing. Dieter H. Vogel
Chairman

Supervisory Board

Dr. Günther Saßmannshausen

Honorary Chairman of the Supervisory Board, Hanover

Dr.-Ing. Dieter H. Vogel

Chairman of the Supervisory Board,
– since 24 March 1999 –
Businessman, Düsseldorf

Dr.-Ing. E.h. Heinz Dürr

Chairman of the Supervisory Board
– until 24 February 1999 –
Chairman of the Supervisory Board of Dürr AG, Berlin

Norbert Hansen *

Deputy Chairman of the Supervisory Board
– since 7 July 1999 –
Chairman of the German Railway Workers' Union,
Frankfurt/Main

Rudi Schäfer *

Deputy Chairman of the Supervisory Board
– until 7 July 1999 –
Union Secretary (in retirement), Bergisch Gladbach

Christian Bormann *

Chairman of Works Council DB Netz AG, Leipzig branch,
location Erfurt, Weimar-Tröbsdorf

Niels Lund Chrestensen

General Manager of N. L. Chrestensen,
Erfurter Samen- und Pflanzenzucht GmbH, Erfurt

Elke Ferner

Secretary of State of the Federal Ministry for Transport,
Building and Housing, Berlin

Horst Fischer *

Member of Works Council DB Regio AG, Schwabach
– since 1 August 1999 –

Dr.-Ing. E.h. Dipl.-Ing. Hermann Franz

Former Chairman of the Supervisory Board
of Siemens AG, Erlangen

Horst Hartkorn *

Member of Works Council for S-Bahn Hamburg GmbH, Hamburg
– since 1 July 1999 –

Marlies Helling *

Personnel Manager for DB Netz AG, Oberursel

Heinz Hermanns *

Former Member of Works Council for Deutsche Bahn AG, Aachen
– until 31 July 1999 –

Bernhard Ivo *

Former Member of the divisional board of management
for regional transport of the German Railway Workers' Union,
Duisburg
– until 8 July 1999 –

Günter Kirchheim *

Chairman of the Group Works Council of Deutsche Bahn AG,
Chairman of the Central Works Council of DB Netz AG, Essen
– since 14 November 1999 –

Willi Klußmeier *

Former Coordinator for Works Council Affairs
of Deutsche Bahn AG, Recklinghausen
– until 30 June 1999 –

Dr. rer. nat. Hermann Krämer

Former Member of the Management Board of VEBA AG,
Seevetal

Lothar Krauß *

Deputy Chairman of the German
Railway Workers' Union, Rodenbach
– since 8 July 1999 –

Dr. h.c. Helmut O. Maucher

President of the Administrative Board
of Nestlé S.A., Vevey/Switzerland

Werner Mößinger *

Former Chairman of the Group and Central Works Council
of Deutsche Bahn AG, Bensheim
– until 30 September 1999 –

Dr. h.c. Friedel Neuber

President and Chief Executive Officer of
Westdeutsche Landesbank Girozentrale, Düsseldorf

Günter Ostermann *

Deputy Chairman of the German
Railway Workers' Union, Wunstorf
– since 8 July 1999 –

Dr. Manfred Overhaus

Secretary of State in the Ministry of Finance, Berlin

Manfred Probst *

Deputy Chairman of the Works Council
for DB Netz AG, Bad Überkingen

Albert Schmidt

Member of Parliament (Bundestag), Ingolstadt

Rolf Schökel *

Chairman of the Works Council for DB Reise&Touristik AG
Hanover branch, Hildesheim
– since 1 December 1999 –

Lothar Schote *

Former Head of the Training Center
Bad Homburg v.d.H. Deutsche Bahn AG, Mainz
– until 30 November 1999 –

Dr. Alfred Tacke

Secretary of State Ministry for
Economics and Technology, Berlin

* Employee representative on the Supervisory Board

Details of the mandates of the members of the Supervisory Board pursuant to § 285 No. 10 HGB can be found on pages 108-110.

Ladies and Gentlemen,

The past year and the first months of the current financial year have been an eventful and not always easy time for Deutsche Bahn. Progress has continued in the processes of redevelopment and restructuring. The second stage of the rail reform saw the previous business divisions of Long-distance Passenger Transport&Tourism (Reise&Touristik), Local Passenger Transport (Regio), Freight Transport (Cargo), Passenger Stations (Station&Service) and Track Infrastructure (Netz) being spun off into separate public limited companies. The halfway of the ten years set for the redevelopment process has been passed. Considerable progress has been made in this area. Since the start of the rail reform, we have invested more than € 45 billion in modernising and improving the performance of the rail system. These funds have been injected into modernising the fleet and, above all, into improving the infrastructure. At every phase, these measures have been supported by our shareholder.

As in previous years, 1999 also saw a further increase in the dynamics and intensity of competition throughout the transport markets, which was brought about by extensive liberalisation and deregulation. Both in passenger and freight transport, the railways face their main competition from other transport providers. At the same time, more and more competition is developing within the rail system itself. For this reason, we are increasingly involved in consolidating our position by implementing our own improvements and by forging new co-operative agreements and alliances with powerful partners. The aim is to determine a package of integrated solutions attuned to the wishes of our common customers. One first step in this direction is a freight transport joint venture with the Dutch railways, which we embarked on in the last financial year. Further improvements in co-operation projects with national and international railways as well as others will follow. We will always seize new developments wherever they can lead to useful solutions for our customers.

On the way to an efficient rail system we also need to examine at this half-way stage of the rail reform, whether the progress achieved to date is sufficient to secure the strong positioning that we are aiming at on the transport markets. Measures for this are our customers' requirements and our economic development and stability. Our economic data shows a need for action in this respect. Despite slight increases in sales to € 15.6 billion, we were not able to maintain our result of the previous year, with a fall to € 87 billion. However, in the 1999 financial year our most important gauge – the operating income after net interest – gave a negative reading for the first time since the start of the restructuring process. Special factors have contributed to this, such as an unfavourable market trend in freight transport and value adjustments following our conservative policy in the real estate sector and in individual projects. Additional charges arising from large-scale projects have been met not only with balance-sheet adjustments, but also with organisational measures.

However, we still have not succeeded in achieving the higher sales or productivity improvements required to compensate for the decrease in federal funding for inherited burdens arising from reunification and for the increase in depreciation and interest caused by high level of capital expenditures. We cannot be satisfied with this. A drastic reversal is needed within the current year, which will at least enable us to recognise a clear trend. All those involved are called upon to assist, particularly with regards to the enormous pent-up demand within the existing network. The railways need assistance in coping with these inherited burdens, some of which date back some 50 years.



We will be doing our homework in order to achieve a modern rail system. Our objective is clearly in sight. We want a sustainable, future-oriented railway system. Our customers demand transparent services tailored to their needs. Here too, we will be adopting new approaches and developing creative solutions in the future. In passenger transport, we will be working consistently on the increased demand for information and the desire for complete chains of mobility. The introduction of a new, transparent pricing system is one example of this. We will also make greater use than before of new forms of technology, such as the internet, to improve information and as new sales methods, to the benefit of our customers. In freight transport, one important factor for the customers are logistical integrated solutions. This too, is something we are working on. The globalisation of production is being matched by a growth in international traffic flows. This is one area in particular – especially on longer routes – where we can realise the strengths of the railways as a traffic system.

Experience derived from many industries as well as numerous studies show us that, in changing markets with intense competition, the companies which are most successful are those that concentrate on their core competencies and offer convincing service in these areas with a one-stop solution. We believe that these findings also apply to Deutsche Bahn. Accordingly, by selling shares in the Touristik Union International GmbH & Co. KG (TUI) and Deutsche Reisebüro GmbH, we have reduced our activities in the tourism sector. In the future our primary attention and the resources at our disposal will be exclusively focused on our core business.

We will, however, not succeed unless we operate as an integrated company. In order to achieve a uniform trademark, we will be improving our organisation further with effect from 1 June 2000. We want to ensure that the positive aspects of the rail reform are not once again nullified because of fragmented structures. As part of this further development of our organisation, an independent division for marketing will be established on the Management Board. At the same time certain functions will be combined more closely than before in the form of group and service functions.

Foreword

The market presence, in line with existing markets, will take place under one roof – and as one railway – with the corporate divisions of Passenger Transport, Freight Transport, Passenger Stations, Track Infrastructure and Real Estate. By combining long-distance and local passenger transport within one corporate division, we will be pushing the development of the available services towards integrated chains of mobility. All in all, we want our structures to become leaner, while simultaneously more flexible. Only in this way we will be in a position to react faster to the requirements of the different segments within the transport market and simultaneously offer a comprehensive range of services – from one cast and one supplier. This is the only way to convince customers who are not yet rail users of the benefits of the railway system.

To guarantee the future of the railways, we have to improve our results in a sustainable way. All services, investments and processes will therefore be subjected to revisions within the current year. They will be examined in terms of their cost-effectiveness and potential for improvement. The orientation of all services and processes towards the customer is only one aspect of this challenge. A significant increase in efficiency and productivity in all corporate divisions is at least just as urgent. For this to succeed, the speed with which changes take place within the company must be accelerated. We have defined extensive packages of measures in our attempts to achieve this. If systematically implemented, we expect these measures to produce a turnaround in earnings within the year.

Our aim is to make a success story out of the restructuring of the railways. My thanks go out to all our business partners and staff for their combined efforts on the journey so far and for their excellent cooperation in the last financial year. With their confidence and support we are still convinced that we will succeed in managing the tasks and challenges that lie ahead of us.

This annual report shows we have adopted a clear position on how we see the future of the railways. With respect to the development in value of the DB Group, we have refined our control instruments and for the first time we have stipulated a target rate of return for the DB Group on the basis of the capital employed in our operations. By the end of the current medium-term planning phase, i.e. by 2004, we want to have increased this rate of return to 10% through the successive implementation of our strategies and measures. We are sure that we will succeed in initiating a turnaround in the current year and in stabilising the position of Deutsche Bahn as a European transport and services provider in the years to come.



Hartmut Mehdorn
*Chief Executive Officer and
Chairman of the Management Board*

Management Board

Hartmut Mehdorn

Chief Executive Officer and Chairman of the Management Board of Deutsche Bahn AG, Heidelberg
– since 16 December 1999 –

Dr. Johannes Ludewig

Chief Executive Officer and Chairman of the Management Board of Deutsche Bahn AG, Alfter
– until 30 September 1999 –

Klaus Daubertshäuser *

Member of the Management Board of Deutsche Bahn AG, Short-distance Passenger Transport, Chief Executive Officer and Chairman of the Management Board of DB Regio AG, Wettenberg

Dr. Christoph Franz **

Member of the Management Board of Deutsche Bahn AG, Long-Distance Passenger Transport, Chief Executive Officer and Chairman of the Management Board of DB Reise&Touristik AG, Darmstadt
– since 1 October 1999 –

Dr. Horst Föhr

Member of the Management Board of Deutsche Bahn AG, Personnel, Berlin

Wolfgang Gemeinhardt

Member of the Management Board of Deutsche Bahn AG, Group Purchasing, Usingen

Roland Heinisch

Member of the Management Board of Deutsche Bahn AG, Technology, Idstein

Peter Münchschwander

Member of the Management Board of Deutsche Bahn AG, Track Infrastructure, Chief Executive Officer and Chairman of the Management Board of DB Netz AG, Bad Homburg

Dr. Axel Nawrocki

Member of the Management Board of Deutsche Bahn AG, Long-Distance Passenger Transport, Chief Executive Officer and Chairman of the Management Board of DB Reise&Touristik AG, Aachen
– until 30 September 1999 –

Peter Reinhardt

Member of the Management Board of Deutsche Bahn AG, Real Estate, Legal and Passenger Stations, Chief Executive Officer and Chairman of the Management Board of DB Station&Service AG, Friesenheim
– until 31 July 1999 –

Diethelm Sack

Member of the Management Board of Deutsche Bahn AG, Finance and Controlling, Frankfurt am Main

Dr. Eberhard Sinnecker

Member of the Management Board of Deutsche Bahn AG, Freight Traffic, Chief Executive Officer and Chairman of the Management Board of DB Cargo AG, Darmstadt

Dieter Ullsperger

Member of the Management Board of Deutsche Bahn AG, Real Estate and Passenger Stations, Chief Executive Officer and Chairman of the Management Board of DB Station&Service AG, Much
– since 1 August 1999 –

* Mr Daubertshäuser left the DB Regio AG Management Board on 31 March 2000 and will take up a new position on DB AG's Management Board with responsibility for the newly-formed Marketing Unit.

**Dr. Franz also took the Chair of DB Regio AG's Management Board as of 1 April 2000.

Details of the mandates of the members of the Management Board pursuant to § 285 No. 10 HGB can be found on pages 111 and 112.

Positioning for the future

In the next five years, we shall conclude the work on expanding and restructuring the DB Group into a modern service provider and thus make our contribution to the mobility of people and goods in Germany. As an integrated enterprise with the five corporate divisions of Passenger Transport, Freight Transport, Passenger Stations, Track Infrastructure and Real Estate, we are striving towards a position as a leading European transport and service provider. With a modernized infrastructure, we want to secure a sustainable contribution for the efficient running of traffic systems in Germany and Europe.

The overall targeting of our range of services and internal processes will be oriented systematically towards the needs of the market and the economic feasibility. In order to provide customer-oriented services, we are improving our internal processes and entering into strategic partnerships. By doing this, we intend to set standards at all added-value stages crucial to success and to explore new avenues.

New Challenges

All around us we can observe the continuous development of the European Union and the advancing reform processes within central and eastern European countries. In some cases, these involve considerable changes in economic structures. Increasing transparency – and also the introduction of the Euro in 1999 – is leading to pronounced consolidation and restructuring in numerous branches of industry. Technological leaps are giving rise to new industries; the relative boundaries between old and new industries are in a state of flux. The pace of

change continues to demonstrate a net increase.

The cross-border flows of traffic, freight and information are growing in significance. As a result of extensive liberalization and deregulation measures, price pressure has increased noticeably and is forcing companies to improve their cost structures continuously. Performance in freight transport has undergone a positive trend in disengaging itself from gross domestic product since the beginning of the last decade – not only in Germany but throughout Europe. This has also been a result of changed production structures and greater globalization.



[We modernize

the system railway and
create a competitive, customer-oriented
transport and service provider.

]



Positioning for the future

The resulting decreasing importance of traditional rail freight is forcing all European railways to reorient strategically – but with each of them adopting their own individual strategy. This cannot continue to take place simply according to national criteria. In future we see freight transport as one of the main focuses of our strategic activities.

In passenger transport, too, new challenges are arising from the population's increasing need for mobility and the merging of European nations. Higher demands are being placed on the entire chain of mobility in terms of punctuality, speed and, not least, in terms of comfort and comprehensive service. At the same time, consideration has to be given to altered patterns of mobility with a continuous increase in leisure traffic, the growing importance of services – also internationally – between urban centers as well as between these centers and the surrounding areas. Today, individual transport carriers often run into limitations – whether due to their own capacity or because external effects are no longer acceptable for third parties. Therefore, in developing new answers and systems – as is naturally also the case in freight transport – one guiding principle of corporate action must be to take into account the justified demands of current and future generations: transportation services have to be delivered in a way that should conserve resources and the environment.

Deutsche Bahn in a process of change


Since the beginning of the rail reform on 1 January 1994, Deutsche Bahn has itself been in a constant and extensive process of redevelop-

ment and modernization. The spin-off of former business divisions of Deutsche Bahn AG into independent public limited companies brought on by the implementation of the second stage of the rail reform on 1 January 1999 was a further interim step on the way to ensuring our future ability as a provider of mobility.

Positioning as a service provider in Europe

The aim is to conclude the process within the next five years and establish a position for Deutsche Bahn as a leading transport and service provider in Europe. In passenger services, we aim to employ integrated concepts to achieve a leading market position in linking cities. The same applies to local transport where rail and bus services will be employed in accordance with existing needs. In the transport of freight – apart from defending our market shares for freight especially suitable for rail transport – we wish to reinforce our position in freight with strong intermodal competition and put greater emphasis on offering complete logistical solutions. In order to offer an efficient range of transport services, it is important to deploy the various different transport carriers so as to obtain optimum benefit for the customer, and to interconnect these services with one another. Through the continued modernization of our infrastructure, we wish to contribute to the efficient running of transport services in Germany and Europe. The Deutsche Bahn Group with its offerings and service – but also with all the necessary internal processes to accompany them – is being oriented systematically towards the needs of customers and markets.

A one-stop market approach

We regard an integrated approach as an essential ingredient for market success. This is why we are striving towards a uniform market front as Deutsche Bahn, within which we can operate with the five corporate divisions of Passenger Transport, Freight Transport, Passenger Stations, Track Infrastructure and Real Estate. This continued development of the existing Group structure will be implemented on 1 June of this year. In the future, the railway will have a uniform marketing approach, using 'Die Bahn ' as its umbrella brand.

Clear strategies and measures for achieving targets

Fundamentally, the Deutsche Bahn Group has a good starting base. Measured against our traffic performance both in passenger and freight services, we are the leading European provider. We also have a broad portfolio of complementary services and are one of the largest German property owners. To improve our range of services and to achieve the required increase in profitability, we regard a further significant increase in efficiency as a crucial success factor. We are therefore focusing on the key elements in our added-value chains and the main value drivers. To improve these, extensive packages of measures have been defined in all divisions of the company. In doing so, we are aware of the fact that difficult years lie ahead. The railway will need the help of all those involved and, above all, a level playing field in competition.

Establishing future-oriented structures

We are in the process of creating a modern railway system on a sustainable basis. The measures needed for this will also involve some considerable investments in the coming years. This is particularly true for the modernisation of the network. In this context, we are already considering future-oriented structures which, because of the preparation and implementation time required, will not be achievable before 2020. However, the extensive modernization of our fleet as well as of our information and communications infrastructure generally requires programs lasting several years and is to take place in coordination with our European partners.

Deutsche Bahn as a Strong Partner

We will increase the pace of change for the benefit of our customers. To do this, while simultaneously meeting the requirements of increasing internationalization and the desire for system solutions, we will be entering strategic cooperation agreements. We want to be a strong and reliable partner in such arrangements. We can see diverse opportunities for cross-enterprise approaches to improving the range of services, competitiveness and profitability. These include lower procurement costs resulting from international cooperative ventures in the development and purchase of rolling stock, joint provision of logistic service packages or the improved use of regional sub-networks as part of our small and medium-sized enterprise initiative. In passenger as in freight transport, we will make greater use of the opportunities to improve our range of international services through cooperative agreements and partnerships.

Group Management Report

Railway Reform continues

As part of the second stage of the Railway Reform, the business units of Long-Distance Passenger Transport & Tourism (Reise&Touristik), Local Passenger Transport (Regio), Freight Transport (Cargo), Passenger Stations (Station&Service) and Track Infrastructure (Netz) of Deutsche Bahn AG (DB AG) have been transferred to the newly established companies DB Reise&Touristik AG, DB Regio AG, DB Cargo AG, DB Station&Service AG and DB Netz AG. The transfers became effective upon entry in the Commercial Register on 1 June 1999, and commercial operations commenced on 1 January 1999. The newly established companies act as management companies for the corresponding Group divisions. In addition, any participations already held by DB AG and originating in the above-mentioned business sectors were assigned to the individual Group divisions and the corresponding shares transferred from DB AG to the management companies in question. The only remaining participations held by DB AG are those not suitable for allocation to individual Group divisions.

The business activities of DB AG will focus primarily on the function of a management holding company performing the central management of the Group, with additional responsibility for certain legally dependent competence and

service centers. Controlling agreements and profit & loss transfer agreements have been drawn up between DB AG and the management companies, as well as between the latter and their major participations. This serves both the implementation of the contract-based group concept and it establishes the corporate ties for tax purposes.

Return-on-Capital-Employed concept and financial targets implemented

In support of the value-oriented management of the Deutsche Bahn Group (DB Group) a Return-on-Capital-Employed concept was implemented in 1999 as part of the new medium-term planning. It allows the business performance of the DB Group and its constituent parts to be measured as a function of the targeted yields on the capital employed in the business. Targeted rates of return have been set accordingly both for the DB Group as a whole and for the individual divisions, and these must be met by the year 2004 in order to qualify for full access to the capital markets. A target of 10% has been set for the DB Group as a whole. Decisive factors in achieving this target are that all of those involved make their timely contributions and that the measures required are accompanied and supported both by the staff and by political bodies.



Ongoing development of management structure

Following the end of the financial year, on 1 March 2000 the Supervisory Board approved the future development plan for the management structure as proposed by the Management Board. According to this plan, the business activities of the DB Group will be divided into corporate divisions as of 1 June 2000. The Passenger Services division encompasses all activities in the fields of Long-Distance Passenger Transport & Tourism and Regional Passenger Transport, with the position of Chairman of the Board of the management companies (DB Reise&Touristik AG, DB Regio AG) to be held under the joint responsibility of one person in future. The other corporate divisions are the Freight Transport division, the Passenger Stations division, the Track Infrastructure division, and the newly created Real Estate division. The business activities within the individual divisions are divided into strategic business units. The legal structures remain unchanged; this applies particularly to DB Netz AG. Certain service functions capable of being centralized will however be gathered in operational centers to increase efficiency.

The statements and divisional reports that follow take this revised structure into account wherever possible.

Overall economic situation

Economic trends

Following the slowdown of the previous year, the world economy recovered in 1999. World-wide GDP rose by 3.0% (previous year: +2.5%).

The increase in the global trade volume at 3.8% (previous year: +3.6%) once again exceeded the growth in global production, thus confirming the continuing globalization of economic ties.

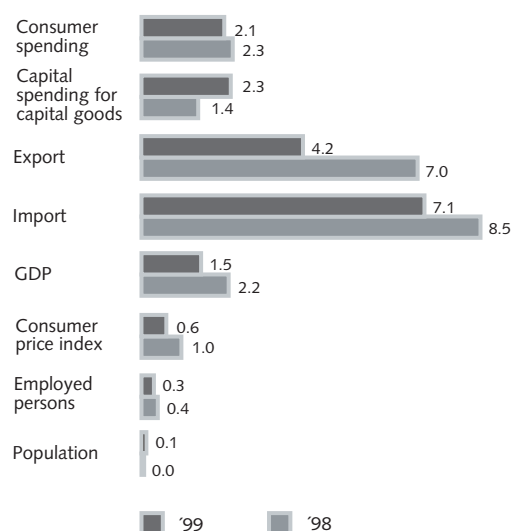
The main driving force in the development of the global economy continued to be the USA where economic growth (+4.2%) was maintained at the previous year's high level (+4.3%). The downturn in the European economy that took place in autumn 1998 and which was primarily the result of developments in external trade was not overcome until the second half of the year 1999. In spite of this recovery over the course of the year, at approximately 2.2%, Gross Domestic Product growth of the European Union remained significantly below the previous year's figure (+2.7%). Pronounced economic differentials existed within the European Union. EU member countries that are highly dependent on exports, such as Germany and Italy, recorded below-average growth figures, whereas neighboring countries such as France, The Netherlands and Austria continued to enjoy high growth rates.

In Germany the drop in demand for exports at the turn of financial year 1998/99 – a consequence of the financial and economic crises in South East Asia, Latin America and Russia during autumn 1998 – led to a marked economic downturn that lasted until well into the first half of the year 1999. During the second half of the year the economy recovered as a result of the improved export situation. The initial lull in the economic performance meant that GDP growth, at 1.5%, remained well below the previous year's value of 2.2%.

Domestic demand held the economy steady for the year overall. Private consumer spending – benefiting from rising real incomes – recorded real growth of 2.1% (previous year: +2.3%). Spending on capital goods also rose by 2.3% in real terms (previous year: +1.4%), with strong increases in investments on plant and equipment and other fixed assets were contrasted by stagnating capital expenditures on new construction. The growth rate for exports dropped from 7.0% for the previous year to 4.2%. The number of gainfully employed persons rose only slightly (0.3%) to an average of 36.1 million persons (previous year: +0.4%). The population as a whole grew by 0.1% to average 82.1 million for 1999 (previous year: ±0.0%). The level of prices in Germany remained more or less stable, despite the rise in the price of crude oil and the deterioration in the external value of the Euro. Consumer prices only climbed by 0.6% (previous year: +1.0%), though the trend was picking up towards the end of the year.

Economic environment Germany

Relative change year-on-year in %



The economy in the social context

Fiscal policy in Germany and in other ECU countries exerted a mild dampening effect on the economy as a consequence of the implementation of budget consolidation measures. In Germany the relief granted to private households in the form of reductions in levies and charges and increases in child allowances were more than compensated for by higher burdens on corporations and the introduction of the eco tax.

The monetary environment remained favorable overall. The introduction of the Euro at the beginning of 1999 was well received by the financial markets. The low level of interest rates and the devaluation of the Euro that took place over the course of the year provided definite stimuli for the economy. However, the developments of individual exchange-rate parities are of little consequence for the DB Group.

The liberalization of Germany's electricity market led to falling electricity prices, and the DB Group will be in a position to benefit from this development as expiring contracts are renewed. The liberalization in Germany's electricity market is causing a shift in primary energy use from coal-fired power stations to gas power stations. There will be a corresponding drop in the transport volume relevant to the operations of DB Cargo. The reduction in crude oil production – once again more tightly managed on the part of OPEC – and the gains made by the US dollar caused prices for crude oil, heating oil and fuel

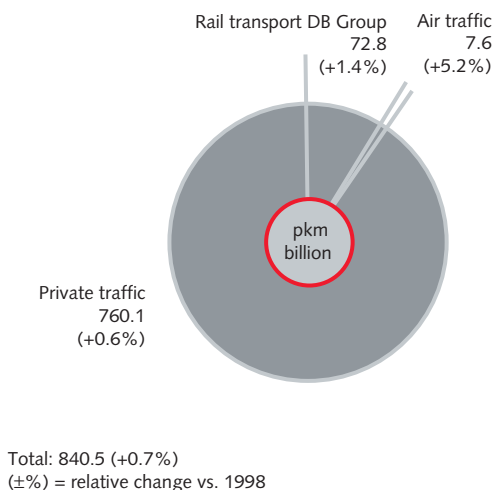
to rise strongly, and this had a direct impact on the diesel fuel purchases by the DB Group, while at the same time boosting the demand for rail passenger services.

Development & performance of transport sectors

Passenger Transport

According to preliminary figures, growth in traffic performance, measured in passenger kilometers (pkm), in the German market overall flattened slightly with 0.7% (previous year: +0.8%) and reached around 840 billion pkm. This trend was affected by the moderate developments in motorized private traffic, which dominates the passenger transport sector with a market share of 90%. Traffic performance of private road traffic only grew by 0.6% during 1999 (previous year: +0.8%). This was mainly due to the strong fuel price hikes, which amounted to approximately 25% for the year.

Modal split in passenger transport



Passenger rail transport of the DB Group reached a total of 72.8 billion pkm for 1999, equivalent to an increase of 1.4% (previous year: +0.3%) above the market trend. The long-distance transport of the DB Reise&Touristik improved its overall transport performance by 1.0%, to reach 34.9 billion pkm (previous year: -1.7%). The growth in business travel and the increasing numbers of private trips had a positive impact. The local passenger transport of the DB Regio boosted transport performance by 1.8%, to 37.9 billion pkm (previous year: +2.2%). Besides the positive impulses received from the labour market – especially in terms of the number of apprentices – local traffic also benefited from the high level of acceptance of special offers such as the 'Bayern Ticket' in Bavaria or the 'Rheinland-Pfalz Ticket' in Rhineland-Palatinate.

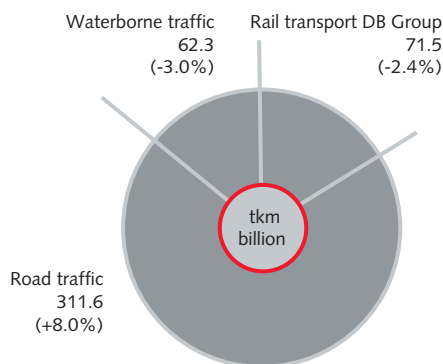
Germany's domestic air traffic once again recorded above-average growth in traffic performance at +5.2% (previous year: +9.4%). However, this market segment only accounts for one per cent of the total market. The year 1999 was marked by a gradual deterioration in average revenues for airlines. A contributing factor was the growing competition from European 'low-cost airlines' offering basic 'low-level' services and performing strongly in direct sales.

Freight Transport

Based on partly preliminary figures, transport performance in the German market overall (road transport on distances greater than 50 km, DB rail transport, inland waterway transportation) grew by 4.5%, to 445.4 billion ton-kilometers (tkm) (previous year: +4.7%). The increase was the result of the economic upturn

– particularly during the second half of the year – and the corresponding increases in transport volume.

Modal split in freight transport



Total: 445.4 (+4.5%)
(±%) = relative change vs. 1998

Road freight transport was the only mode to record a positive growth rate, with projected growth set at of 8% (previous year: +5.9%). This unusually high growth rate was attributable not only to the economic upturn, but also to special factors (change in statistical calculation method). The presence of service providers from Eastern Europe is leading to more intense competition and to lower prices, which in turn is causing additional traffic volume to shift from other traffic carriers to road freight transport. Capacity was expanded, especially in international traffic.

The rail transport of DB Cargo saw a drop in transport performance by 2.4%, to 71.5 billion tkm (previous year: +1.2%). This was mainly due to a decline in the demand for the transportation of mining products (ores, metals, coal).

The drop in mineral oil consumption and the attendant decline in oil transportation also contributed to the decrease in traffic performance. Among the main traffic categories (domestic traffic, imports, exports, transit trade) DB Cargo recorded its best performance in imports. At 50.5% of total transport volumes of DB Cargo, its share of international transport remained constant.

Domestic shipping, which is also heavily dependent on bulk freight transport, had to absorb a drop of approximately 3% (previous year: +3.4%). The decline was in part due to transport stoppages caused by flooding during February and May of 1999.

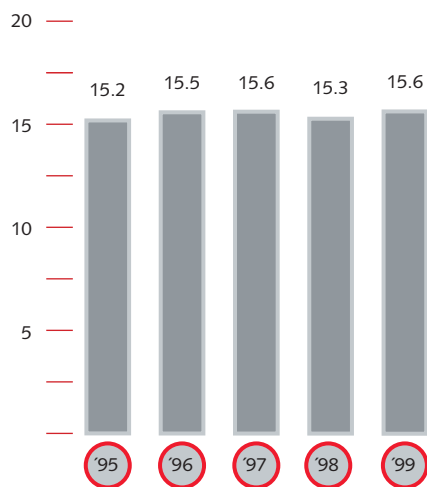
Business performance

Revenues trends

During the 1999 financial year the Group recorded € 15.6 billion in revenues. The 1.8% growth rate on the previous year is mainly due to the higher revenue figures from passenger transport. Approximately 0.4% of total growth is attributable to the inclusion, for the first time, of ATG Autotransportlogistic GmbH in the consolidated figures. The Freight Transport division's high level of dependency on the economic performance of industries with strong ties to the railways (mining, construction, chemicals) and the flat performance of these industries in financial year 1999 prevented stronger growth.

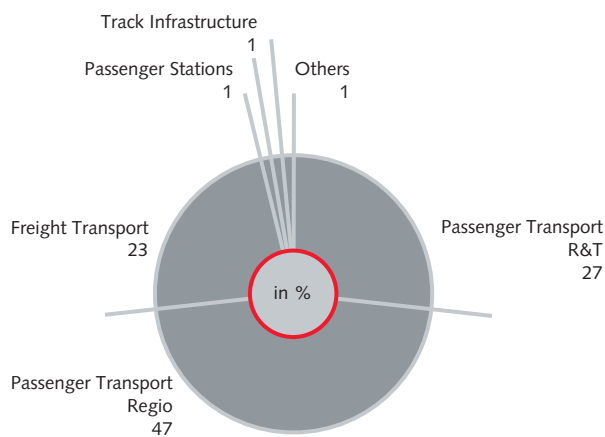
Group Management Report

Revenues
in € billion



The revenue structure has remained virtually unchanged. The Passenger Transport division managed to increase its lead slightly as the division with the highest revenues by contributing 73.6% (previous year: 73.1%) of total revenues. The Freight Transport division's share dropped slightly, however, from 23.6% to 22.7%. At approximately 1% each, the Passenger Stations and Track Infrastructure divisions contributed, as in the previous year, only marginally to the Group's revenues as their respective services are performed primarily within the Group. The total contribution to revenues by other Group companies is less than 2%.

Share of revenues of corporate divisions



Total: € 15.6 billion (+1.8% vs. 1998)

With € 11.5 billion in revenues, the **Passenger Transport** division exceeded the previous year's figure by 2.5%. Both local and long-distance passenger transport made a contribution to this increase. The business unit DB Reise& Touristik (long-distance passenger transport) managed to boost its revenues by 3.3%, to € 4.2 billion. This growth was driven predominantly by the product segment of ICE trains. The business unit DB Regio (local passenger transport) recorded € 7.3 billion in revenues, exceeding the previous year's total by 2.0%. The increase was chiefly the result of the positive trends in revenues from ticket sales. Payments from ordered service contracts with the federal states or with the relevant orderer organizations for local rail passenger transport remained largely unchanged at € 4.3 billion (up +0.7% over the previous year).

In the **Freight Transport** division, DB Cargo experienced a drop in revenues of 2.3%, to € 3.5 billion. If it had not been for the first-time inclusion of ATG Autotransportlogistic GmbH in the consolidated figures, the drop in revenues would have amounted to a full 4.0%. Reasons for the decrease are primarily the lack-luster performance in areas of importance for rail freight transport – especially the mining and construction industries – and the price pressure in the freight transport sector.

The **Passenger Stations** division achieved revenues of € 184 million (up 2.8% on the previous year); the major part of this figure is generated by marketing railway station premises to third parties. More pronounced growth was temporarily prevented by construction activities in passenger stations.

The **Track Infrastructure** division boosted revenues by 27.5% to a current € 153 millions. The revenues were derived from train-path proceeds from, meanwhile, more than 150 non-Group railway companies, and from construction services.

Elements of the income statement

At € 17.5 billion, gross performance of the Group topped the previous year's figure by 2.4%. Apart from the growth in revenues of 1.8%, the increased volume of internally produced and capitalized assets – up by 11.3%, to € 2.0 billion – also played a part. Other operating income amounted to € 2.5 billion, approximately 3.3% below the previous year's figure. Overall operating income increased by

1.7%, to reach € 20.0 billion. Total operating expenditures amounted to € 19.7 billion. In accordance with the agreement with the Federal Government dated 23 December 1994, the DB Group receives federal grants for the purpose of closing the technical and organizational gaps of the former Deutsche Reichsbahn. These grants are reduced in volume according to a schedule, and will cease completely in 2002. The reduction in payments must be compensated for by way of productivity gains. In the year under review, this was not achieved in its entirety. Total expenditures were up 2.4% year-on-year. Of this, 1.9 percentage points were the result of the reduction in the above-mentioned federal grants.

It was possible to reduce personnel expenses by 1.2%, to € 8.3 billion. Personnel expenses per employee increased by 3.5% on the previous year. In terms of gross performance, the proportion of personnel expenditure dropped from 49.0% to 47.3%.

Cost of materials rose by 1.4%, to € 6.7 billion. The cost of materials as a proportion of gross performance dropped from 38.6% to 38.2%.

Depreciation was up 13.1%, to € 2.0 billion, as a result of the high level of investments in recent years. The increase in Other operating expenses from € 2.5 billion to € 2.8 billion is mainly due to special factors related to ongoing investment projects.

Net interest income was € -158 million (previous year: € -89 million). The demanding capital expenditures program led to an increase in capital market financing and hence in interest expenses. However, at 0.8% of total expenditures, it remained very low.

Net income from investments of € -55 million (previous year: € -143 million) chiefly comprises net income from equity interests in associated companies, or expenditure related to the assumption of losses and depreciation on equity interests. The improvements are mainly due to the effects of equity valuations of associated companies.

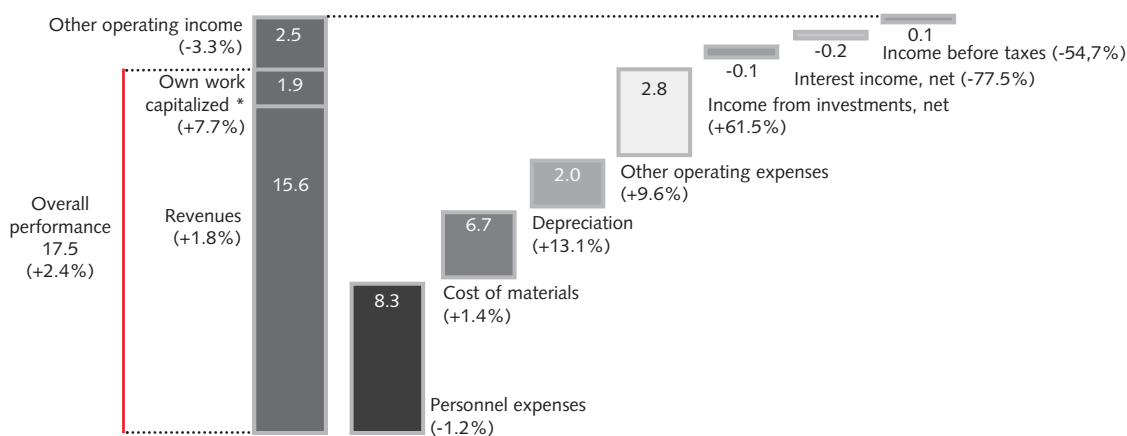
On balance, the Group recorded pre-tax earnings of € 91 million (previous year: € 201 million) for financial year 1999, and € 87 million in income for the year (net income before minority interests; previous year: € 170 million).

Operating profit

From its operations, the DB Group generated EBITDA (earnings before interest, taxes, income from the disposal of equities, depreciation and amortization) amounting to € 2,036 million (previous year: € 1,997 million). After deduction of depreciation, this is reduced to EBIT (earnings before interest, taxes, income from the disposal of equities) of € 260 million (previous year: € 71 million). Operating profit (after interest, not including income from the disposal of equities) was negative for the first time and ended up at € -87 million (previous year: € 171 million).

Statement of Income

in € billion



(±%) = relative changes vs. 1998

* less inventory changes

When assessing earnings performance, it must be borne in mind that interest expenses and depreciation rose by € 297 million as a result of the considerable investment activity, while earnings were at the same time affected by the reduction of € 353 million in federal compensation payments for special burdens in relation to the former Deutsche Reichsbahn, such as surplus personnel and increased material costs. It was not possible to absorb these factors quickly enough on the cost side. A partial offset by higher growth in revenues was hampered by the unfavorable trends in freight transport. An amount of € 153 million was transferred to provisions to cover potential risks, such as those associated with the handling of large-scale projects. In addition, expenditures on restructuring measures amounted to approximately € 307 million (previous year: € 468 million).

Added value

The performance of work and services of the DB Group for the year 1999 generated € 8.6 billion in added value. This is equivalent to a drop of € 233 million, or 2.6% compared to the previous year. Almost all of the added value is generated in the domestic market.

The largest share by far (96.5%) of the added value was distributed to staff (previous year: 95.1%). The proportions of added value going to investors and to public authorities are relatively minor.

Generation of added value	1999 in € million	1998 in € million
Overall performance	17,521	17,104
+ Other operating income	2,511	2,596
Overall operating income	20,032	19,700
– Cost of materials	-6,688	-6,595
– Other operating expenses	-2,790	-2,546
– Depreciation (fixed assets)	-1,965	-1,737
Added value	8,589	8,822

Distribution of added value	1999 in € million	1998 in € million
Employees	8,285	8,389
Public authorities (Taxes)	4	31
Creditors	158	89
Shareholders (incl. minority interests)	142	313
Added value	8,589	8,822

Balance-sheet structure

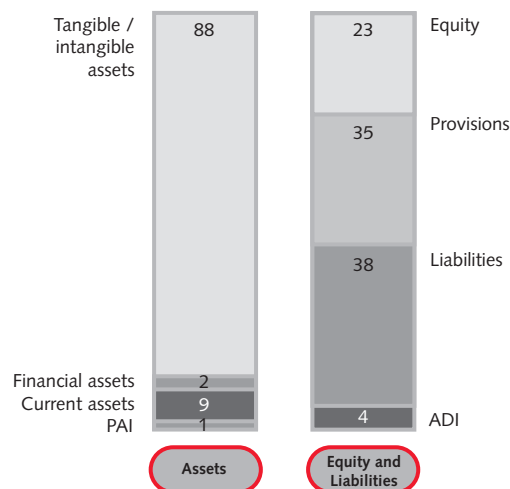
The balance sheet total increased by 6.4%, to € 37.2 billion in financial year 1999. As in previous years, the increase is largely due to the high level of capital expenditures in fixed assets. Fixed assets (€ 33.5 billion; +5.5% year-on-year) account for 90.0% of total assets (previous year: 90.8%).

At € 8.7 billion, the level of equity capital was 2% above the previous year's figure. The equity ratio fell from 24.4% to 23.4% as a result of the higher growth in the balance sheet total. Long-term provisions and liabilities account for 56.9% (previous year: 58.9%), while short-term provisions and liabilities make up 19.7% (previous year: 16.6%) of total capital. Equity and long-term debt therefore cover 89.2% of fixed assets (previous year: 91.9%).

The analysis of the capital structure needs to take into account the fact that at € 6.3 billion (previous year: € 8.3 billion), a significant proportion of the liabilities consists of interest-free Federal Government loans provided for infrastructure investment. Financial debts (liabilities subject to interest payments) increased from € 2.5 billion to € 4.2 billion, but at 11.3% of total capital as at 31 December 1999 their share remains moderate. The significant reduction in interest-free loans is on the one hand due to a partial conversion of interest-free loans into investment grants, and on the other it results from the DB Group's acquisition of redemption commitments falling in the years 2025

Balance sheet structure

in %



Balance sheet total: € 37.2 billion (+6.4% vs. 1998)

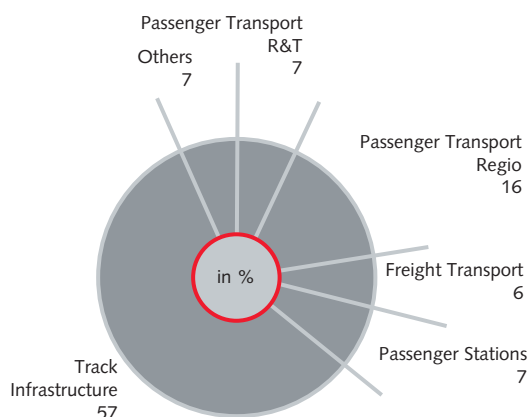
to 2041. These redemption commitments were purchased at market value. This also explains the increase in accruals and deferred income.

Capital expenditures

Gross capital expenditures on fixed assets of the Group reached an all-time high in financial year 1999. It amounted to € 8.4 billion, or € 0.7 billion (+9.3%) above the already high level of the previous year.

The high level of capital expenditures in the Track Infrastructure division is mainly responsible for this increase; with a volume of € 4.8 billion, the division remains the main focus for the Group's capital expenditures. The largest single project by far was the new Cologne-Rhine/Main line, with an investment volume of € 0.8 billion.

Gross capital expenditures



Total: € 8.4 billion (+9.3% vs. 1998)

Capital expenditures in the Passenger Transport and Freight Transport divisions were mainly for the acquisition of new rolling stock, as part of extensive modernization programs stretching over several years. Investments in the Passenger Stations division featured a multitude of station modernization measures throughout Germany.

Based on the relevant legal regulations, investments in infrastructure are on principle financed by means of interest-free Federal Government loans, investment grants netted with tangible fixed assets, and to a lesser extent through funds obtained under the Local, Regional and Municipal Traffic Financing Act (Gemeindeverkehrsfinanzierungsgesetz) and the Railway Crossing Act (Eisenbahnkreuzungsgesetz). During financial year 1999, the DB Group again made a significant contribution to capital expenditures in infrastructure from internal funding.

The Group's **net capital expenditures on fixed assets** after deduction of non-repayable investment grants amounted to € 3.2 billion (previous year: € 3.0 billion).

Capital expenditures on financial assets, at € 0.1 billion (previous year: € 0.2 billion) were of little significance for the DB Group.

Financial situation

Financial policy

The company DB AG is the treasury center for the DB Group. Its role is to ensure that all companies within the Group have access to financial resources for the purpose of borrowing or investing, subject to the best possible quantitative and qualitative conditions. Before funding is sought from outside sources, a short and long-term adjustment of financial resources within the Group is carried out.

In the event of external borrowings, DB AG takes out short-term loans in its own name, whereas long-term funds are obtained through the Group's finance company, DB Finance B.V., Amsterdam/The Netherlands. These funds are then passed on to the Group member companies in the form of time deposits or loans. This concept secures a risk and resources pooling for the DB Group, leading to a concentration of the Group's substance and earnings, to an optimum utilization of synergistic effects and a minimization of refinancing costs.

Financing

Capital requirements for the financing of investments for 1999 – after deduction of the inflow of funds (net) from investment grants, interest-free Federal Government loans and the sale of assets – totaled € 3.8 billion. The majority of this amount (55%) was funded from the Group's cash flow.

Cash flow before tax increased by € 0.1 billion, to reach € 2.1 billion. The increase of 6.1% year-on-year was mainly due to the higher EBITDA. The ratio of cash flow to revenues continued to improve, to 13.5% (previous year: 12.9%).

The high volume of investments leads to a temporary but planned exceeding of the capacity for internal financing, as was also the case in 1999. To cover the difference between the outflow of funds for capital expenditures and the inflow of funds from ongoing business operations, DB Finance B.V. floated a 10-year bond issue amounting to more than € 1 billion with a coupon payment of 4.875% in June 1999. This issue was topped up by € 350 million in November. The successful placement of the first benchmark Eurobond received a significant boost through the additional quotations in Paris and Milan. About 80% of the issue volume was placed outside Germany. In addition, a loan of more than € 400 million was obtained through Europäische Gesellschaft für die Finanzierung von Eisenbahnmateriale (EUROFIMA), Basel/Switzerland.

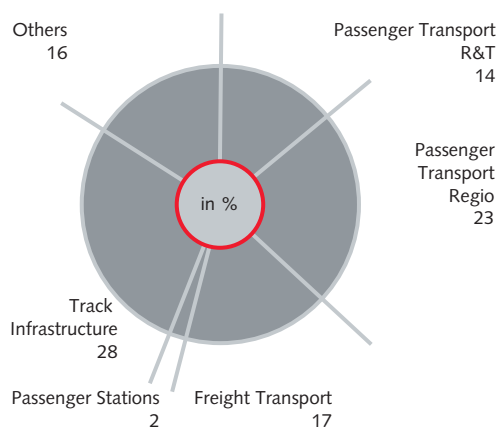
Financial debt rose to a total of € 4.2 billion (previous year: € 2.5 billion). Liquid funds dropped to € 0.3 billion (previous year: € 0.4 billion). In the short-term sector the DB Group had guaranteed credit facilities of approximately € 1.8 billion as well as the Multi-Currency Multi-Issuer Commercial Paper program of € 1 billion (previous year: DM 2 billion) at their disposal by year end. These financing instruments were not utilized as at the balance-sheet date.

No significant leasing transactions were carried out in financial year 1999.

Employees

The number of employees in the Group dropped from 252,468 as at 31 December 1998 to 241,638 as at 31 December 1999 (-4.3%). The average number of employees for the year was 244,851, which was about 5.5% below the previous year's figure.

Employees



Total: 241,638 (-4.3% vs. 1998)

The drop in numbers, which was based on improvements in processes and structures and on the resultant productivity gains, was realized by way of natural fluctuations and through socially acceptable reduction measures.

The training quota of the Group – adjusted by the effects stemming from DB Arbeit GmbH – of 6.1% (previous year: 6.4%) remained at a high level.

Research & Technology

As a service enterprise, Research & Technology (R&T) does not constitute a business purpose in itself for the DB Group, but rather it acts in support of the Group's primary business goals. R&T activities of the DB Group primarily focus on ongoing technological development of the total rail system in order to strengthen its competitive position.

The crucial interface with the operating divisions is the Research and Technology Center (RTC) of DB AG. It is one of the most modern R&T facilities for railway systems in Europe. Its purpose is to ensure faster and more efficient implementation of innovations in railway technology. The tasks of the RTC focus on two key areas. The first of these is to conduct research and development work, with special emphasis on safety, mobility, cost reduction (for example, by reducing energy consumption) and noise reduction. The other main area is the performance of service tasks, such as measures to utilize synergistic effects arising within the integrated railway system, or accompanying of the development and introduction of rolling stock and infrastructure systems.

In the area of Research & Technology, Deutsche Bahn enters into cooperative efforts both with other railway companies and with suppliers. There is also an intense exchange with research centers at universities and elsewhere.

For 1999, expenditure on Research & Technology was € 85 million. At the end of the year, the RTC employed 743 people at its three locations in Germany.

Purchasing

Purchasing on behalf of the Deutsche Bahn Group is coordinated by the Board Division Purchasing. The central organization of purchasing activities allows the Group's requirements to be bundled, and this ensures that the Group can take advantage of any synergistic effects in terms of quantities, products and deliveries, i.e. economies of scale. The Group's purchasing operations were optimized further by making use of modern information and communications technologies.

During the 1999 financial year, the DB Group awarded contracts worth approximately € 11.5 billion (previous year: € 11.7 billion), making it one of the biggest domestic contracting entities. The total contract volume is divided up into the following four major procurement sectors:

- Construction and engineering services:
€ 4.3 billion (previous year: € 3.8 billion).
- Industrial products:
€ 3.4 billion (previous year: € 4.3 billion).
- Services:
€ 2.4 billion (previous year: € 2.2 billion) and
- Energy and fuel:
€ 1.4 billion (previous year: € 1.3 billion).

At 51% (previous year: 29%) a high proportion of contracts was awarded to small and medium-sized companies, especially in the construction services sector. Contracts awarded directly to foreign companies amounted to € 0.2 billion, thus remaining below the previous year's level (€ 0.3 billion). In order to obtain favorable terms and conditions and simultaneously to counter the trend towards greater concentration in certain supplier markets, the DB Group will boost its international procurement marketing efforts, particularly in the converging European economic area. In the medium term, DB Group expects an increase in the volume of international purchasing.

The liberalization in the electricity market has been used to the Group's advantage. For traction and other electrical energy needs, existing and in some cases long-running contracts have been re-negotiated. Furthermore, framework agreements have been concluded that provide the benefits of pooling in major regional supply areas. The DB Group is also supporting the creation of an energy exchange in Germany.

Despite the slight drop in the volume of fuels purchased, the increase in the oil price, the appreciation of the US dollar and the increase in the mineral oil tax together meant that the cost of fuel went up by 17.3%, to just under € 0.4 billion.

The high volume of procurement gives the purchasing unit a great deal of leverage on behalf of the DB Group, and it is envisaged that these potentials can be exploited to a greater degree in future. Company-wide standardization of materials and products purchased will

provide opportunities for lowering specific costs further. Especially in the procurement of vehicles, this will allow not only purchase prices, but also overhaul and maintenance costs to be reduced significantly. At the end of 1999 the French SNCF and Deutsche Bahn agreed upon a joint approach for the specifications of the development of the fourth-generation high-speed trains – an agreement which, if there is interest, is open to other parties – in order to achieve economically more viable scales of production.

With greater transparency – not least as a result of the Internet – and the creation of new purchasing exchanges (business-to-business models), Deutsche Bahn is anticipating further opportunities for optimization in years to come.

Further particulars

'Y2K' compliance

The DB Group had started early with preparations for dealing with possible effects of the date change from 1999 to 2000, with the 'Certification 2000' and 'Year 2000 Group-wide' projects. Both in operations and in the commercial area the millennium change was successful.

Changeover to the Euro

The DB Group has been focusing on the introduction of the Euro since the end of 1995. The coordination of all Euro-related activities is managed by a project team. Since 1 January 1999, customers have been able to receive invoices denominated in Euro, and passengers have been able to make non-cash payments in Euro using the Service Centers. The switch to

the Euro as the internal currency will take place on 1 January 2002. This date takes into account the domestic orientation of the DB Group, the high proportion of transactions conducted using cash, the opportunities of supplementing existing IT systems in various stages with Euro components as part of scheduled investment programs, and the close ties to government institutions, for which the changeover date has been set to coincide with the end of the dual-currency phase.

Changes in equity holdings

Implementation of Railway Reform, Stage II

As part of the second stage of the Railway Reform, the business areas of Long-Distance Passenger Transport&Tourism (Reise&Touristik), Local Passenger Transport (Regio), Freight Transport (Cargo), Passenger Stations (Station&Service) and Track Infrastructure (Netz) of Deutsche Bahn AG (DB AG) have been transferred to the newly established companies DB Reise&Touristik AG, DB Regio AG, DB Cargo AG, DB Station&Service AG and DB Netz AG. The transfers became effective upon entry in the Commercial Register on 1 June 1999, and commercial operations commenced on 1 January 1999. As part of a spin-off and outsourcing plan, these new companies were allocated numerous equity holdings previously held by DB AG. The allocations were determined on the basis of each company's field of activities.

In addition to the above-mentioned divisions, further sectors – mainly service units – were transferred to newly established companies in the course of so-called optional spin-offs.

ATG Autotransportlogistic GmbH

By acquiring a further 25% of shares in ATG Autotransportlogistic GmbH, Eschborn, from VTG-Lehnkering AG, Duisburg, the company DB Cargo AG increased its holding in the company to 75%.

Mannesmann Arcor AG & Co.

The shareholding by DB AG in Mannesmann Arcor AG & Co., Frankfurt a. M., dropped from 25.1% to 18.17% in the past financial year, because DB AG decided not to participate in the capital increase effected by Mannesmann Arcor in the course of its acquisition of the fixed-network provider o.tel.o from VEBA and RWE.

Touristik Union International GmbH & Co. KG (TUI)

In the continuing effort to focus on core business activities, and in a time of increasing consolidation in the tourism sector, the DB Group decided to reduce the commitment of resources in tourism holdings in favor of the core business. The 25% equity holding in Touristik Union International GmbH & Co. KG, Hanover, was sold to Preussag AG, Hanover.

Bahntechnik Kaiserslautern GmbH

In mid-1999, DB Cargo AG transferred its Kaiserslautern plant to the company Bahntechnik Kaiserslautern GmbH, Kaiserslautern, ahead of the sale of 49% of shares to Karl Georg Bahntechnik Verwaltungsgesellschaft mbH, Neitersen. The company Bahntechnik Kaiserslautern is engaged in the manufacture, repair and maintenance of commercially utilized railway vehicles and components.

DB Verkehrsbau Logistik GmbH

In 1999 the company DB AG took over the outstanding shares of third parties (49%) in the company PLASA Planungsgesellschaft Bodensanierung Homburg mbH, Homburg (Saar). The company was then sold to DB Cargo AG, the commercial scope was expanded considerably, and the company's name changed to DB Verkehrsbau Logistik GmbH, with its new headquarters in Mainz. Following an increase in the share capital, DB Cargo AG now holds 95% and DB Netz AG the remaining 5% of shares. The company offers comprehensive transportation and logistics services in connection with the supply of construction materials to and removal of waste from (track) construction sites.

Risk report

Every commercial activity contains a certain degree of risk, and management therefore needs to be aware of any such risks. It is the intention of the DB Group to exploit opportunities in appropriate ways while limiting risks by means of qualitative and quantitative analyses and controls to the greatest extent possible. This calls for early recognition of changes in the business environment as well as of the Group's own requirements for action, to ensure materially and commercially sound results.

Risks inherent in commercial activity

The operative risks for the DB Group include economic trends and at times cyclical demand patterns. The main factors acting on passenger services – private consumption, the number of

people gainfully employed, population figures – are rather stable at present. In freight transport, the most important factors are the demand for the transportation of consumer goods, mining, mineral oil and chemical products as well as construction materials, all of which may be subject to cyclical fluctuations. Due to the limited flexibility to adapt on the production side, the effects of demand fluctuations on the earnings situation are usually felt immediately.

Other major risks are:

- Reduction in earnings and/or budget overruns due to belated or inadequate provision of network infrastructures and, respective operating programs
- Technical aspects (reliability and availability of technical systems or of control mechanism applied to them)
- Changes in the commercial environment in general (demand behavior on the part of customers and of regional governmental bodies, shifts in traffic flows)
- Ongoing liberalization in the European transport markets (more intense competition)
- Changes in the social context.

Risk management

The DB Group as a transport services provider considers adequate risk management to be a fundamental prerequisite for its commercial operations. This is particularly true in the technical field, in the implementation of safeguards in the operation of transportation facilities, and in the prevention of risks of failure or accident.

The principles underlying the risk policy are formulated by the Management Board of DB AG and implemented in the individual operative units. The Group's strategic plan comprises a systematic analysis of both market and competition, which allows not only the identification of sales opportunities but also the early recognition of risks associated with the market and competition. The responsibility for managing risks arising from operations rests primarily on the individual Group member companies. They are responsible for the constant monitoring and evaluation of risks, and for developing appropriate countermeasures. In view of the strong interdependence within the 'integrated railway', DB AG takes over the responsibility for Group-wide coordination of measures.

A major component of the Group-wide risk management is a detailed reporting system. In the course of the monthly planning and budgeting process, all Group companies report to the DB AG controlling department the relevant key statistics regarding business performance, a comparison of actual vs. planned performance, as well as any signs of risks associated with future developments. In addition, special early-risk-detection systems have been introduced in the management companies of the corporate divisions over the past financial year, providing DB AG with detailed quarterly reports. Any risks materializing suddenly or misdirected developments must be reported immediately. Acquisition projects are always subject to a heightened level of supervision.

In Treasury operations, the general limitation of trading business (money market operations, securities transactions, derivatives business) to DB AG enables the simple implementation of organizational measures for limiting business risks according to the German Business Supervision and Transparency Act (KonTraG). The central Finance and Treasury department is responsible for the Group's refinancing, and it is organized in accordance with the requirements set out for credit institutions engaged in conducting financial business activities, and meets the criteria derived from those requirements. Above all, these include limiting and monitoring credit risks, market price risks and liquidity risks arising from trading operations. The results of all regularly conducted risk assessment procedures are effected the Treasury.

The Internal Auditing department performs its controlling duties independently of any of the corporate divisions and of the Group companies, and reports directly to the CEO of DB AG. Internal Auditing works according to a yearly schedule of audit programs and performs ongoing checks of the efficiency of the safeguarding instruments and control systems, as well as monitoring their appropriate use. On occasion, special audits are commissioned – for example, in handling large-scale projects.

Where risk of damage cannot be ruled out, Deutsche Bahn has taken out insurance coverage to limit the financial consequences of any potential damages claims and liability risks against the DB Group. Even if the sums insured cannot provide full coverage against any and all possible risks, it can be assumed that the effects of any damages claims on the financial situation of the DB Group would not threaten its existence.

Based on current risk assessment, no risks capable of threatening the Group's continued existence are discernible, now or in the foreseeable future.

The development of the DB Group's risk management is an ongoing process in order to meet, now and in future, the continually evolving challenges thrown up by the market, competition and the general business environment. The 'Balanced Scorecard' ('BahnStrategieCard') currently being implemented will lead to higher transparency of processes, and hence an improvement in risk management, and it will make rapid countermeasures possible, should they be required.

Report by the Management Board on relations with associated companies

The Federal Republic of Germany is the sole shareholder of DB AG. Pursuant to Sect. 312 of the German Corporation Act (AktG), the Management Board of DB AG has compiled a report on relations with associated companies. The report concludes with the following statement:

'We hereby declare that, according to the circumstances known to us at the time the legal transactions were entered into, our company received adequate compensation in each and every legal transaction.

During the year under review, no measures were taken or omitted on the initiative or in the interests of the Federal Government or of any company associated with it.'

Subsequent report

Joint Venture in freight transport

On 1 January 2000, the shares held by DB AG in DB Cargo AG and the shares held by NS Groep N.V., Utrecht/The Netherlands in NS Cargo N.V. (now Railion Benelux N.V.), Utrecht/The Netherlands, were transferred to Railion GmbH, Mainz. The shares in Railion GmbH are held by DB AG (94%) and NS Groep N.V. (6%).

The consolidation of the freight transport businesses of DB AG and NS Groep N.V. in the new company Railion GmbH provides a platform suitable for further cooperative ventures in the field of European transportation and logistics services. Further standardization of operating processes and joint utilization of modern systems will continue to improve the competitiveness of the two freight transport companies. Railion GmbH will act purely as a financial holding company for the time being, while central functions, such as marketing, distribution, finance and controlling, personnel and legal issues, operational and technical management, the CustomerServiceCenter ('KundenServiceZentrum'), production and technology remain with DB Cargo AG and Railion Benelux N.V., respectively.

The controlling and profit-transfer agreement between DB AG and DB Cargo AG has been cancelled. Starting with the financial year 2000, a controlling and profit-transfer agreement now exists between DB AG and Railion GmbH on the one hand, and between Railion GmbH and DB Cargo AG on the other.

Deutsches Reisebüro GmbH

Effective as of 1 January 2000, the company Deutsches Reisebüro GmbH (DER), Berlin, a wholly-owned subsidiary of DB Reise & Touristik AG, was sold to REWE-Handelsgruppe, Cologne. The tourism activities of the DB Group are thus limited mainly to the business of AMEROPA-REISEN GmbH, Bad Homburg, a company specialising in organising tours involving rail travel.

Participation in the foundation initiative 'Remembrance, Responsibility and the Future'

DB AG will join the foundation initiative 'Remembrance, Responsibility and the Future' and make a contribution of € 31 million. The foundation initiative was founded for the benefit of those subjected to forced labor in the Third Reich. In taking this step, DB AG deals responsibly with the history of the railways in Germany.

Outlook

Sustained economic revitalization anticipated

The most important of the early economic indicators point towards a significant upturn in the global economy for the years 2000 and 2001. In Asia production is on the rise, and the North American economies will continue to stimulate the global economy even if there is a slowdown in the rate of growth. This should also help the South American countries turn around the slump in their economies. Overall real global trade is expected to record a growth rate of 7% (previous year: 4%), and this should provide an additional impetus to the transportation sector.

Exports in Europe are being stimulated by the economic upturn taking place worldwide, and by the favourable exchange rate parities. Investments should continue to rise as a result of the improved sales and earnings prospects, and the resultant increase in employment and incomes is likely to provide a stimulus for private consumption. Within the EU, a GDP growth rate of 3% for each for the years 2000 and 2001 is forecast. The growth prospects for nearly all the countries in central and eastern Europe are considered positive. For Germany, economic growth is expected to range from 2.5 to 3.5% as a result of strong expansion in exports and a pick-up in consumer and investment demand.

The most important risk factors are currently the threat of inflation and a monetary policy responding to this threat, as well as the possibility of significant corrections in share prices in the stock markets, with the corresponding loss of confidence.

Positive prospects for development in the transportation markets

In the environment relevant to the development of rail passenger traffic, the growth stimuli will become stronger on balance in the year 2000, and this will be reflected in stronger growth of disposable incomes and private consumer spending as well as in higher numbers of people gainfully employed.

Fuel prices are expected to continue to increase, and this favors a shift from road to rail. Demand for transport services in Germany will also be boosted in the current year as a result of Expo 2000. The continued recovery of the labor market as a result of the positive economic climate is likely to lead to a stable growth pattern in consumer spending in the year 2001. This trend is being supported by the tax relief on incomes. No impetus is to be expected to come from demographic trends.

In the environment relevant to freight transport, a decisive increase in production is expected in the processing industries. The continued recovery of the world economy and the exchange-rate related strengthening of the competitive position of the providers in the Euro area give rise to expectations of a sustained increase in demand from abroad. Together with growing

domestic demand, readiness to invest is likely to increase, which in turn will ensure that the upturn is broadly based. The rise in steel consumption will foster a significant boost to raw steel production (in tons). Opposing trends are shaping the coal transportation market, in which overall demand is declining while the share of imported coal is increasing. Production increases in the chemical industry are expected to provide positive stimuli for the transport volume. The German automotive industry, on the other hand, is expected to record a slight decline in production. Overall the conditions favor continued growth in the freight transport sector. The increasingly close economic ties within the European Union will provide cross-border traffic a sustained positive impetus. In future this will increasingly hold true for the applicants for EU membership in central and eastern Europe.

Effects on the DB Group

The favorable trend in the economic environment and the positive signals present in the traffic markets are expected to generate higher revenues both in Passenger and Freight Transport in the current financial year.

Passenger Transport growth is expected to be above market average. The feature event in the year 2000 for the DB Group is the world exhibition, EXPO 2000 to be held in Hanover. Deutsche Bahn will expand its passenger services considerably for this event: 453 regular trains and a maximum of 110 extra trains will move up to 133,000 people to Hanover each day. In preparation for EXPO, considerable invest-

ments were made in infrastructure and rolling stock in order to meet both the technological requirements as well as customers' needs. The improved product range (ICE 3, ICE T) also supports the positive expectations. Additional positive impulses for passenger traffic are being received from improvements in the labor market, the increase in fuel prices and growth in consumer spending.

Freight Transport will benefit from the economic recovery taking hold in all sectors relevant to transportation. The strong growth in international trade, together with greater transport distances, provides rail freight transport with the opportunity to regain market shares.

The increase in transport performance figures also benefits the Track Infrastructure and Passenger Stations divisions, for whom the transport companies of the DB Group are still the main customers despite intensified competition. On the other hand, these divisions will also have to cope with a greater burden in the form of rising depreciation and interest expenditure in the year 2000; these are the result of the process of modernization and the ongoing high level of investment required. Furthermore, the federal grants to compensate for inherited burdens resulting from reunification will be reduced further according to schedule.

Provided the measures introduced to improve efficiency and increase productivity are implemented successfully, it can be assumed that the corporate divisions will be able to more than offset these additional expenses as well as the effect of the declining reimbursements from the Federal Government for inherited burdens.

With continuing favorable trends in the economy and accelerating process optimization within the network system of Deutsche Bahn, revenues and earnings are expected to continue to grow in 2001 as well.

Passenger Transport

Passenger Transport

		1999 € million	1998 € million	Change in %
External revenues	DB Reise&Touristik	4,172	4,038	3.3
	DB Regio	7,328	7,181	2.0
	Total	11,500	11,219	2.5
Intra-Group revenues		1,041	911	14.3
Divisional revenues		12,541	12,130	3.4
Operating income	DB Reise&Touristik	91	70	30.0
	DB Regio	185	193	-4.1
	Total	276	263	4.9
Gross cash flow	DB Reise&Touristik	377	286	31.8
	DB Regio	581	543	7.0
	Total	958	829	15.6
Gross capital expenditures	DB Reise&Touristik	627	689	-9.0
	DB Regio	1,311	1,056	24.1
	Total	1,938	1,745	11.1
Employees (as of 31 Dec)	DB Reise&Touristik	34,836	35,938	-3.1
	DB Regio	55,605	56,083	-0.9
	Total	90,441	92,021	-1.7

Persuasive mobility offers

The existing Group divisions DB Reise&Touristik and DB Regio performed well during the year under review. Their joint contribution to Group revenues is 74%. The success of these divisions underlines the advantages to be gained by linking urban centers with fast and comfortable long-distance services as well as the high capacity of the regional services. The combination of DB Reise&Touristik and DB Regio, approved as of 1 June this year, into one division Passenger Transport reflects the change to a provider of comprehensive mobility solutions in the area of passenger transport. The newly created corporate division will develop an integrated range of products that combine the advantages of comfortable long-distance travel with the speedy and straight forward movement within cities and between regions. The products and their interfaces are to be part of an integrated system and will be designed in such a way that they highlight the strengths of railway transportation, such as value-for-money, availability, speed as well as environmental benefits.



[Deutsche Bahn creates
connections for a relaxed transport.]



DB Reise&Touristik

The core business is the railborne movement of passengers over long distances. The focus lies on travel between urban centers both in Germany and abroad, with average journeys between 100 and 450 km. This market segment features particular strengths inherent to the system. The daytime services include the products InterCityExpress (ICE), InterCity/EuroCity (IC/EC) and InterRegio (IR). Night-time services include the night train DB Nacht-Zug connections as well as the cross-border connections run by the subsidiary CityNight-Line CNL AG. The product DB AutoZug completes the range.

Transport performance improved

DB Reise&Touristik performed well during the year under review. The increase in transport performance by 1% to 34.9 billion pkm exceeds the market trend overall. The market share, which had dropped slightly in the aftermath of the crash at Eschede in 1998, has stabilized once again.

With an increase of 2.9% to 31.7 billion pkm, regular daytime services played a major role in boosting transport performance. The ICE product family, which has been expanded to include the first vehicles with tilting technology, made a major contribution to this positive trend by recording a growth rate of almost 4%, to 11.6 billion pkm. At 12 billion pkm, the transport performance of the product range IC/EC remained at the same level as in the previous year, while the performance of the IR/D-Tag dropped by just under 6% to 8.1 billion pkm. The increase in performance in regular daytime services reflects the shift in

the product range from conventional locomotive-hauled trains to more flexible multiple unit sets, which involved a high level of investment. These multiple units provide a high level of comfort and appealing journeys, and have been making a significant contribution in the competition with road and air transport for new customers.

By contrast, development in other product areas, such as DB AutoZug, DB NachtZug or special services have reduced. Transport performance in these areas declined from 3.5 billion pkm to 2.9 billion pkm. This is primarily due to the restructuring of night-time services and special services. The cost-effectiveness of the product portfolio is currently being evaluated, and the product range will be adjusted accordingly.

Improvements in revenues and earnings

External revenues of the DB Reise&Touristik division rose by 3.3%, to EUR 4,172 million. The management company DB Reise&Touristik AG contributed about € 2.8 billion to this result (year-on-year: +4.3%). The ICE product family made the largest contribution to revenue for the first time, with 34.6%. The product area IC/EC contributed 34.5%, and the product area IR/D-Tag (daytime) 20.3%. Other services accounted for 10.6%. The total revenue of equity participations remained more or less at last year's level at € 1.5 billion. The biggest contribution came from the DER Group, which expanded external revenue by 3% to more than € 0.9 billion.

The **operating income after net interest** rose by 30%, to € 91 million.

High level of capital expenditures

At € 627 million **gross capital expenditures** remained largely unchanged year-on-year (€ 689 million). The main areas of capital spending were the procurement of new ICE T multiple units equipped with tilting technology and of two locomotive-hauled Metropolitan trains, as well as the modernization and the redesign of existing rolling stock for the product areas IC/EC, DB NachtZug and DB AutoZug. Considerable funds have also been invested in upgrading the infrastructure for maintenance and sales, and in data processing projects in connection with the 'Year 2K' and with the 'EURO', and finally with the development of new sales and distribution systems.

Slight reduction in jobs

At year end, the division DB Reise&Touristik was staffed by 34,836 **employees**. This shows a drop of 1,102 employees on the previous year.

Portfolio adjustments and product innovations

The process of consolidation in the tourism sector brought about the strategic decision to sell major participations involved in tourism and to focus on the core business. In the course of the year under review the equity holding in Touristik Union International (TUI) was sold to Preussag AG. The sale of Deutsche Reisebüro GmbH (DER) to the REWE Group was finalized at the end of 1999 and will take effect during this year. The company AMEROPA-REISEN GmbH, which specializes in rail tourism, remained unaffected by these portfolio adjustments.

The introduction of a range of product innovations has boosted the appeal and efficiency of the range of transport and service products. One important step in this process has been the link-up of rail and air transportation, achieved through the integration of airports and railways stations, as part of a strategy involving the divisions Track Infrastructure and Passenger Stations. The new railway station Frankfurt (Main) Airport is the first railway station of its kind. Since May 1999, the AiRail terminal has linked the biggest German airport with the long-distance passenger rail services from southern and western Germany. The planned expansion of the existing transport chain between rail and air presents DB Reise&Touristik, the airlines and airports with entrepreneurial and logistical challenges.

Starting with the change in timetable at the end of May, the operation of ICE 2 multiple unit sets on the ICE line Munich-Hamburg/Bremen is conducted in such a way that the two half-sets of trains are split at Hannover, providing passengers with direct connections, without the need to change trains. The time taken for the ICE Sprinter to travel from Frankfurt to Berlin has been cut to 3 hours and 29 minutes. The new multiple unit generation ICE T, equipped with tilting technology, is being used for the first time on the Stuttgart-Zurich line.

The 7-segment train 'Metropolitan', which has been in service on the Hamburg-Cologne line since August of last year, is a novel concept developed specifically for business travelers. The new train has been well received by the market.

The Internet-based direct-sales service 'Surf&Rail' launched at the end of October 1999 is an additional distribution channel. Using the newly designed Deutsche Bahn website, tickets for selected direct connections can be purchased online using a credit card and then printed out immediately. 'Surf&Rail' uses the Internet in a first attempt at marketing special-price offers. To begin with the concept will be limited to the Internet. It is expected to provide indications on ways of improving the capacity utilization of the ICE, InterCity and InterRegio services, particularly during off-peak times.

DB Regio

DB Regio is the leading provider of integrated local transport services in Germany and is active in both local public transport segments, i.e. the passenger market and the ordered-service market. The ordered-service principle was introduced on 1 January 1996, when local passenger rail transport were regionalized. As a result of the Regionalization Act (Regionalisierungsgesetz), the federal states have at their disposal more than € 6.1 billion in public funds for ordering public passenger transport services. Orders are agreed to contractually.

DB Regio provides the local rail passenger transport required by means of its four products, StadtExpress, RegionalExpress, Regional-Bahn and S-Bahn. This range of products is complemented by bus services. Apart from DB Regio itself, services are provided by numerous subsidiaries. Transport services for large urban centers (agglomeration transport services), the link-up of a region with urban centers, the

local transport services between urban centers (regional services), as well as transport services in less densely populated areas (peripheral transport services) are considered strategic business units.

New emphasis on the passenger market

Success in the passenger market relies on certain requirements in terms of quality being met. The concept of system 'reliability' means that travelers expect not only punctuality, cleanliness and safety, but also constant and friendly service before, during and at the end of a journey. During the year under review, DB Regio introduced additional attractive products and launched new, customer-oriented projects. These efforts succeeded in attracting new customers.

In local passenger services, the company is represented by **customer support agents** and **train drivers**. They are the most important contact persons for passengers. The customer support agents and the train drivers are jointly responsible for customer care, and will in future form the so-called RegioTeams. The project **RegioTeam** is currently under trial in some of the federal states, and if successful, will be introduced throughout Germany in the year 2000.

DB Regio sells special tickets with validity throughout single federal states (**Ländertickets**) throughout Germany, with the exception of the states of Hesse, North Rhine-Westphalia and Saxony. These attractive rates aim to provide an interesting alternative to the private

car, especially in the leisure travel sector. Sales have meanwhile reached between 120,000 and 160,000 tickets per month. From the time of its introduction in July 1999 until December 1999, almost 870,000 Ländertickets were sold; of these, 56%, or almost 490,000 tickets, were Bavaria Tickets.

A test environment, the so-called TrainLab (**ZugLabor**), has been created in the vehicle facility at Limburg. This facility makes it possible to involve customers early in the process of design and finishing of railway coaches. The insights gained in the tests form the basis for the order of new vehicles and for the design of refurbishments to the existing rolling stock.

The **youth campaign DEINER** launched in 1999 has helped improve the image through numerous promotions focussing on the railway.

Efforts to meet the information requirements of customers more effectively were stepped up in 1999. The planned introduction of new data transmission procedures and their link-up with intelligent information systems will provide travelers before and during a trip with information about travel routes, changes to timetables or connections at the next stop. The **travel information system RIS Regio** enables trains to detect deviations from the timetable automatically and report them to the computer in charge of scheduling, which in turn passes information about current connections at the next stops back to the train. After a successful pilot project on the Fürth–Markt Erlbach line, an integrated communications system incorporating information

provision, customer service and safety has been developed. The system, which has been named **Regio.com** and which is under trial on the local transport lines of northern Bavaria, creates a link between customer support agents and schedulers and information managers located in transportation control centers.

Well-positioned in the ordered-service market

DB Regio leads the pack by a good margin in the ordered-service segment of the market. During the year under review, DB Regio delivered services on contracts for 543 train kilometers with a volume of about € 4.3 billion; year-on-year this equates to a performance increase of 1.6%. New transportation agreements have been signed with Bavaria, Thuringia, Schleswig-Holstein and North Rhine-Westphalia. Long-term contracts create a measure of certainty for the planning efforts of both orderers and for Deutsche Bahn. Passengers in particular benefit directly from the improvements in punctuality, in the availability of seats, and in terms of cleanliness and safety, all made possible by the greater continuity in planning.

The share of transport services awarded by the orderers by public tenders is growing. The tender process provides for competition and transparency, both of which ensure a healthy price-performance ratio in transport services. During 1999, DB Regio took part in six invitations to tender. Since the beginning of regionalization in the year 1996, 37 tenders have been advertised, and DB Regio managed to secure the overwhelming majority of tenders awarded, with a share of 61% of the total of 38 million train km.

Transport associations gaining in importance

Transport associations are becoming ever more important in the local transport services market. By the end 1999, a total of 37 transport associations existed throughout Germany. Transport associations are guided by the following principle: 'one fare, one ticket, one timetable'.

In the rail segment, revenues from ticket sales in transport associations topped the € 1.05 billion mark for the first time in 1999. This increase is mainly due to the establishment of new transport associations. For example, after several years of preparation, the transport association of Berlin-Brandenburg commenced operations in April 1999, in what is currently Germany's largest such system in terms of the area it covers. The growth in the number of transport associations is expected to continue in the coming years.

Transport performance improved

The size of the public passenger transport market reached 90.5 billion pkm in the year under review. Of this, railborne transport of the division DB Regio took up a share of 42%, or 37.9 billion pkm. This means that compared to the previous year, the increase in the transport performance of the DB Regio division (1.8%) was above market average. When bus services are included, DB Regio's market share is more than 50%.

Revenues expanded

External revenues increased by 2% to € 7,328 million, matching the trend seen in the transport performance. Passenger revenues, up 3.8% to about € 3.0 billion, were mainly responsible for this growth. The bus companies contributed about € 1.1 billion to the external revenues of the Group division; this equates to a growth rate of 3%. The federal states, with the responsibility for the provision of public passenger transport, contracted services in the order of € 4.3 billion, or almost € 25 million more than in the previous year.

Solid earnings contribution once again

At € 185 million the **operating income after net interest** was only slightly short of the previous year's figure of € 193 million. **Gross cash flow** was up 7.0%, to € 581 million.

Sharp increase in the level of capital expenditures

Gross capital expenditures jumped by 24.1%, to € 1,311 million. The focus was mainly on the acquisition and upgrading of rolling stock. Apart from the management company DB Regio AG, the companies S-Bahn Berlin and S-Bahn Hamburg implemented the most extensive modernization programs. Considerable funding was also required for the acquisition of buses, the upgrading of vehicle maintenance facilities and for the further development of distribution technology.

Employment down slightly

By the end of the year DB Regio had 55,605 **employees**; this represents a decrease of 0.9%.

Outlook: Uniform trademark in the passenger transport market

The combination of the two divisions DB Reise&Touristik and DB Regio into a new Passenger Transport division scheduled for June 2000 will create a structure that allows the strategic control of improvements to the overall product range and of the projection of the image in the market in a uniform manner, whilst maintaining the existing corporate relationships. The new structure also provides opportunities to reduce costs further.

Both DB Reise&Touristik and DB Regio have introduced extensive programs of measures aimed at increasing efficiency and optimizing costs. Investment programs spanning several years will result in a rejuvenation and modernization of the rolling stock by 2004. DB Reise&Touristik is intent on continuing the creation of high-quality international transport services in cooperation with partner companies. Preparations for the implementation of a new pricing system are under way. In the area of urban and regional transport services, DB Regio is planning to strengthen its position in the agglomeration transport services. In the ordered-service market, where revenues can only be increased by acquiring attractive additional services, market share is to be consolidated by offering efficient products. In collaboration with the division Track Infrastructure, peripheral networks and transport services are currently being investigated with the aim of improving their efficiency through the provision of alternative structures.

The overriding objective of the Passenger Transport division is to present a uniform image in the market, to improve customer service information and to achieve a greater level of coordination of the overall product structure.

The current financial year will see revenues drop as a result of the sale of the DER Group. With market conditions remaining solid, earnings – adjusted to take account of the effect of the DER sale – are expected to remain stable as a result of the internal efficiency and cost reduction measures.

Freight Transport

Freight Transport

	1999 € million	1998 € million	Change in %
External revenues	3,541	3,623	-2.3
Intra-Group revenues	632	363	74.1
Divisional revenues	4,173	3,986	4.7
Operating income	-11	31	-
Gross cash flow	171	182	-6.0
Gross capital expenditures	501	288	74.0
Employees (as of 31 Dec)	40,995	44,544	-8.0

Ambitious strategy in a difficult market

Economic conditions during 1999 were difficult for those segments of the market that are of importance to rail freight transport, and earnings were in decline. The Freight Transport division has met these adverse conditions head-on, with further internationalization of its operations, the promotion of those segments showing some growth, intensification of customer orientation, and with a package of measures aimed at reducing costs and increasing productivity. To ensure success in the market, the range of single-source systems solutions will be expanded.

Adverse market environment

Economic conditions for 1999 were poor in the market segments relevant to the operations of DB Cargo. With the exception of the chemical industry, performance was down in the production areas which have an impact on rail freight transport. This was most keenly felt in the steel and hard coal transport service areas. In the areas affecting the freight transport of Deutsche Bahn, the economic recovery was halting and rather weak. While the freight transport market increased overall, road freight transport was the only mode recording any growth, while rail freight transport lost ground in the modal split, going from 17.2%, to 16.0%.

External revenues slightly down

The transport performance of the Cargo division, measured in ton-kilometers (tkm), amounted to approximately 71.5 billion tkm, down 2.4% year-on-year. Average transport distances were up slightly. As in the previous financial year, about half of total transport performance was accounted for by international services. Increasing competition from road freight transport and, on certain lines, from other railway companies led to a drop in transport margins. During the second half of the year, DB Cargo managed to improve capacity utilization by 3.3% by reducing the number of train kilometers traveled, as part of an optimized performance program.



[With products
such als ChemCargo, Deutsche Bahn
offers its customers more
integrated logistical system solutions.]



External revenues generated by the division dropped by 2.3%, to € 3,541 million, matching the trend in transport performance. **Divisional revenues**, including internal services (such as traction services for the Passenger Transport division), rose by 4.5%, to € 4,173 million.

Declining operating income

The Freight transport division is undergoing a constant process of productivity increases and cost optimization. Marked progress was again made in 1999, despite the fact that the extra burden resulting from unfavorable market trends and expenditure from additional marketing efforts could not be absorbed entirely.

Operating income after net interest was negative at € -11 million, and € 41 million below the previous year's figure. **Gross cash flow** at € 171 million did not quite reach the previous year's figure of € 182 million.

Challenges for the future

The transport and logistics markets are undergoing structural changes. The changes are the result of the higher requirements of customers, the convergence of markets, and of the greater intensity of competition at all levels of the added-value chain. Additional momentum is provided by the fundamental changes taking place in many industries.

Strategic answers defined

The Freight Transport division is positioning itself with clear strategic objectives: Improvement in the profitability of its operations and the consolidation of the core business remain top priorities. Continued improvements in the market position in international services, the strengthening of growth segments and adjust-

ments to the product range by eliminating unprofitable areas are also of significance. Comprehensive coverage of customers' needs in terms of national and international transport and logistics solutions from a single source is a medium-term goal.

Improved international presence

The increasing integration of Europe has resulted in changing trade and transportation flows. A broadly based international presence therefore gains particular strategic importance. The realization of the **joint venture with the Dutch Nederlandse Spoorwegen N.V. (NS)** has been an important step towards establishing such a presence. Effective as of 1 January 2000, the companies NS and DB established Railion GmbH, which in turn holds 100% in both DB Cargo AG and NS Cargo N.V. The shares in **Railion GmbH** are held by Deutsche Bahn AG (94%) and NS (6%). The company NS Cargo underwent a change in name and became Railion Benelux N.V. The result of these measures will be a marked improvement in the provision of international transport services, as well as greater flexibility in production.

Increasing system competence

Apart from the quality of the actual service provided, success or failure in the competition to attract customers is determined by factors such as a high level of transparency in operational procedures, comprehensive customer service and an information management system accompanying travelers throughout their journey. The **Customer Service Centre (Kunden ServiceZentrum)** located at Duisburg performs a key role here. The center is designed to act as a proactive, customer-oriented interface,

and provides a competitive advantage in the areas of information services and operational scheduling. The chain of operational processes has been improved, and capacity utilization optimized. Together with improved reliability of services, this provides a future-oriented platform which can not only attract more custom to rail services, but also can process it more efficiently. The functions performed by the Service Center range from acceptance of orders, order control through tracking of consignments and transport-accompanying information services all the way to billing. The product range on offer at the center is internationally orientated, and will in future also cater to the customers of Railion Benelux. In the near future the Duisburg center will have a staff of 1,350.

To be able to meet customers' needs even more effectively, the added-value chain is being strategically extended. This applies both to individual services before and after the actual transport service itself and to integrated system products. The industry-specific service **ChemCargo**, which was introduced at the beginning of this year, has been developed to meet the specific requirements of the chemical industry. ChemCargo links the chemical industry locations in Germany with scheduled night train services. The concept makes it possible to allow service providers established in a particular industry to be present as system partners. In doing so, DB Cargo guarantees continual monitoring, i.e. a transport-accompanying and transport-preceding information chain.

In an effort to increase presence in growth-bearing segments, the equity holding in ATG Autologistic GmbH, a highly specialized com-

pany operating the field of freight forwarding, transport and logistics for the automotive industry and the automobile trade, was increased from 50% to 75% during the year under review. The company is fully consolidated for the first time in the 1999 financial statement.

Challenging modernization program

In an endeavor to modernize its entire rolling stock, the division has embarked on an extensive capital expenditures program spanning several years. The main focus is on the procurement of electric locomotives. Some of the engines are equipped with multiple-system technology which allows them to be operated in cross-border services. Considerable funds will also be invested in the ongoing modernization of the freight vehicle fleet.

In 1999 **gross capital expenditures** increased by 74.0%, to € 501 million.

Reductions in workforce

During the financial year under review, the number of **employees** declined by 3,549, to 40,995.

Facing the current year with confidence

For the current year, the signs are more auspicious for freight transport. Those freight categories which were weak in 1999 are showing distinct signs of recovery. The joint venture Railion will generate positive effects. Improvements in earnings are also expected to result from the extensive package of productivity improvement measures. Overall, both revenues and earnings are expected to improve in the year 2000.

Passenger Stations

Passenger Stations

	1999 € million	1998 € million	Change in %
External revenues	184	179	2.8
Intra-Group revenues	583	514	13.4
Divisional revenues	767	693	10.7
Operating income	0	14	–
Gross cash flow	93	91	2.2
Gross capital expenditures	554	615	-9.9
Employees (as of 31 Dec)	5,593	5,629	-0.6

Railway stations — milestones of a journey and places for encounters

Deutsche Bahn is determined to establish its reputation as the leading service provider in all avenues of transportation. The Passenger Stations division has an important role to play in this scenario. It is responsible for the appearance of the railway stations, for the comprehensive service competence, customer service information as well as functional sign-posting to help customers find their way around. For years, this range of products and services has been being expanded and improved continually - supported by a high level of investments and project expenditure. 1.7 billion travelers use the railway stations every year. Stations are both market place and place of encounter for more than 2.3 billion people visiting the railway stations.

Conditions slightly improved

The Passenger Stations division is responsible for the operation of 5,876 active railway stations, both in their role as traffic stations as well as marketing commercially utilized space within railway stations. The two business areas of traffic stations and marketing constitute two distinct and different markets for the Passenger Stations division. In the traffic station segment, performance is dependent on the same factors as in the Passenger Transport division, which developed positively in 1999. The principal factors determining performance in the marketing segment are private income and private demand, and these have hardly shown any improvement during the year under review.

Positive development in revenues

Revenues generated by the Passenger Stations division grew by 10.7% to € 767 million in 1999. About 76% of the division's revenues were accounted for by internal revenues (€ 582 million; previous year: € 514 million).

External revenues, generated with non-Group railway companies, tenants and leaseholders, rose 2.8% to € 184 million.

The business segment of traffic stations reported revenues of approximately € 0.56 billion, generated almost exclusively by the intra-Group division Passenger Transport. Additional revenues were raised from services and facilities associated with travel, such as luggage lockers and parking at railway stations. The share of revenues generated by non-Group transport companies remains low at 2%.

[Modern passenger stations:
Service for the journey, and more.]



Revenues in the marketing segment amounted to approximately € 0.21 billion. At individual locations that are currently undergoing renovation, revenues from rent declined. Compensation was provided in the form of temporary facilities and spaces.

New pricing system for railway stations put in place

The pricing system for railway stations, which computes the services provided by the traffic stations to the customer, was changed in 1999. The new pricing system takes into account individual features of a location, frequencies and commercial factors prevailing in railway stations. The commercial consequences of qualitative improvements in railway stations become easier to discern, and allows capital to be used more effectively.

Earnings situation flat

The **operating income after net interest** was break-even. Due to special effects present in 1998, a year-on-year comparison is of limited validity. Furthermore, the decline by about € 14 million is largely due to higher depreciation incurred as a result of the modernization program and a slight increase in personnel costs. **Gross cash flow** improved slightly by 2.2% to € 93 million.

Modernization continues

At € 554 million, **gross capital expenditures** remained slightly below the previous year's level (€ 615 million). Investments focused on construction measures in the Greater Hannover area in preparation for EXPO 2000, on the Lehrter railway station in Berlin, on Cologne Central Station, and on the so-called 'railway station package' (Bahnhofspaket) which comprised the development of 26 passenger buildings.

During the year under review, a total of 19 railway stations were either completed or extensively upgraded. Berlin, a regional focus of the capital expenditures program, saw the opening of the Friedrichstraße railway station. The airport railway station in Frankfurt am Main – the AirRail terminal – commenced operation in May 1999. The share of airline passengers making their way to the airport by rail doubled from 4.7% to 9.9% as a result. The new railway station is used by 10,000 people daily, even before the new rail link Cologne-Frankfurt is completed.

In addition, the appearance of about 1300 smaller and medium-sized railway stations were improved. Entrance halls and platforms were fitted with new furnishings in many locations, platform canopies were extended, and sign-posting/routing and information systems provided.

In order to improve the quality of time travelers spend waiting, more than 50 railway stations have been provided with DB PlusPunkt modules and waiting modules.

Number of employees more or less stable

During financial year 1999, the number of **employees** was reduced by 36 to 5,593. Of these, 4,179 were employed in service or service-related areas within railway stations.

Tightening organization and procedures

In order to streamline management and administrative processes, a new administrative structure was devised during the year under review, reducing the structure to two levels within the hierarchy. The objective is to devolve responsibility to the individual business units and to improve customer proximity and service.

Implementation of the ServiceStore concept

The nationwide introduction of the DB ServiceStores – a convenience store concept – provided the division with new marketing potential, especially in small and medium-sized railway stations. The introduction, administration and further development of the concept is taken care of by two newly established companies, DB ServiceStore Systemführungs GmbH and DB ServiceStore Betriebs GmbH. A 50% share in the latter is held by the Dutch company Wizzl Duitsland B.V., Utrecht, a wholly owned subsidiary of NS Stations B.V., Utrecht. A total of 7 ServiceStores opened their doors during the year under review, and a further 12 are currently being built.

Qualitative enhancement in the value of railway stations

The success of the railway stations depends directly on the quality of the fixtures and fittings, on the security, cleanliness and reliability of the infrastructure and on the level of information made available to travelers. These requirements lead to the following measures:

- Upgrade and modernization of railway stations, to turn them into customer-oriented service centers, and link-up with other traffic carriers.
- Improvement of information services made available to travelers within the railway station. In the year under review, 61 information managers were engaged in the provision of this service. The Fulda railway station was also the trial location for the newly developed Passenger Information System. 50% of all railway stations will be integrated into this system over the coming years.

- The existing duties of the 3-S Centers – service, safety/security and station cleanliness – will be expanded to include technical facility management.
- Ongoing development of the 'Market at the Railway Station' concept ('Markt im Bahnhof'). The mix of goods and services on offer will be optimized and integrated into the surrounding retail, service structure of the respective inner city districts, including restaurants available.

Improvements under way in the current year

The Passenger Stations division is making an important contribution to the extensive EXPO involvement of Deutsche Bahn through the competence of its services. On peak days up to 133,000 travelers are expected to arrive and depart, in addition to the normal scheduled services, and it is imperative to ensure a pleasant stay, well-organized sign-posting/routing system, smooth processing of traffic flows and adequate customer information services.

The year under review has highlighted that increased efforts will be required to increase revenues, profitability and productivity. Revenues are expected to be boosted for rentals and leasing through the introduction of concepts of various kinds of operations. There will be a significant jump in the number of DB ServiceStores. The completion of important large-scale projects and other measures related to EXPO 2000 will also have a positive effect on revenues and earnings.

Track Infrastructure

Track Infrastructure

	1999 € million	1998 € million	Change in %
External revenues	153	120	27.5
Intra-Group revenues	3,709	3,753	-1.2
Divisional revenues	3,862	3,873	-0.3
Operating income	1	148	-99.3
Gross cash flow	936	959	-2.4
Gross capital expenditures	4,772	4,508	5.9
Employees (as of 31 Dec)	66,878	71,830	-6.9

Backbone for efficient rail services

The market potential for rail traffic depends directly on the efficiency of its network. The Track Infrastructure division has been investing heavily for years in the maintenance, upgrading and extension of the transport infrastructure. The 'Netz 21' concept, which was approved during the year under review, aims for greater segregation of the different types of traffic. This will result in greater capacity, better availability and greater cost-effectiveness.

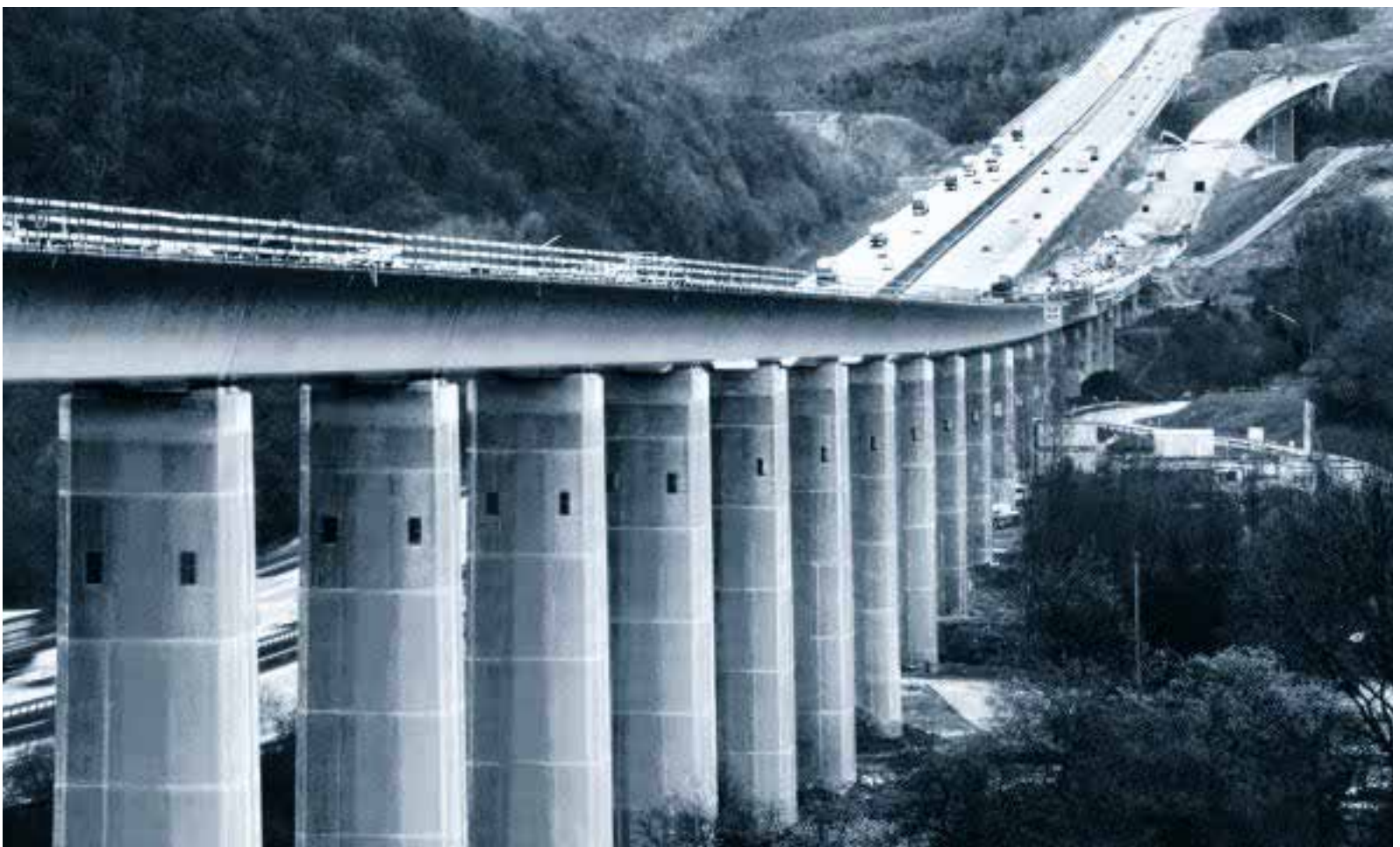
The Track Infrastructure division is responsible for the rail network of the DB Group and is therefore a service provider for railway companies. Part of its core duties is to ensure the reliable and safe operation of the network comprising 37,500 kilometers of railway lines and 39 terminals for inter-modal traffic. With the management company DB Netz AG taking on the responsibility for ensuring non-discriminatory access to the railway infrastructure, DB Group is complying with and exceeding the requirements of the EU Directive 91/440. Already more than 150 non-Group railway companies are making use of the Deutsche Bahn railway network. DB Netz AG compiles and coordinates the train timetables in co-operation with the various customers. Subsidiary companies are active in railway construction (new construction and maintenance), while larger construction projects are run by project companies especially set up for this purpose.

Marked increase in external revenues

Demand for service – measured in train-path kilometers – rose in the reporting year by over 3 % to 977 million train-path kilometers.

Divisional revenues amounted to € 3,862 million, slightly below the previous year's level. Of total revenues, 79 % came from train path revenues, 7 % from rentals and leases on shunting yards and storage sidings, and 14 % from construction, transshipment and other services.

Internal revenues from the transport divisions of the DB Group dropped by 1.2 % to € 3,709 million. The share of internal revenues shrank accordingly, from 97 % to 96 %. As a result of the greater utilization of the train paths by private railway companies, as well as the increased level of construction services on behalf of third parties, external revenues rose by 27.5 % to € 153 million.



[Extensive investment in infrastructure
brings people and their
cities closer to each other.]



Balanced result

The Track Infrastructure division's earnings performance for the year under review was unsatisfactory. The **operating income after net interest** was only slightly above the break-even point. Previous year's earnings were € 148 million. The decline was due to a number of factors. Depreciation and interest expense rose strongly as a result of the ambitious capital expenditures program of recent years. The scheduled reduction in federal subsidies for inherited burdens resulting from reunification had a particularly strong impact on the Track Infrastructure division. Non-scheduled charges resulted from higher expenditure for materials due to a special program to eliminate speed restrictions. Additional savings on the cost side were insufficient to offset these higher charges in earnings.

Gross cash flow was € 936 million, which remained 2.4% below the previous year's figure.

High level of capital expenditures

In the year under review, **gross capital expenditures** rose by 5.9% to € 4,772 million. The largest single project by far is the new Cologne-Rhine/Main line, with capital expenditures volume of € 0.77 billion. More than € 0.25 billion each went into the North-South Link Berlin and into the Nuremberg-Ingolstadt-Munich line.

Boosted productivity

Increases in productivity led to a decline in the workforce by 4,952, to 66,878 employees by year-end.

Concept 'Netz 21' approved

To consolidate the position of rail in the competition among different carriers, the strategy embarked on will be pursued consistently: performance increases as a consequence of targeted capital expenditures in the railway network, improvement in the cost situation and in the availability of services, and a reduction in journey times. Operational and administrative structures that are market and competition-orientated in their focus enhance the strengths reliability, predictability, safety and punctuality.

The main element within the strategic framework is the 'Netz 21' concept approved in 1999. Its purpose is to boost capacities and performance while increasing availability of services and reducing costs further. In the medium term, 'Netz 21' will provide for the segregation of faster-moving and slower services, which in turn will make for a smoother flow of traffic.

The **priority network** links urban centers and will take in about 10,000 kilometers. Of these, around 3500 kilometers are reserved for fast-moving services, about 4500 kilometers for slower-moving services, and 2000 kilometers for S-Bahn services.

The **high-performance network** also comprises about 10,000 kilometers which are available for mixed traffic, such as long-distance, short-distance and freight trains.

The **regional network** complements the priority and high-performance networks with an additional 17,500 kilometers, again to be used by both passenger and freight trains.

The implementation of 'Netz 21' will lead to an expected increase in capacity on the priority and high-performance networks by about 30%. The other main benefit is a significant reduction in operating costs.

As part of an initiative for the small and medium-scale sector of the economy, a thorough investigation is currently under way with the aim of finding alternative structures that will allow a more cost-effective and more intense utilization of certain parts of the regional networks.

Preparations for cellular communication (GSM-Railways)

A further cornerstone of the strategy for Track Infrastructure is the digital cellular communication network GSM-R (Global Standard for Mobile Communication-Railways). Its purpose is to replace the existing analogue communication systems servicing the operations, maintenance, train, shunting and motor-vehicle sectors with one system integrating all these areas. By 2002, around 27,000 line kilometers are to be covered by GSM-R. A contract with a total order volume of approximately € 1.5 billion was signed in 1999 with Mannesmann Arcor, the general contractor planning and setting up the communications network. Apart from a reduction in costs, GSM-R will also lead to a marked boost in performance as a result of higher network capacities and a more flexible management of train movements. The system allows for the integration of safety-relevant applications for train control and train protection. It also creates the basis for the interaction of the diverse systems used in international traffic.

Automation in the area of interlocking equipment

Of crucial importance in the improvement of command and control technology is the use of electronic signal boxes and operations centers. These modern facilities make it possible to concentrate the monitoring functions of railway operations in just a few large centers, and to automate the control and monitoring of operations. Manual sources of error are thus minimized.

During the year under review, 21 electronic signal boxes were commissioned. In future, train operations are to be largely controlled by means of electronic signal boxes which in turn are controlled from seven operations centers. Disruptions to train movements are not only indicated automatically by the system, but the computer at the same time suggests possible solutions to problems. The aim is to incorporate all major lines into the control of the operations center.

Outlook

The strategic investments in the network and in command and control technology will continue to boost the efficiency of the railway infrastructure. Optimization of journey times and expansion of capacity as well as cost reductions will be among the benefits. A negative impact must be anticipated from the higher expenditure due to depreciation and interest as a result of the capital expenditures. On balance, revenues for the Track Infrastructure division are expected to be stable in the current year, with an upward trend in earnings.

New corporate division Real Estate formed

The required infrastructure provides railway companies with extensive property holdings. Novel traffic concepts or structures lead to additional potential for their utilization. Beyond the provision of improved transport services, it is important to use existing resources as efficiently as possible. The strategic importance of these real estate resources is reflected in the establishment of an independent corporate division in the course of the ongoing evolution of the Group's organizational structure.

Extensive real estate holdings

At the time of the 1st stage of the Railway Reform, on 1 January 1994, the property assets of the former real estate holdings of Deutsche Bundesbahn and of Deutsche Reichsbahn were reorganized. Deutsche Bahn AG became the owner of the property required for operations. Responsibility for the administration and exploitation of property assets not required for the provision of railway traffic services or for the operation of the railway infrastructure lies with the Federal Railway Asset (Bundeseisenbahnvermögen, BEV).

The BEV was given a 'real estate package' with a market value of more than € 6.8 billion. Apart from administration buildings and areas still used for operations, the package also includes the entire inventories and supplies of the former Deutsche Reichsbahn located in former West-Berlin. The BEV was also given responsibility for residential properties and sports facilities. BEV awarded a service contract to Eisenbahn Immobilien Management Gesellschaft GmbH (EIM), charging the company with the marketing of the real estate package.

As part of the reorganization of the real estate holdings, about 50,000 properties required for operations and covering approximately 1.4 billion m² were transferred to DB AG. The property holdings of the DB Group extend to include DB AG as well as DB Netz AG and DB Station&Service AG. Deutsche Bahn Immobilien-gesellschaft (DB Imm) is responsible for

managing the entire portfolio. As part of the restructuring of the organization, DB Imm and EIM will be transferred to the Real Estate division.

The administration of the extensive property holding and the development and marketing of any real estate becoming available constitute a long-term core business area of the division. One of the major projects in this context is the former freight station at Frankfurt/Main. The station, along with the associated shunting area, is undergoing redevelopment and will be turned into a new district of the city, the so-called 'Europe Quarter'. The 90-hectare space has been earmarked for the construction of residential units, offices, open spaces and leisure facilities at an estimated cost of € 4.6 billion over the next years. In Munich, 156 hectares of prime city real estate will see the development of residential units, new workplaces, hotels and leisure facilities under the name of 'New Munich Addresses' (Neue Münchner Adressen).

Value-oriented resource utilization

Deutsche Bahn has a clear strategy for properties that are no longer required for operations. It follows three different principles. Open spaces and buildings without further added value potential are to be disposed of. Profitable spaces and buildings are to be let. Spaces not required for operations that possess a conceivable added value potential are to undergo property redevelopment – often in cooperation with other partners.



[The combined use of resources
and intelligent concepts
will succeed in changing the face of a city.]



Employees

The policy of Deutsche Bahn Group relating to personnel is centered around the willingness to adapt, the commitment and the flexibility of our employees. The competition with other transport carriers and competing railway companies has been heating up noticeably. Business processes must therefore consistently address the ever more sophisticated requirements of customers. Personnel management is making a contribution in this endeavor to achieve greater quality and higher productivity.

Adjustments to the workforce

During the year under review, the number of employees of the Group declined from 252,468 to 241,638. This reduction of 4.3% has been achieved mainly by way of natural fluctuation, employees taking early retirement, and by severance payments. The areas mostly affected by personnel adjustments were those where human labor has been replaced by low-maintenance, safe technology. As a countermove, employee numbers have been increased in areas featuring a service function. The adjustments were carried out through socially acceptable measures. Thanks not least to an effective Group-wide employment market, business-related lay-offs have been avoided. Additional productivity gains and the ongoing optimization of organizational structures will lead to further adjustments in personnel for individual sectors of the Group in coming years.

More than 80% of new employees entering the company come directly from Group-internal initial vocational training programs. With 14,438 trainees, the training quota of the Group – adjusted to take account of the effects stemming from DB Arbeit GmbH – remained high at 6.1%.

Employees
in thousand





[Good training
and highly motivated employees are
the preconditions for successful service delivery.]



Training of a high standard

The DB Group takes its special **social and educational responsibilities** in terms of initial vocational training seriously; nevertheless over the coming years the number of apprentices/trainees will need to be aligned more closely to operational requirements. Deutsche Bahn provides training in more than 30 modern service, industrial and trade professions. The commercial/service-oriented sector is one clear focal area. Business management in rail and road transport is the latest of three transport professions redesigned under the direction of the DB Group and for which the DB Group provides training. As a first, DB Group had an intake of almost 200 information and communications technology apprentices/trainees in 1999.

As part of a campaign launched jointly with the Federal Ministry of Education and Research, the DB Group offers other transport companies the opportunity to provide their own vocational training.

About 40 junior companies – an innovative, yet proven training concept, whereby trainees are given the responsibility for running their own companies – generated € 15 million in revenues in 1999. The internationalization of training schemes has also been boosted, with young people from France, Belgium, the Netherlands, Denmark, Poland and the Czech Republic commencing bi- or even trilingual training courses within the DB Group.

Civil servants in the DB Group

At year-end, approximately 65,000 civil servants were working for the DB Group. Civil servants are assessed and given the same career oppor-

tunities as salaried employees covered by collective agreements. The civil servants have been assigned to service within the DB Group, provided they are not on sabbatical and working for the DB Group under an individual contract.

To make full integration of the civil servants into the personnel structure of the DB Group a reality, certain legal obstacles will need to be removed, with the agreement of the shareholder. For example, exemption clauses in the law relating to working hours and remuneration of civil servants will be needed to allow civil servants to participate more fully in flexible working time models and new bonus systems.

Internal labour market – DB Arbeit GmbH

The core business of DB Arbeit GmbH – legally and commercially established in June 1999 – is to provide all employees of the organization who lose their job as a result of rationalization and restructuring with **new occupational prospects**.

Its range of services includes job placements, labor leasing/temporary work, assistance with applications, employment qualifications as well as the preliminary placement of employees whose jobs may be in jeopardy. DB Arbeit GmbH generated € 143 million in this market for the year under review. The company's approach has since become a model for others, with many German and even some international companies and institutions seeking expert advice and making use of experience gained here.

Approximately 7,200 employees were looked after individually in 1999. More than 2,700 of them either found new jobs within or outside the DB Group or left the Group on socially acceptable terms through natural fluctuation.

Consensus in 1999 round of pay negotiations

In the course of the 1999 pay round, the Management Board of DB AG, the Union of German Railway Workers (GdED) and the bargaining partners TGM (GDL and GDBA) agreed to:

- a once-off payment of € 164 (DM 320) for the months of May to August 1999,
- an increase in wages and salaries of 3.1% based on the monthly tables, starting as of 1 September 1999,
- an increase in apprentice/trainee remuneration of 3.1%, starting as of 1 May 1999.

The wage agreement is due to run for 16 months (1 May 1999 to 31 August 2000), which means that it falls just under the national average trend in wages. However, discrepancies still exist between wage and productivity rates, especially in the new federal states, in some cases resulting in substantial competitive handicaps for the DB Group, and these are still the subject of ongoing negotiations.

Group wage agreements / Referenced wage agreements signed

As part of the second stage of the Railway Reform, DB AG signed three wage agreements with its bargaining partners, which lay down, to the extent possible, a uniform set of

employment conditions for the majority of employees in the DB Group member companies. They are the General Wage Agreement, the Group Remuneration Agreement, and the Group Ratio Wage Agreement.

At the same time, referenced wage agreements were signed for the companies spun off. This means that employees of DB AG in these companies are covered by the wage agreements, provided no other company-specific agreements are in place.

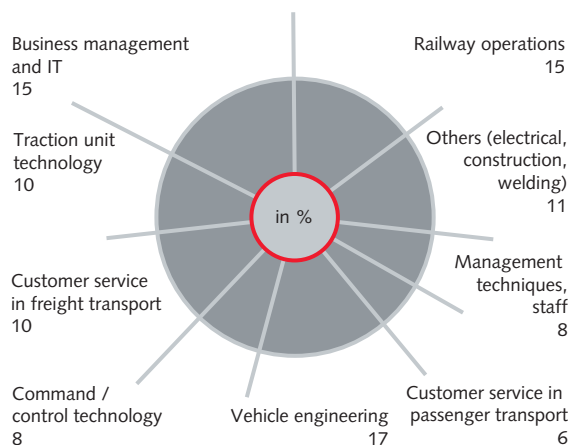
A new training campaign

Investing in the qualifications and skills of our employees has always been an integral part of the DB Group's policy relating to personnel. Each member of the workforce participated in an average of 54.7 hours of training during the year under review. The service center for training (Dienstleistungszentrum Bildung) and its staff of 930 acts as training service provider for the Group. More than 1,500 courses imparting skills in the use of new technologies and dealing with the provision of services are available. Approximately 600,000 training days were spent giving employees the opportunity to learn about new techniques, technologies and procedures, and to become confident in their use. For example, the center also rolled out more than 700 hours of multimedia-based training, making the DB Group one of the leading users of multimedia in Germany. The Group's role in this field was recognized in 1999 with the award of 2nd prize on the occasion of the 5th IT Training Conference, under the patronage of the Minister for the Economy, Small and Medium-Scale Business, Technology and Transport of the State of North Rhine Westphalia.

The area of **service** has been given the **highest priority** in the DB Group **training**. In cooperation with Swissair and the DorintHotels, the service center for training (Dienstleistungszentrum 'Bildung') has been offering an action-oriented, effective training program in this area since 1999 in order to prepare the relevant employees for EXPO 2000.

The **commitment of the employees** is also evident in their own efforts to improve their qualifications in their leisure time. More than 350 employees are currently studying business administration with the correspondence course provider AKAD, with the objective of gaining a tertiary degree at the (a technical 'evening-night school' (Fachhochschule für Berufstätige) at Rendsburg. The students from Deutsche Bahn are achieving above-average grades.

Advanced training areas 1999



Greater entrepreneurial orientation

An entrepreneurial attitude among management is an important prerequisite in securing the future of the DB Group. The selection of external and the promotion of internal management talent is consistently based on entrepreneurial, management and social competence.

Two new dialogue processes, DB PotentialDialog and DB OrientationDialog, have been developed for use with the two management tiers below the Boards of Management. They were implemented for the first time in 1999, and served as a virtual internal management audit. The **Management Development Concept** scheduled for implementation in the current financial year is based on the results obtained during these assessments of potential.

In the year under review, broad-based **appraisals** were **held with senior employees** of the DB Group, and **target-oriented agreements** were concluded. Quality, in terms of measurability and weighting of these targets, has been improved considerably. The implementation of the BalancedScoreCard-concept (**BahnStrategieCard**) and the linking of its contents with the target agreements will enhance the importance and the effectiveness of the instrument still further.

The low level of implementation to date of the **employee appraisals**, introduced in 1999 and based on various performance-related criteria, is due to the fact that it has only been possible to include the civil servants in these consultations since last September.

International orientation

The year under review saw the establishment of Group-wide regulations governing missions abroad, development of a selection procedure for employees and management staff on international assignment, and the development of an international contract and remuneration management scheme. In future, the DB Group will be represented in international markets by competent and highly motivated members of staff. This process will be assisted further by cooperation with the European railway companies SNCF (F), FS (I) and the UIC within the framework of an international management seminar, which will be under trial as a pilot project supported by the EU from the year 2000.

Marketing in universities stepped up

Regardless of the necessary streamlining in the management structure, the DB Group is keeping the door open to new managerial talent and its development. Among the most important success stories in the effort to improve 'entry options' were the establishment in 1999 of the electronic job exchange, in joint venture with the provider 'Stepstone', as well as the presentation of the Group on the occasion of the German Commercial Engineers' Conference and on the Forum of Graduates Congress in Cologne. In terms of employer appeal, visitors ranked the DB Group 13th of 183 companies, a further improvement over the previous year.

These acquisition efforts are supplemented by **target group-specific recruiting events**, such as CareerDaysEngineers and Career Futures.

Improvement management expanded

The participation of the workforce in improvement management reached a higher level during the year under review. Compared with the previous year, the number of suggestions for improvements submitted jumped by more than 30%. In terms of overall benefits derived from the scheme, the improvements of € 71 million exceeded the previous year's figure by about 20%. Of the total of 67,610 suggestions for improvements that were submitted, approximately 51% were implemented. This is an increase in the implementation ratio over the previous year of about 8 percentage points.

Ongoing development of social policy

The range of social benefits provided by the company is undergoing constant revision as part of ongoing consultations with the bargaining partners. The system of company benefits will continue to develop towards greater individualization and greater comparability in the market. In a company in the midst of profound structural changes, the significance of company-sponsored benefits will need to be reassessed in terms of their cost-benefit aspects.

Suggestions for improvement

	1999	1998	1997
Suggestions total	67,610	51,664	38,956
Suggestions per 1,000 employees	349	258	163
thereof realized in %	51	43	25
Improvement in € million	71	59	48

Alliance for health

For the DB Group, the improvement of the general health of the workforce constitutes both an important social and an entrepreneurial priority. Together with the Group Employees' Council, a general company agreement on a Railway Health Alliance (**'Gesundheitsbündnis Bahn'**) was signed. In this agreement, the DB Group undertakes to utilize confirmed medical knowledge relating to the workplace and to transportation in order to create up-to-date workplaces and work organization. To this end, the DB Health Service operates a series of health centers which tend to the medical, psychological and social needs of the workforce. Through the health centers, the DB Health Service ensures that the legal requirements in terms of laws relating to the workplace, to transportation and to social aspects are being met. The centers represent the combined expertise of medical staff specializing in social and occupational medicine, of occupational and transport psychologists, social workers and welfare workers.

BAHN-BKK – Open to all transport companies

BAHN-BKK - an insurance fund for transport companies with about 650,000 policyholders and a financial volume of approximately € 1.5 billion - is one of Germany's biggest company health insurance funds and is available nationwide.

During the year under review, the personnel and material costs transferred from the DB Group to BAHN-BKK and amounting to € 77 million have forced an adjustment to premiums

of 13.5% in the west and 13.9% in the east. Measures are underway to reduce administrative costs and to stabilize compensation payments while at the same time improving the reliability of the services in question.

Outlook

In the **Employment Alliance ('Beschäftigungsbündnis Bahn')**, both sides (employers/employees) have agreed that – provided the effects from productivity measures are as expected and the economic situation permits it – no layoffs for operational reasons will occur until the year 2002. Companies, unions and the Group Employees' Council are currently negotiating an extension of the alliance to 2004 on the assumption that there will be significant improvements in the DB Group's earnings. The proposals presented by the company at these talks constitute a comprehensive contribution to securing Deutsche Bahn's future. While they are subject to critical examination, in the context of declining government contributions they are essential to the success of the company.

Research and Technology

Ongoing technological development of the overall rail system is a prerequisite for improving the Group's competitive position. Through cost-effective implementation of technological innovations encompassing the entire Group, the Research and Technology division can make a contribution in the utilization of value potentials. Solutions fit for the future rely strongly on national and international cooperative ventures and on integrated approaches.

Impetus for the Rail System

The Research and Technology Center (RTC) of the DB Group is one of the most modern facilities of its kind in Europe. The RTC plays a key role in the introduction of new vehicles and technologies. The RTC forms the crucial interface to the operative business units, and is instrumental in getting any innovations implemented more rapidly and cost-effectively. The center thus provides impetus for the whole Group. Key areas of research and development work are safety, mobility, cost reductions and minimization of noise. The RTC also acts as a service provider by accompanying the development and introduction of vehicles and infrastructure systems, and by providing solutions for specific project tasks.

Examples of the Center's varied activities are:

- Technical and Economical Track Assessment (TETrAs) / 'Demand-Responsive Track' (Bedarfsgerechter Fahrweg) program
The project 'Low Cost Track' has demonstrated that on regional lines, certain combinations of permanent way construction and maintenance measures lead to a minimization of life cycle costs. The modification of

the bridges on the high-speed line Hannover-Würzburg was also performed following the recommendations based on the simulation programs, which were compiled by the knowledge-based TETrAs system. The program package TETrAs was introduced at the '99 Hannover Fair as a ready-to-run prototype. Additional modules, such as life cycle cost assessment and vibration emissions, are currently being added.

- Freight Electronic Brake and Information System (FEBIS) / 'Flexible Vehicle Systems and Active Systems' program. The project FEBIS is a cooperative venture with the French SNCF. The objective is to create the technical bases for longer and/or heavier trains, to make automation a reality, and to integrate diagnostic and monitoring functions into the train systems. This is to be achieved by means of a train communications system operating on a radio-wire basis which is designed to work in trains of up to 2,250 meters in length and which works in conjunction with an electrically controlled braking system.

- **Introduction of new vehicle series**

The vehicle-dynamic tests of the ICE T, and ICE 3, of the ET 424 and ET 426 series, and of the tilting-technology vehicle VT 612 were milestones 1999. The VT611 series was upgraded by the RTC. The tests were accompanied by comparative investigations with American freight car bogies of the most varied designs. Regular line inspections and the approval of the new tilting technology lines were the focus of the work of the relevant test departments in 1999.

- **Integrated upgrading of vehicles**

Through the harmonized coordination and integration of the new technical systems of command and control technology such as Global Standard for Mobile Communication (GSM-R), intermittent train control and radio-based operations, significant benefits can be achieved. An important approach is the common utilization of components of systems being developed. The consistent implementation of the integrated vehicle upgrading system will produce significant savings in the long term.

Cross-border research

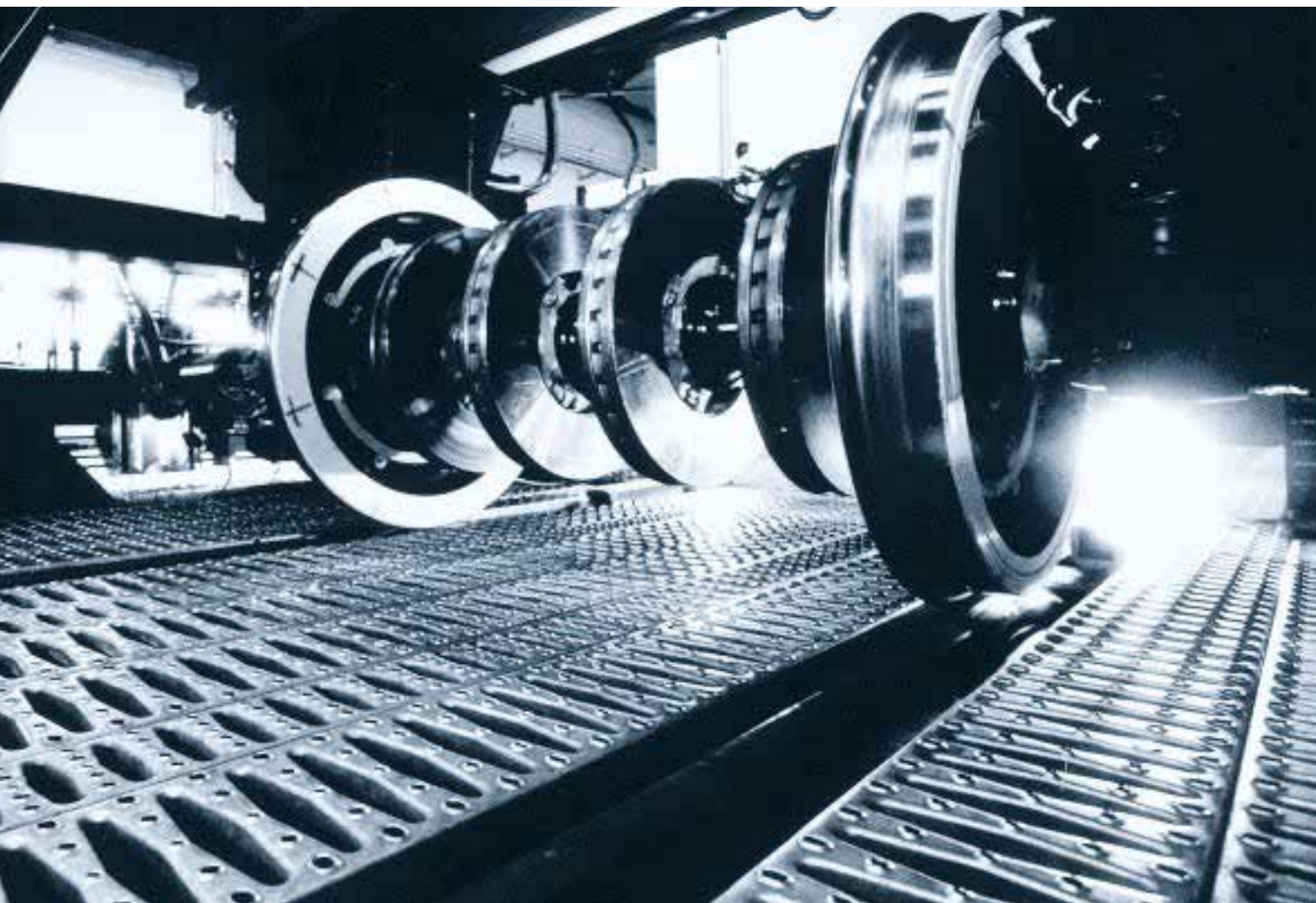
To improve the competitive position of rail in economic and ecological terms with respect to other modes of transport, it is necessary to eliminate the technical incompatibilities existing throughout Europe. To this end, international co-operation in research and development must be intensified. These activities aim specifically at ensuring full interoperability of high-speed passenger services. It was decided in 1999 to develop the next generation of European high-speed trains jointly with SNCF.

Research prize for studies referring to punctuality

The promotion of young scientists remains an important concern for Deutsche Bahn. The Deutsche Bahn Research Prize was awarded for the second time in 1999. The aim of the prize is to support next-generation scientists engaged in researching ways of strengthening the competitive position of rail transport, and who are developing strategic concepts in this field. The 1999 Research Prize, worth € 51,000 and dedicated to the theme of punctuality, went to two young scientists who worked on a mathematical model for evaluating delay minutes and on computer-controlled support systems for operations monitoring. In the year 2000, the Research Prize will be offered under the motto of 'Deutsche Bahn as a partner in transport'.

New points of emphasis in the current year

The current financial year will see additional emphasis placed on measures aimed at reducing pollutants by means of engine management and catalytic converters, and on measures for enhancing passive safety. The subject area of the prevention or minimization of the consequences of derailments will be a further focus of the work.



[Deutsche Bahn safeguards
its future competitiveness through innovation.]



Environmental Protection

The guidelines formulated on the basis of the United Nations Conference (Earth Summit) in Rio de Janeiro in 1992 for the preservation of natural resources point the way for railways which are not only economically competitive, but also ecologically and socially acceptable. The onward development of environmental protection will give the rail system a competitive lead over other modes of transport. The environmental problems associated with increasing volumes of traffic must be reduced substantially by means of a sensible division of labor between the different carriers.

Rail Agenda 21

The central program for safeguarding the positive development of the company in the long term is the Rail Agenda 21 (Bahn Agenda 21) approved in 1998. Among other things, Rail Agenda 21 contains explicit measures for reducing environmental impact, which is particularly important in the exploitation of the ecological advantage inherent in rail transport. It is imperative that this advantage is secured and consolidated in the long term. The organizational conditions for realizing these objectives have been created with the development of Deutsche Bahn's own environmental management system.

Environmental audit of maintenance facilities

To guarantee the continuity of the improvement processes in environmental protection in operational areas, environmentally relevant locations were successfully audited on the basis of DIN ISO 14001 and the EU Audit Regulation. Starting off with the Dessau

depot, via Bremen and Delitzsch, Eberswalde and Fulda, the full range of rail vehicle maintenance facilities was represented in the audit.

The Berliner S-Bahn GmbH also submitted the entire company to the procedure.

Together with partners, DB AG developed an environmental information system (UIS) to assist with the streamlining of internal processes and to utilize environmental management functions. The data on environmental protection activities to be collected in the UIS are a prerequisite both for target-oriented environmental management and for a reduction in the resource intensity of the services carried out.

Extensive catalogue of measures

In the year under review, the DB Group invested € 255 million in the minimization of environmental effects. As in the past, the focus was on measures designed to conserve the environment and its natural resources as well as boost the cost-effectiveness of the company.



[Consideration
of the environment and resources
determine operational procedures.]



Environmental Protection

Examples of such measures are:

- Investment of € 2 million in state-of-the-art building technology at the Chemnitz facility, resulting in the reduction of energy consumption by up to 15%.
- Conversion of a further 514 passenger coaches to retention toilet systems, involving an expenditure of € 15 million. Compared to open systems, this produces a 90% reduction in water use.
- Use of higher quality, bio-degradable greases in the lubrication of switches. The yearly consumption will be reduced from 550 t to 220 t.
- Impregnation of approximately 8000 m³ of wooden flooring for freight wagons is to be dispensed with.

€ 101 million was invested in the elimination of inherited environmental burdens. The elimination of hardship cases in terms of track noise cost € 1 million, noise protection measures € 6 million, and ecological compensation measures as part of the new construction and upgrading of railway lines under the transport projects German Unity took up € 6 million.

'Mobility balance' (impact assessment) compares environmental effects

In a joint initiative with the environmental foundation WWF Germany, Deutsche Bahn AG developed a mobility assessment which enables a comparative analysis to be made of the environmental impact caused by various modes of transport carriers. The results are summarized in the brochure titled 'Mobility Balance' (Impact Assessment). They will assist in arriving at decisions regarding the most suitable mode of transport. Criteria used in the assessment are not only energy consumption and the emission of atmospheric and climatic pollutants, but also cost and journey time. The project was under the scientific supervision of the Institute for Energy and Environmental Research in Heidelberg. Current data on energy

consumption and pollutant emissions from traffic carriers obtained from the Federal Department for the Environment, as well as up-to-date investigations by TÜV (Technical Control Board) Rhineland on air traffic served as the basis for the comparative analysis.

Ongoing improvements

To ensure the ongoing improvement in the standard of the company's environmental protection management, the auditing of production locations will continue in the current year with the production locations at Krefeld, Wittenberge and Leipzig. In addition, workshop locations managed in a single organizational structure will be prepared in consolidation for the audit. Scheduled for this year are the regions Lower Saxony/Bremen, Northern Bavaria and Southern Bavaria of the company DB Regio AG.

The measures to reduce energy consumption and pollutant emissions as well as for noise protection will be increased across the Group. The program currently under way and covering several years includes:

- the ongoing conversion of older, diesel-powered locomotives to engine technology that is more powerful, more energy-efficient and less polluting;
- stepping up a program to fit energy consumption meters in electric traction units as a precondition for energy-saving measures;
- the implementation of targeted noise protection measures using federal funds provided for the elimination of hardship cases amounting to approximately € 51 million.

The systematic and complete geographical recording, evaluation and remedying of the company drainage systemwaste water managements as well as the rehabilitation of inherited ecological burdens will be continued.

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Balance Sheet

on 31 December 1999

Assets	Note	1999 € million	1998 € million
A. Fixed assets			
Intangible assets	(5)	267	273
Tangible assets	(5)	32,548	30,882
Financial assets	(5)	680	584
		33,495	31,739
B. Current assets			
Inventories	(6)	866	654
Accounts receivable and other assets	(7)	2,293	2,089
Securities	(8)	53	52
Cash and cash equivalents		280	351
		3,492	3,146
C. Prepayments and accrued income	(9)	211	76
		37,198	34,961

Equity and liabilities	Note	1999 € million	1998 € million
A. Equity capital			
Subscribed capital	(10)	2,147	2,147
Capital reserve	(11)	5,313	5,313
Retained earnings	(12)	1,354	853
Balance sheet profit/loss	(13)	-152	179
Minority interests	(14)	39	36
		8,701	8,528
B. Special item for investment grants	(15)	1	1
C. Special item for untaxed reserves	(16)	22	37
D. Provisions	(17)	12,955	12,493
E. Liabilities	(18)	14,145	13,787
F. Accruals and deferred income	(19)	1,374	115
		37,198	34,961

Statement of Income

1 January through 31 December 1999

	Note	1999 € million	1998 € million
Revenues	(23)	15,630	15,348
Inventory changes		-73	-8
Other internally produced and capitalized assets		1,964	1,764
Overall performance		17,521	17,104
Other operating income	(24)	2,511	2,596
Cost of materials	(25)	-6,688	-6,595
Personnel expenses	(26)	-8,285	-8,389
Depreciation		-1,965	-1,737
Other operating expenses	(27)	-2,790	-2,546
		304	433
Investment income/loss, net	(28)	-55	-143
Interest income/expense, net	(29)	-158	-89
Income from ordinary activities		91	201
Income taxes	(30)	-4	-31
Income for the year		87	170
Minority interests in profits		10	8
Minority interests in losses		0	7

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Statement of Cash Flows

1 January through 31 December 1999

	Note	1999 € million	1998 € million
Income before taxes		91	201
Depreciation of tangible fixed assets *		1,965	1,737
Changes to pension provisions		51	47
Cash flow before taxes		2,107	1,985
Depreciation / Reversals of depreciation of financial assets		-84	27
Changes to other provisions		441	690
Changes to special items		-15	-10
Gains(-)/losses(+) from disposal of tangible fixed assets *		92	-365
Gains(-)/losses(+) from disposal of financial assets		-215	-324
Changes to current assets (excl. cash and cash equivalents)		-552	43
Changes to other operating liabilities		322	179
Income taxes		-4	-31
Cash flow from current business activities		2,092	2,194
Proceeds from disposal of tangible fixed assets *		223	978
Payments for purchase of tangible fixed assets *		-8,259	-7,752
Proceeds from investment grants		3,491	3,015
Proceeds from additions to interest-free loans from the federal government		847	484
Repayments of interest-free loans to the federal government		-423	-250
Proceeds from disposal of financial assets		389	575
Payments for additions to financial assets		-84	-195
Proceeds from the disposal of shares in consolidated companies		3	12
Payments for purchase of shares in consolidated companies		-6	-1
Cash flow for investment activities		-3,819	-3,134
Income payments to minority shareholders		-7	-3
Proceeds/payments from long-term Group financing		393	-12
Proceeds from short-term Group financing		4	22
Proceeds from issuing bonds and taking out loans		1,352	879
Repayments of bonds and loans		-86	-42
Cash flow from financing activities		1,656	844
Net change in cash and cash equivalents		-71	-96
Cash and cash equivalents at beginning of period	(32)	351	447
Cash and cash equivalents at end of period	(32)	280	351

* including intangible assets

Notes

for the 1999 financial year

The consolidated financial statements of Deutsche Bahn AG were drawn up in accordance with the provisions of the German Commercial Code (HGB) and the German Corporation Act (AktG) as well as the Ordinance relating to the structure of annual financial statements of corporations engaged in the transport sector. In order to improve the clarity of the presentation, items legally required have been consolidated in the Balance Sheet and in the Income Statement. The Notes contain the required details and explanatory remarks.

(1) Scope of consolidation

Apart from Deutsche Bahn AG as the parent company, the consolidated financial statements extend to include 150 domestic and 18 foreign subsidiaries in which Deutsche Bahn AG has direct or indirect holdings amounting to more than 50% of the voting capital, as well as four companies in which Deutsche Bahn AG or one of its subsidiaries as shareholders is entitled to appoint the majority of members of the Management Board or Supervisory Board.

The consolidated financial statements are based on accounting in German marks (DM). It will for the first time be reported in euros at the official conversion rate of DM 1.95583. The Group currency will change over to euros at 1 January 2002.

The **financial statements of Deutsche Bahn AG** audited by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and given an unqualified auditors' certificate will be published in the German Federal Gazette (Bundesanzeiger) and filed with the Commercial Register of the District Court of Berlin-Charlottenburg under No. HRB 50000.

74 associated companies are included with their pro-rata share of equity capital.

19 companies of lesser significance have not been included in the consolidated financial statements in line with Section 296 (2) HGB.

The companies included in the consolidated financial statements and the associated companies underwent the following changes compared with the consolidated financial statements of the prior year:

Consolidated Financial Statements

a) companies included in the consolidated financial statements

	1999
Additions	
• from newly founded companies and spin-offs	6
• from shares acquired	1
	7
Disposals	
• from sales	1
• from changes in shareholdings (associated companies in the year under review)	1
• by termination	1
• by non-inclusion in the consolidated annual financial statements	1
• by mergers within the Group	24
	28
Changes year on year	-21

b) associated companies

	1999
Additions	
• from shares acquired	1
• from inclusion for the first time (fully consolidated in previous year)	1
• from inclusion for the first time	2
	4
Disposals	
• from sales	5
• from additional shares purchased (fully consolidated for the first time)	1
	6
Changes year on year	-2

The differences arising from the first time consolidation were offset in retained earnings.

Material influences arising from changes in the consolidated companies, if any, are dealt with in the Management Report.

The list of shareholdings in accordance with Section 313 (2) and Section 285 No. 11 HGB has been filed with the Commercial Register of the District Court of Berlin-Charlottenburg under No. HRB 50000.

(2) Consolidation methods

The financial statements of the companies included in the consolidated financial statements are dated as of 31 December.

All material financial statements included have been reviewed and certified without qualification by independent auditors.

The capital consolidation is done according to the book value method on the reference date of the Group opening balance sheet (1 January 1994) or at the time of acquisition at a later date, respectively.

Differences in assets and liabilities arising from the capital consolidation on the reference date of the Group opening balance sheet have been offset against one another. The remaining difference in liabilities has been posted as retained earnings unless provisions had to be set up for expenditure after the reference date of the Group opening balance sheet.

When the capital consolidation takes place at the time of acquisition, the acquisition values of participations are offset against

the pro-rata shares of equity capital which they account for at that point in time. The differences arising in the process are apportioned to retained earnings without this affecting the operating result as these differences are essentially in the nature of goodwill. This apportionment without impacting the operating result is retained on disposal of companies.

For accounting relating to associated companies according to the equity method, the same principles apply. Four associated companies work with a different financial year; interim financial statements as at 31 December were not prepared for the companies in question. To the extent that financial statements as at 31 December 1999 or for a financial year that ended in fiscal 1999, the financial statements of the previous year were used as a basis.

Revenues, income, and expenses as well as receivables, liabilities and provisions between and among the companies included in consolidation are eliminated; this also applies to the effects arising from the transfer of assets within the Group.

(3) Currency translation

Financial statements of foreign subsidiaries are translated according to the reference date method as follows:

Balance sheet items, income for the year and depreciation are converted into DM at the middle rates on the balance sheet date and the remaining items of the income statement are converted at the average middle rates of the financial year. To the extent that

this leads to conversion differences, these have been posted as 'other operating income' or 'other operating expenses', as the case may be.

In the individual financial statements, receivables and liabilities in foreign currency are converted at the bid or asking rate on the day on which they arose. Adjustments are made if the rates prevailing on the

balance sheet date result in lower receivables or higher liabilities.

Currency translations play an insignificant role regarding specific items of the balance

(4) Accounting and valuation methods

There have been no changes in the accounting and valuation methods compared to the previous year.

Intangible assets acquired against payment are valued at acquisition cost less scheduled linear depreciation.

Tangible fixed assets are shown at their acquisition or manufacturing costs and, where applicable, less scheduled depreciation. Special write-downs are also made in cases of expected impairment of value, if recovery of the book value can no longer be expected in the individual case.

Manufacturing costs also include direct costs as well as prorated material and

sheet or income statement of DB Group. Direct effects relating to exchange rate developments are negligible. Accordingly, a separate presentation of currency ratios and currency effects has been omitted.

production overheads including scheduled depreciation. Prorated material and production overheads as well as depreciation are determined on the basis of actual figures. Interest on borrowed funds and administrative expenses are not included in manufacturing costs.

Scheduled **depreciation** is recognized using the straight-line method based on the normal useful life applicable in rail transport and shipping and otherwise using the declining balance method – if permissible by tax law. Depreciation is determined in accordance with the tax depreciation tables. The **useful life of the main groups** are shown in the table below:

	Years
Software, other rights	5
Permanent way structures, tunnels, bridges	75
Track infrastructure	20 – 25
Buildings and other constructions	10 – 50
Signaling equipment	20
Telecommunications equipment	5 – 20
Rolling stock	15 – 30
Ships	20 – 25
Other technical equipment, machinery, vehicles	5 – 25
Factory and office equipment	2 – 10

Fixed assets of lesser value (at Deutsche Bahn AG and the companies spun off effective as of 1 January 1999 these are fixed assets with an individual value of up to € 2,045 (DM 4,000); other than that, fixed assets with an individual value of up to € 409 (DM 800)) are written off in full in the year of acquisition and carried as disposals.

Financial assets are valued at acquisition cost and subject to write-downs where appropriate. Holdings in associated companies are accounted for using the equity method.

Inventories are valued at acquisition or manufacturing cost; raw materials and supplies are valued on the basis of average acquisition costs. Risks in inventories resulting from restricted use, long storage periods, price changes on the buying market and other shortfalls in value have been taken into account by reducing values accordingly.

Accounts receivable and other assets are valued at their nominal or face values unless a lower value was required to be used in specific cases. Discernible risks have been taken account of by individual and lump-sum value adjustments.

Cases of **special depreciation effected on the basis of tax law** are reported as special items for untaxed reserves.

Pension provisions are carried as liabilities at their partial value in line with Section 6 a of the German Income Tax Act (EStG). As in the previous year, the 1998 reference tables of Dr. Klaus Heubeck were used as a basis. The extent of the provision was determined by actuarial methods applying an unchanged interest rate of 6% for calculation purposes.

All other **provisions** are valued at an amount considered necessary by prudent commercial assessment and are not discounted. Provisions take account of all discernible risks. The remaining provisions are determined at full cost. For discrepancies of a temporary nature between earnings determined according to commercial and tax law for the companies included in the consolidated financial statements, provisions are set up for deferred taxes if the negative discrepancies predominate in the case of the respective company. No positive deferred tax balances are applied. Deferred taxes from the consolidation are offset against the negative deferrals from individual financial statements.

Liabilities are reported in the amount of repayment.

Consolidated Financial Statements

Fixed Assets Schedule

	Acquisition and manufacturing costs				
	Balance at 1 Jan 1999 € million	Changes to companies consolidated € million	Additions € million	Transfers € million	Disposals € million
Intangible assets					
1. Licenses, patents, trademarks, and similar rights	500	0	52	5	-3
2. Goodwill	10	0	1	0	0
3. Advance payments	6	0	13	-5	-1
	516	0	66	0	-4
Tangible assets					
1. Land, leasehold rights, and buildings including buildings on land owned by others					
a) Land and leasehold rights	5,300	0	75	-35	-80
b) Commercial, office, and other buildings	1,772	0	114	185	-17
c) Permanent way formation and structures	6,647	0	353	-121	-10
	13,719	0	542	29	-107
2. Track infrastructure, signaling and control equipment	8,555	0	841	-170	-59
3. Rolling stock for passenger and cargo transport	7,309	0	881	501	-121
4. Technical equipment and machinery other than No. 2 or 3	618	0	59	35	-17
5. Other equipment, operating and office equipment	1,613	0	325	64	-247
6. Advance payments and construction in progress	4,819	0	516	-459	575
	36,633	0	3,164	0	24
Financial assets					
1. Investments in affiliated companies	1	0	0	0	0
2. Loans to affiliated companies	0	0	3	0	0
3. Investments in associated companies	532	0	105	0	-80
4. Investments in related companies	31	0	3	0	0
5. Loans to associated and related companies	1	0	0	0	-1
6. Long-term securities	41	0	16	0	-12
7. Other loans	46	0	13	0	-52
	652	0	140	0	-145
Total fixed assets	37,801	0	3,370	0	-125

Accumulated depreciation

Book value

Balance at 31 Dec 1999 € million	Balance at 1 Jan 1999 € million	Changes to companies consolidated € million	Additions € million	Write-backs € million	Transfers € million	Disposals € million	Balance at 31 Dec 1999 € million	Balance at 31 Dec 1999 € million	Balance at 31 Dec 1998 € million
554	-237	0	-71	0	0	4	-304	250	263
11	-6	0	-1	0	0	0	-7	4	4
13	0	0	0	0	0	0	0	13	6
578	-243	0	-72	0	0	4	-311	267	273
5,260	0	0	0	0	0	0	0	5,260	5,300
2,054	-309	0	-75	0	-1	6	-379	1,675	1,463
6,869	-495	0	-149	0	0	1	-643	6,226	6,152
14,183	-804	0	-224	0	-1	7	-1,022	13,161	12,915
9,167	-2,072	0	-627	0	-1	33	-2,667	6,500	6,483
8,570	-1,947	0	-661	0	-2	95	-2,515	6,055	5,362
695	-241	0	-72	0	1	12	-300	395	377
1,755	-687	0	-309	0	2	225	-769	986	926
5,451	0	0	0	0	0	0	0	5,451	4,819
39,821	-5,751	0	-1,893	0	-1	372	-7,273	32,548	30,882
1	0	0	0	0	0	0	0	1	1
3	0	0	0	0	0	0	0	3	0
557	-61	0	0	85	0	17	41	598	471
34	-5	0	-1	0	0	0	-6	28	26
0	0	0	0	0	0	0	0	0	1
45	-1	0	0	0	0	0	-1	44	40
7	-1	0	-2	2	0	0	-1	6	45
647	-68	0	-3	87	0	17	33	680	584
41,046	-6,062	0	-1,968	87	-1	393	-7,551	33,495	31,739

Notes to the balance sheet

(5) Fixed assets

Movements in fixed assets are shown on the preceding pages. A separate presentation of the impacts of currency conversion was omitted as they are negligible (see Note (3) Currency translation).

The **investment grants** received in financial year 1999 from the German government in accordance with Article 2 Section 22 (1) No. 2 of the Railway Restructuring Act for Infrastructure Measures (Eisenbahnneuordnungsgesetz für Infrastrukturmaßnahmen) relating to the former Deutsche Reichsbahn amounting to € 890 million (previous year: € 855 million) were offset against additions to assets.

The positive **disposal** figures shown under 'advance payments and construction in progress' result essentially from the fact that the investment grants offset against the

acquisition and manufacturing costs in previous years were recorded as income in 1999.

During the fiscal year, € 77 million (previous year: € 30 million) was written off in **unscheduled depreciation** on fixed assets – primarily for the decommissioning of rolling stock as well as track infrastructure and equipment.

Write-backs with respect to financial assets in the amount of € 87 million (previous year: € 15 million) almost exclusively relates to a balance adjustment according to the equity method for holdings in associated companies.

Under 'intangible assets' goodwill – which remains unchanged at € 4 million – has been transferred from the individual financial statements of the respective companies.

(6) Inventories

	1999 € million	1998 € million
Raw materials and manufacturing supplies	485	400
Unfinished products, work in process	323	227
Finished products and goods	13	10
Advance payments to suppliers	45	17
Total	866	654

Provisions were set up taking into account the strict valuation at the lower of cost prin-

ciple and marketability discounts of € 278 million (previous year: € 304 million).

(7) Accounts receivable and other assets

	1999 € million	of which due after more than one year € million	1998 € million
Trade receivables	1,028	7	1,013
Receivables from affiliated companies	2	0	1
Receivables from related companies	112	0	196
Other assets	1,151	1	879
Total	2,293	8	2,089

Value adjustments for receivables amount to € 206 million (previous year: € 178 million).

The main elements of other assets are short-term cash investments through years' end totaling € 537 million (previous year: € 141 million) and claims on the tax authorities.

(8) Securities

Securities held as current assets are, as a general operating reserve, exclusively invested as marketable securities.

(9) Prepayments and accrued income

Prepayments and accrued income amounting to € 211 million (previous year: € 76 million) include a discount of € 42 million (previous year: € 15 million) and mainly concern deferred charges for financing,

insurance premiums, rentals and leases as well as advance payments in connection with the introduction of the new digital mobile communication system GSM-R.

(10) Subscribed capital

The subscribed capital amounting to € 2,147 million (DM 4,200 million) is made up of 84 million bearer shares having a par value of

DM 50 each. The shares are held entirely by the Federal Republic of Germany.

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(11) Capital reserves

Capital reserves totaling € 5,313 million (DM 10,391 million) are, as before, made up of the amount of the difference (€ 3,732 million / DM 7,300 million) between the equity capital shown on Deutsche Bahn AG's opening balance sheet and the amount in excess of the guarantee amount of the property based on the conservative valuation using a market value of € 1,581 million / DM 3,091 million as first calculated in 1997,

in accordance with Article 2 Section 10 (4) of the Railway Restructuring Act (Eisenbahnneuordnungsgesetz).

The capital reserves of subsidiaries included in the consolidated financial statements have been included at their book values according to the shareholding or are to be transferred to Minority Interests.

(12) Retained earnings / other retained earnings

The subsidiaries' equity ratios remaining after netting against book value of the shareholding, and reclassification to 'Minority interests', are shown under 'Other retained

earnings'. Changes to the differences resulting from consolidation mainly come from the group of associated companies.

	1999 € million	1998 € million
Retained earnings, carried forward to January 1	853	729
Balance sheet profit, carried forward to January 1	179	197
Changes to equity and liabilities-side differences resulting from consolidation	49	-3
Changes to assets-side differences resulting from consolidation	43	-59
Transfers from minority interests	0	-1
Changes resulting from foreign currency translations	1	0
Consolidated income for the year	87	170
Minority interests	-10	-1
Retained earnings and balance sheet profit at December 31	1,202	1,032
Posted as balance sheet profit/loss	152	-179
Retained earnings at December 31	1,354	853

(13) Balance sheet loss / profit

The unappropriated loss/profit posted to the consolidated balance sheet corresponds to the balance sheet loss/profit in Deutsche

Bahn AG's financial statements, in the previous year after transfer to retained earnings.

(14) Minority interests

	1999 € million	1998 € million
Adjustment items on the equity and liabilities-side	47	44
Adjustment items on the assets-side	-8	-8
Total	39	36

Adjustment items are calculated using the book value method without hidden reserves being written back. Adjustment items on the

assets-side apply indirectly to minority interests' non-capitalised goodwill as well as accrued losses.

(15) Special item for investment grants

The special items are written back in accordance with the depreciation procedure for the subsidized fixed assets.

(16) Special item for untaxed reserves

	1999 € million	1998 € million
in accordance with Section 273 HGB:		
• Reserves (not carried over) in accordance with Section 6 b EstG	0	3
in accordance with Section 281 HGB:		
• Reserves (carried over) in accordance with Section 6 b EstG	0	5
• Reserves in accordance with Section 3 (2) ZonenRFG	4	8
• Reserves in accordance with Section 4 FördergebietsG	18	21
	22	34
Total	22	37

Special item for untaxed reserves have been transferred unchanged from the individual financial statements of subsidiaries.

Income of € 14 million (previous year: € 13 million) from the write-back of the special

item for untaxed reserves is included in 'Other operating income'. The allocation of € 0 million (previous year: € 8 million) to retained earnings has been charged to 'Other operating expenses'.

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(17) Provisions

	1999 € million	1998 € million
Pension provisions	469	418
Tax provisions	332	369
Provisions for deferred taxes	23	16
Other provisions	12,131	11,690
Total	12,955	12,493

Pension provisions of € 59 million (previous year: € 52 million) were added during the last financial year.

Other provisions consisted of the following:

	1999 € million	1998 € million
Accrued personnel and social costs	1,547	1,417
Restructuring	2,115	2,149
Environmental legacy	3,225	3,316
Return obligations	480	490
Other risks	4,764	4,318
Total	12,131	11,690

Accrued personnel and social costs mainly take the form of leave entitlements, accumulated flexitime, anniversary bonuses, profit-sharing bonuses and early retirement benefits. Severance pay and similar expenses have been allocated to provisions for restructuring.

Provisions for the environmental legacy are primarily for cleaning up damages caused before 1 July 1990 in the area of the former Deutsche Reichsbahn. For this an amount of € 2.9 million was set aside in the opening balance sheet of the Deutsche Reichsbahn which was transferred unchanged to Deutsche Bahn AG's opening balance sheet. Provisions for return obligations were set up for possible restitution claims on property in the area of the former Deutsche Reichsbahn.

Other risks serve to consolidate all remaining contingent liabilities. These primarily include provisions for:

- Recultivation and reforestation (decommissioning of railway track and related facilities),
- Deferred maintenance work (also includes future measures to be taken in connection with the preparation for sale of properties),
- Risks from pending business, guarantees and also for contingent liabilities arising from deliveries and services not yet invoiced,
- Possible reclamation of grants.

(18) Liabilities

	1999	with a residual maturity of			1998
	€ million	up to one year € million	one to five years € million	more than five years € million	€ million
Interest-free loans	6,344	229	1,099	5,016	8,284
Bonds	3,181	0	553	2,628	1,831
Liabilities to credit institutions	92	10	22	60	176
Advance payments received for orders	260	172	88	0	175
Trade accounts payable	1,851	1,847	3	1	1,837
Liabilities to affiliated companies	0	0	0	0	1
Liabilities to related companies	1,338	253	174	911	712
Other liabilities	1,079	921	110	48	771
• of which taxes	(96)	(96)	(0)	(0)	(82)
• of which relating to social security	(115)	(115)	(0)	(0)	(122)
Total	14,145	3,432	2,049	8,664	13,787

The **interest-free loans** take the form of German government funding for the extension and replacement of railway lines. The basis for these loans is the responsibility for meeting the transport needs of the general public as incorporated in Germany's constitution (Article 87e (4) GG) and put in concrete terms in the law governing the extension of the German rail network (BschwAG). Such loans bear no interest. Amortization is fixed under individual and collective finance agreements. In general such repayments take the form of equal, annual installments – with the corresponding annual rates of depreciation serving as a guideline for the amount.

The drop recorded in interest-free loans over the previous year is due to a transformation into investment grants on the one hand, and to the purchase of redemption commitments for the years 2025 to 2041 by DB Netz AG on the other. These redemption commitments were purchased at market value. The difference between nominal and market value has been recorded under 'Accruals and deferred income' (see Note 19) and will be written back continually over a period of 20 years.

Liabilities to related companies include long-term interest-bearing loans from EU-ROFIMA Europäische Gesellschaft für die Finanzierung von Eisenbahnmateriale (Basel/Switzerland) amounting to € 919 million (previous year: € 524 million).

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In general, **liabilities** are not secured.

Exceptions are:

- amounts owed to EUROFIMA are secured by a pledge of railway equipment (mainly rolling stock);
- of the amounts owed to credit institutions,

€ 17 million (previous year: € 20 million)

were secured by mortgage as well as

€ 0 million (previous year: € 2 million)

by means of assignment of the financed capital goods involved.

A listing of financial debt can be found in Note (22).

(19) Accruals and deferred income

The substantial rise in **accruals and deferred income** results primarily from the purchase

of redemption commitments on interest-free loans (see Note (18)).

(20) Contingent liabilities

	1999 € million	1998 € million
Contingent liabilities from the issue and transfer of bills of exchange	0	1
Contingent liabilities from guarantees	75	109
Contingent liabilities from granting securities for third parties liabilities	1,154	738
Total	1,229	848

Contingent liabilities from granting securities for third parties liabilities are for liabilities of the Federal Railway Fund (BEV) towards EUROFIMA Europäische Gesellschaft für die Finanzierung von Eisenbahnmaterial (Basel/Switzerland). EUROFIMA loans to the Federal Railway Fund (or its predecessors-in-title, Deutsche Bundesbahn and Deutsche Reichsbahn) are secured through ownership transfer of rolling stock used in passenger and

freight transport. While the loans remained with the Federal Railways Fund, for the time being rolling stock has been passed over to Deutsche Bahn AG and then, as part of the spin-off under phase II of the Railway Reform, were passed on to various companies within Deutsche Bahn Group – primarily to DB Reise&Touristik AG, DB Regio AG and DB Cargo AG.

(21) Other financial commitments

	1999 € million	1998 € million
Order commitments for investments	9,407	10,684
Outstanding investments	322	325
Commitments from rental, leasing contracts, and other	4,108	1,752
Total	13,837	12,761

The **outstanding investments** concern EUROFIMA Europäische Gesellschaft für die Finanzierung von Eisenbahnmaterial (Basel/Switzerland).

The **commitments from leasing contracts** within the item **Commitments from rental, leasing contracts, and other** have been posted at their nominal value for the first time this year. The previous-year figure has been

adjusted accordingly. The following table gives a detailed listing of both the nominal and cash values broken down by maturity. Leasing plays a minor part in the financing of necessary business assets. During the fiscal year 1999, lease payments totaling € 78 million (previous year: € 79 million) were paid. Future commitments from leasing contracts (position at 31 December 1999) will mature as shown below:

	Nominal value € million	Present value at 7.5% € million
Lease payments due within one year	85	81
Lease payments due within one to five years	418	334
Lease payments due after five years	682	357
Total	1,185	772

(22) Financial instruments

The Treasury Center of Deutsche Bahn AG is responsible for the Group's financial and hedging activities and, in this connection, also operates the central cash management for the entire Group. Work procedures are

clearly segregated with regard to trade (front office) and settlement (back office). The Treasury Center is subject to regular internal audits.

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A. ORIGINAL FINANCIAL INSTRUMENTS

The main original financial instruments as of December 31, 1999 have been listed together with **financial debt** in total in the following

table, with nominal amounts corresponding to book values:

	Currency	Residual maturity	Nominal interest rate in %	Book value 31 Dec 1999 € million
DB Finance B.V. bonds:				
• Bond 1995-2002	DM	2.6	6.875	511
• Bond 1997-2007	DM	7.8	5.750	511
• Bond ¹⁾ 1998-2003	DM	max. 3.3	1.125	42
• Bond 1998-2008	DM	8.4	5.000	767
• Bond 1999-2009	€	9.5	4.875	1,350
Total				3,181
EUROFIMA loans:				
• Bond ²⁾ 1994-2001	DM	1.1	4.080	1
• Bond ²⁾ 1995-2005	DM	5.7	4.750	6
• Loan 1996-2006	DM	7.0	6.000	256
• Loan 1997-2009	DM	10.0	5.625	256
• Loan 1999-2009	€	9.8	5.750	400
Total				919
Liabilities to credit institutions:				
• Promissory note 1998-2008	DM	8.3	5.310	51
• Other items				41
Total				92
Total financial debt				4,192

¹⁾ Bond holders have the option of conversion into Deutsche Lufthansa AG shares held by Deutsche Bahn AG.

²⁾ The EUROFIMA loan to D.A.CH. Hotelzug (Zurich/Switzerland), now trading as CityNightLine CNL AG (Zurich/Switzerland), was taken over as part of a purchase of rolling stock from DB AG on 31 December 1996.

€ 10 million of the amount owed to credit institutions – and thus also of total financial debt – is due within one year.

In addition to the liabilities on the balance sheet – as of 31 December 1999 – 12 banks had extended guaranteed credit facilities to Deutsche Bahn AG totalling € 1.8 billion to cover short-term liquidity needs.

B. FINANCIAL DERIVATIVES

Financial derivatives are used exclusively to hedge against interest rate and currency risks in connection with financial transactions of the Deutsche Bahn Group. Each individual deal corresponds to an on-balance-sheet item or an anticipated transaction (bonds, loans etc.). Speculative transactions are not permitted. The use, settlement, and control of derivative transactions is regulated by internal guidelines. Ongoing market and risk evaluation takes place within the framework of risk management.

Only interest rate swaps are used to cover possible interest rate risks. The resulting interest differential is apportioned on an accrual basis. Future interest differentials, as they are in effect pending transactions, are not carried on the balance sheet. Provisions were not made for pending losses.

Foreign currency risks were of marginal significance to the Deutsche Bahn Group. To hedge against price changes for future foreign currency payments, futures contracts and options were used.

The **nominal value** of the following hedging transactions represents the sum of all purchase and sales contracts for the underlying deals. The level of nominal volume allows conclusions to be drawn as to the extent to which derivatives are used, but not on the risk of using derivatives.

The **market value** of a financial derivative is equivalent to its cost of liquidation or replacement of the underlying transaction. The market values were determined using financial models or market prices; hereby, compensating effects from the underlying transactions were not taken into account. Conversely, the derivative transaction is not included when accounting for the underlying business (i.e. no hedge accounting). Since valuation units (derivative/underlying) exist, the market value of the derivative as well as changes to market value of the underlying are shown in the following table.

Possible losses due to non-performance by counterparts ('risk of default') are indicated under **credit risks**. They represent the replacement costs of transactions where Deutsche Bahn Group has claims due to a positive market value. The following information on credit risk reflects the simple sum of all individual risks. To limit the risk, Deutsche Bahn Group requires that a general agreement with the counterpart for derivative transactions is in place before a deal is made. Strict creditworthiness requirements for counterparts not only when making a deal but also for the full term of the contract, as well as the setting of risk limits, are to limit the credit risk further.

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Nominal and market values of interest-rate derivatives

	1999 € million	1998 € million
Nominal values	2,790	1,790
Change in value of valuation units:		
• Market value of derivatives	-75	-7
• Changes to market value of underlying	95	-129
Total	20	-136

At 31 December 1999 the portfolio consisted solely of interest-rate swaps having a residual life of over one year. The increase in value

is mostly due to the significant rise in interest rates during the financial year 1999.

Nominal and market values of currency derivatives

	1999 € million	1998 € million
Nominal values	108	151
Change in value of valuation units:		
• Market value of derivatives	9	-4
• Changes to the market value of underlying	0	0
Total	9	-4

The currency-hedging contracts, made up of futures contracts and options which were predominantly concluded by companies of

the DER-Group (Frankfurt/Main), had maturities of up to one year.

Credit risk

	1999 € million	1998 € million
Credit risk interest-rate and currency derivatives	27	95

The largest single risk – the risk of default by individual counterparts – in the amount of € 12 million is with a counterpart who has a Moody's credit rating of Aa3.

For contracts with a maturity of over one year, all counterparts with whom a credit risk exists have a Moody's rating of at least Aa3.

Notes to the income statement

(23) Revenues

The segment details of revenues amounting to € 15,630 million (previous year: € 15,348 million) reported by corporate divisions is shown on page 98.

Of the change in revenues, € 62 million (previous year: € -173 million) came from additions and disposals of consolidated companies.

(24) Other operating income

	1999 € million	1998 € million
Sales and services to third parties and sales of materials	403	417
Rentals and leases	207	223
Other operating income	945	779
Gains from disposal of fixed assets	447	888
Gains from write-down of provisions	307	93
Gains on reversal/recovery of write-offs regarding accounts receivable	71	62
Gains from write-down of special item for untaxed reserves	14	13
Other income relating to a different accounting period	117	121
Total	2,511	2,596

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(25) Cost of materials

	1999 € million	1998 € million
Costs of raw materials, supplies and products	1,573	1,604
Costs of services	3,005	2,850
Maintenance costs	2,718	2,893
Subtotal (gross cost of materials)	7,296	7,347
Government contributions	-608	-752
Total	6,688	6,595

Deliveries and services for **self-constructed plant and equipment** are included under cost of materials. Capitalization in fixed assets is effected via 'Other internally produced and capitalized assets'.

Government contributions are paid in accordance with Article 2 Section 22 (1) No. 3 of the Railway Restructuring Act. In this way the Federal Government contributes to the

reduction of additional operating expenses for the harmonization of development, technical equipment and level of productivity in the area of the former Deutsche Reichsbahn (East German Railways) with that of the former Deutsche Bundesbahn (West German Railways). The contributions decrease from year to year in relation to the anticipated reduction in additional operating expenses and will cease completely after 2002.

(26) Personnel expenses

	1999 € million	1998 € million
Wages and salaries		
for employees	5,865	6,015
for civil servants assigned		
a) Payments to the Federal Railway Fund in accordance with Article 2 Section 21 (1) and (2) Railway Restructuring Act	1,689	1,851
b) ancillary remuneration paid direct	108	62
	7,662	7,928
Social security and contributions to retirement benefits and support payments		
for employees	1,235	1,211
for civil servants assigned (Payments to Federal Railway Fund in accordance with Article 2 Section 21 (1) and (2) Railway Restructuring Act)	389	460
	1,624	1,671
• of which for retirement benefits	(761)	(765)
Subtotal (gross personnel expenses)	9,286	9,599
Contributions by Federal Railway Fund	-1,001	-1,210
Total	8,285	8,389

The **retirement benefits** figure includes the employer's matching pension contributions and the employer's commitment to pay benefits for civil servants on leave.

Contributions by the Federal Railway Fund (BEV) are made in accordance with Article 2 Section 21 (5) No. 1 of the Railway Restructuring Act. They serve to reimburse the ad-

ditional personnel costs resulting from the higher personnel expenses of the former Deutsche Reichsbahn (East German Railways) compared to the former Deutsche Bundesbahn (West German Railways). These contributions decrease from year to year in relation to the anticipated reduction in personnel expenses and will cease after 2002.

(27) Other operating expenses

	1999 € million	1998 € million
Rentals and leases	549	553
Fees and contributions	290	269
Other operating expense items	1,289	1,336
Losses from disposal of fixed assets	324	199
Cost for write-downs/write-offs of receivables	121	28
Cost from addition of special item for untaxed reserves	0	8
Other costs relating to a different accounting period	217	153
Total	2,790	2,546

Of the **Other operating expense items**,
€ 54 million (previous year: € 76 million)
relate to 'Other taxes'.

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(28) Investment income/loss, net

	1999 € million	1998 € million
Income from investments	2	10
• of which from affiliated companies	(1)	(8)
Income from associated companies	92	27
Expenses for coverage of losses	-147	-138
Write-down of investments	-2	-42
Total	-55	-143

(29) Interest income/expense, net

	1999 € million	1998 € million
Income from other securities and the lending of financial assets	3	4
• of which from affiliated companies	(0)	(0)
Other interest and similar income	75	65
• of which from affiliated companies	(0)	(0)
Interest and similar expenses	-236	-158
• of which from affiliated companies	(0)	(0)
Total	-158	-89

(30) Income taxes

As income taxes are reported the domestic corporate income tax including the solidarity tax surcharge and trade income tax as well as equivalent foreign income-linked taxes.

The relatively low tax rate is a result of tax losses being carried forward which, providing tax laws remain unchanged, will keep tax rates low for the foreseeable future.

(31) Earnings per share

Net income is used to calculate earnings per share; this corresponds to post-tax earnings less minority interests in profits/losses.

		1999	1998
Net income	€ million	77	169
Number of shares issued		84,000,000	84,000,000
Earnings per share	€	0.92	2.01

Notes to the cash flow statement

The cash flow statement has been completely revised compared to the previous years' re-

port. Figures from the previous year have been adjusted accordingly.

(32) Cash and cash equivalents

Cash and cash equivalents comprise cash assets (checks, cash in hand, cash at the Bundesbank and the Postbank, balances with credit institutions) shown on the balance

sheet. For details to other cash-like assets we refer to the Notes with respect to balance-sheet items 'Other assets and securities'.

Segment report

Within the Deutsche Bahn Group, the segment divisions are defined by the various business services. In this respect, the new management structure approved at the meeting of the Supervisory Board on 1 March 2000 has been taken into account. The Deutsche Bahn Group's activities are now arranged in five corporate divisions.

Under the **Passenger Transport** division, there are two operating areas under the management of DB Reise&Touristik AG and DB Regio AG, both of which are wholly owned subsidiaries of the Deutsche Bahn Group responsible for managing the Group's passenger transport services as well as its tourism business. Within the business unit DB Reise&Touristik long-distance transport services are provided by DB Reise&Touristik AG. Tourism activities and supporting services will be carried out by their subsidiaries. DB Regio's area of business will include a wide range of local and regional travel services (in general: distances

of up to 50 km or travelling times of up to one hour, respectively). While DB Regio AG's focus is on rail transport, its associated subsidiaries provide rail and bus transport or other complementary services. The transport services of the Passenger Transport division makes Deutsche Bahn Group Europe's leading rail company in this field.

In the year under review, the **Freight Transport** division included the management company DB Cargo AG, a wholly owned subsidiary of Deutsche Bahn AG, as well as DB Cargo AG's associated subsidiaries. As a result of the joint venture with the Dutch railway company Nederlandse Spoorwegen, which took effect on 1 January 2000, the role of the management company was taken over by Railion GmbH in which Deutsche Bahn AG holds a 94% share and the NS Groep N.V. a 6% share. Railion GmbH in turn has a stake in DB Cargo AG (100%) as well as Railion Benelux B.V., formerly known as NS Cargo N.V. (100%). The division includes both national and international rail freight traffic as well as complementary logistical services. The Freight Transport division holds a leading position in Europe in its respective field.

The operation of passenger stations as travel stations, and the optimum marketing of their locations for the benefit of all station users, is the responsibility of the **Passenger Stations** division. The services involved are provided mainly by the management company DB Station&Service AG, a wholly owned subsidiary of Deutsche Bahn AG.

The **Track Infrastructure** division managed by another wholly owned subsidiary of Deutsche Bahn AG, DB Netz AG, is responsible for the infrastructure, i.e. especially for the railway track and the intermodal terminals.

The extensive **Real Estate** of the Deutsche Bahn Group, together with related responsibilities, have been placed in the newly-formed Real Estate division. Expertise has been pooled in the Deutsche Bahn Immobilien-gesellschaft mbH, a wholly owned subsidiary of Deutsche Bahn AG, which will assume a leading role in the management, marketing and project development of real estate not assigned to the operating divisions of the Deutsche Bahn Group.

Reporting by regions was refrained from due to the fact that the share of foreign revenues during the year under review was negligible and since a subdivision within Germany seemed to make little sense looking at the Group's nationwide presence.

A segmentation of **expenditure on research and development (R&D)** was also omitted, as this is predominantly being done on a centralized basis within the Deutsche Bahn Group.

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Group divisions	External revenues		Intra-group revenues		Divisional revenues		Depreciation	
	1999 € million	1998 € million	1999 € million	1998 € million	1999 € million	1998 € million	1999 € million	1998 € million
Passenger Transport								
• DB Reise&Touristik	4,172	4,038	321	307	4,493	4,345	259	195
• DB Regio	7,328	7,181	720	604	8,048	7,785	348	322
Total	11,500	11,219	1,041	911	12,541	12,130	607	517
Freight Transport	3,541	3,623	632	363	4,173	3,986	169	141
Passenger Stations	184	179	583	514	767	693	73	60
Track Infrastructure	153	120	3,709	3,753	3,862	3,873	823	751
Other / Holding / Consolidation effects	252	207	2,733	2,712	2,985	2,919	293	268
DB Group	15,630	15,348	8,698	8,253	24,328	23,601	1,965	1,737

COMMENTS TO THE SEGMENT REPORT:

- The consolidation effects for the managing holding company DB AG, together with other business activities which cannot be allocated to the five, separate divisions shown, are combined in **Other / Holding / Consolidation**. These include, for the last time, the Real Estate division which will be separated beginning 1 June 2000.
- For the sake of comparison, the divisions' **previous-year figures** have been adjusted to demonstrate the new, organizational reassignment within Passenger Transport.
- **External revenues** reflect sales with third-party companies.
- **Intra-group revenues** show sales between the various divisions. With the business-specific vertical integration of Deutsche Bahn Group, intra-group revenues of Track Infrastructure and Passenger Stations with the divisions Passenger Transport and Cargo Transport dominate. The internal netting prices for intra-group sales are invoiced at market conditions.

Operating income		Gross cash flow		Operating assets / Capital employed		Balance sheet total		Gross capital expenditures		Employees year-end*	
1999 € million	1998 € million	1999 € million	1998 € million	1999 € million	1998 € million	1999 € million	1998 € million	1999 € million	1998 € million	1999	1998
91	70	377	286	3,171	3,093	4,705	4,271	627	689	34,836	35,938
185	193	581	543	3,545	3,230	6,329	5,399	1,311	1,056	55,605	56,083
276	263	958	829	6,716	6,323	11,034	9,670	1,938	1,745	90,441	92,021
-11	31	171	182	1,654	1,338	2,037	1,615	501	288	40,995	44,544
0	14	93	91	1,538	1,557	2,431	2,010	554	615	5,593	5,629
1	148	936	959	8,850	7,878	17,137	17,078	4,772	4,508	66,878	71,830
-353	-285	-70	-18	6,155	5,560	4,559	4,588	607	504	37,731	38,444
-87	171	2,088	2,043	24,913	22,656	37,198	34,961	8,372	7,660	241,638	252,468

* including civil servants, without apprentices

- **Divisional revenues** represent the sum of external and internal sales and thus illustrate the business performance of the divisions.
- **Depreciation and gross capital expenditures** refer to both tangible fixed assets and intangible assets. Gross capital expenditures correspond to the commercial volume of capital expenditures before netting for investment grants. After netting investment grants, the balance-sheet relevant net capital expenditures are the basis for depreciation charges.
- **Operating income** represents income from operations after net interest but before investment income and taxes.
- **Gross cash flow** is defined as operating income plus interest, depreciation and changes to pension provisions.
- **Operating assets** include fixed tangible and intangible assets – less interest-free loans – plus net working capital.

Additional Notes

(33) Employees

	1999		1998	
	average	at year-end	average	at year-end
Salaried/wage	177,829	176,637	184,429	181,460
Civil servants assigned	67,022	65,001	74,643	71,008
Employees	244,851	241,638	259,072	252,468
Apprentices	13,023	14,438	14,560	16,275
Total	257,874	256,076	273,632	268,743

Civil servants formerly working for Deutsche Bundesbahn and Deutsche Reichsbahn have, as a rule, been assigned to work for DB AG under Article 2 Section 12 of the Railway Re-

structuring Act. Although they work for DB AG, their official employer is the Federal Railway Fund (BEV).

(34) Exemption of subsidiaries from disclosure requirements of the German Commercial Code (HGB)

The following subsidiaries take advantage of Section 264 (3) HGB not to disclose their financial statements:

Bayern Express Omnibus GmbH, München
 Bayern Express & P. Kühn Berlin GmbH, Berlin
 Bodensee-Schiffsbetriebe GmbH, Konstanz
 BRN Busverkehr Rhein-Neckar GmbH, Ludwigshafen
 BSG Bahn Schutz & Service GmbH, Frankfurt am Main
 BTT BahnTank Transport GmbH, Mainz
 BVO Busverkehr Ostwestfalen GmbH, Bielefeld
 BVR Busverkehr Rheinland GmbH, Düsseldorf
 DB Anlagen und Haus Service GmbH, Berlin
 DB Arbeit GmbH, Berlin
 DB AutoZug GmbH, Dortmund

DB Bahnbau GmbH, Berlin
 DB Bahnbau GmbH, Berlin
 DB Cargo AG, Berlin
 DB Dialog Telefonservice GmbH, Schwerin
 DB Energie GmbH, Frankfurt am Main
 DB FuhrparkService GmbH, Frankfurt am Main
 DB Gastronomie GmbH, Frankfurt am Main
 DB Informatik-Dienste GmbH, Erfurt
 DB Netz AG, Berlin
 DB Projekt Finanzierungsgesellschaft mbH, Frankfurt am Main
 DB Projekt GmbH Knoten Berlin, Berlin
 DB Projekt GmbH Köln-Rhein/Main, Frankfurt am Main
 DB Regio AG, Berlin
 DB Regionalbahn Rheinland GmbH, Köln

DB Regionalbahn Rhein Ruhr GmbH, Essen	Planungsgesellschaft Bahnbau Deutsche Einheit mbH, Berlin
DB Regionalbahn Westfalen GmbH, Münster (Westf.)	Railion GmbH, Mainz
DB Reise&Touristik AG, Berlin	RBO Regionalbus Ostbayern GmbH, Regensburg
DB Station&Service AG, Berlin	Regionalbahn Schleswig-Holstein GmbH, Kiel
DB Tank Service GmbH, Erfurt	Regionalbus Braunschweig GmbH -RBB-, Braunschweig
DB ZugBus Nordrhein Holding GmbH, Köln	Regional Bus Stuttgart GmbH RBS, Stuttgart
DB ZugBus Regionalverkehr Alb-Bodensee GmbH (RAB), Ulm (Donau)	Regionalverkehr Kurhessen GmbH (RKH), Kassel
DB ZugBus Westfalen Holding GmbH, Münster (Westf.)	Regionalverkehr Oberbayern GmbH, München
Deutsche Bahn Gleisbau GmbH, Duisburg	RSW Regionalbus Saar-Westpfalz GmbH, Saarbrücken
Deutsche Bahn Immobiliengesellschaft mbH, Frankfurt am Main	RVS Regionalbusverkehr Südwest GmbH, Karlsruhe
Deutsche Bahn Medien GmbH, Frankfurt am Main	S-Bahn Berlin GmbH, Berlin
Deutsche Eisenbahn-Reklame GmbH, Kassel	S-Bahn Hamburg GmbH, Hamburg
Deutsche Gleis- und Tiefbau GmbH, Berlin	SBG SüdbadenBus GmbH, Freiburg
Deutsches Reisebüro GmbH, Berlin	TLC Transport-, Informatik- und Logistik-Consulting GmbH, Berlin
dvm Deutsche Verkehrsdienstleistungs- und Management GmbH, Berlin	Transfracht Internationale Gesellschaft für kombinierten Güterverkehr mbH, Frankfurt am Main
Ibb Ingenieur-, Brücken- und Tiefbau GmbH, Dresden	UBB Usedomer Bäderbahn GmbH, Heringsdorf
Kombiwaggon Servicegesellschaft für den Kombinierten Verkehr mbH (KSG), Mainz	Verkehrsgesellschaft mbH Untermain -VU-, Frankfurt am Main
Magnetschnellbahn-Fahrweggesellschaft mbH (FWG), Berlin	WB Westfalen Bus GmbH, Münster (Westf.)
Metropolitan Express-Train GmbH, Bad Homburg v.d.H.	Weser-Ems Busverkehr GmbH (WEB), Bremen
Mitteldeutsche Bahnreinigung GmbH, Leipzig	Zehlendorfer Eisenbahn- und Hafen GmbH, Berlin
Omnibusverkehr Franken GmbH (OVF), Nürnberg	ZugBus Schleswig-Holstein GmbH, Kiel
ORN Omnibusverkehr Rhein-Nahe GmbH, Mainz	

Consolidated Financial Statements

(35) Total remuneration of the Management Board, Supervisory Board and their former members

	1999 € thousand	1998 € thousand
Total remuneration of the Management Board	3,679	3,886
Remuneration of former Management Board members	519	319
Pension provisions for former Management Board members	7,272	3,191
Total remuneration of the Supervisory Board	210	209
Remuneration of former Supervisory Board members	0	0
Loans to Management Board Members	0	0
Loans to Supervisory Board Members	0	0

The names and mandates of the Management Board and Supervisory Board members can be found on pages 108-112.

(36) Events after the balance-sheet reference date

Events after the balance-sheet closing day are discussed in the Management Report.

Berlin, 30 March 2000

Deutsche Bahn AG
The Management Board

Auditors' Report

The Consolidated Financial Statements were prepared in DM and audited by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, who added the following auditors' certificate:

'We have audited the consolidated financial statements and the group management report of Deutsche Bahn Aktiengesellschaft, Berlin, for the period 1 January through 31 December 1999. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the Company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures.

The effectiveness of the internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Management Board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. On the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development.'

Frankfurt/Main, 5 April 2000

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Dickmann)
Wirtschaftsprüfer

(Roth)
Wirtschaftsprüfer

Major subsidiaries

Name and domicile	Ownership in %	Equity in € million	Revenues in € million	Revenues relative change in %	Net income in € million	Employees as of 31 Dec
Group division Passenger Transport						
Business area Reise&Touristik						
DB Reise&Touristik AG, Berlin ²⁾	100.0	2,045.2	2,939.5	4.7	- ¹⁾	24,726
Ameropa-Reisen GmbH, Bad Homburg v.d.H	100.0	4.4	98.3	2.1	6.1	119
Bayern Express & P. Kühn Berlin GmbH, Berlin	100.0	4.1	20.2	12.1	- ¹⁾	205
CityNightLine CNL AG, Zürich	60.0	13.6	31.9	3.1	0.2	14
Deutsche Touring Gesellschaft mbH, Frankfurt a. M.	82.8	6.1	46.6	-2.9	1.1	157
Deutsches Reisebüro GmbH, Berlin	100.0	51.1	7.1	6.2	- ¹⁾	254
DERTour GmbH & Co. KG, Frankfurt a. M.	100.0	32.3	598.2	0.5	16.9	330
DER Deutsches Reisebüro GmbH & Co. OHG, Frankfurt a. M.	100.0	24.1	166.2	11.3	8.8	1,589
Metropolitan Express-Train GmbH, Bad Homburg v. d. Höhe	100.0	4.3	5.6	-	- ¹⁾	11
MITROPA Mitteleuropäische Schlafwagen- und Speisewagen Aktiengesellschaft, Berlin ³⁾	100.0	14.2	309.9	-3.5	3.5	5,262
Business area Regio						
DB Regio AG, Berlin ²⁾	100.0	1,764.0	5,057.7	2.5	- ¹⁾	36,806
BRN Busverkehr Rhein-Neckar GmbH, Ludwigshafen	100.0	13.3	41.9	2.0	- ¹⁾	349
Burgenlandbahn GmbH, Zeitz ⁴⁾	70.0	0.2	14.3	-	0.1	0
DB Regionalbahn Rhein-Ruhr GmbH, Essen	100.0	126.1	498.1	1.4	- ¹⁾	2,425
DB Regionalbahn Rheinland, Köln	100.0	68.6	262.4	9.0	- ¹⁾	1,284
BVR Busverkehr Rheinland GmbH, Düsseldorf	100.0	4.2	54.7	2.6	- ¹⁾	265
DB ZugBus Regionalverkehr Alb-Bodensee GmbH (RAB), Ulm	100.0	24.0	154.4	2.6	- ¹⁾	531
DB Regionalbahn Westfalen GmbH, Münster	100.0	35.5	275.5	9.9	- ¹⁾	1,416
WB Westfalen Bus GmbH, Münster	100.0	6.0	54.6	-16.3	- ¹⁾	344
BVO Busverkehr Ostwestfalen GmbH, Bielefeld	100.0	11.2	60.9	9.5	- ¹⁾	395
Omnibusverkehr Franken GmbH (OFV), Nürnberg	100.0	13.3	80.7	0.5	- ¹⁾	425
ORN Omnibusverkehr Rhein Nahe GmbH, Mainz	100.0	5.1	38.3	8.1	- ¹⁾	297
RBO Regionalbus Ostbayern GmbH, Regensburg	100.0	9.8	53.7	6.3	- ¹⁾	277
Regional Bus Stuttgart GmbH, Stuttgart	100.0	15.9	63.9	2.1	- ¹⁾	479
Regionalbus Braunschweig GmbH –RBB -, Braunschweig	100.0	3.6	38.3	3.7	- ¹⁾	279
Regionalverkehr Kurhessen GmbH, Kassel	100.0	10.7	52.4	5.0	- ¹⁾	474
Regionalverkehr Oberbayern GmbH, München	100.0	10.8	52.3	1.3	- ¹⁾	618
RMV Rhein-Mosel Verkehrsgesellschaft mbH, Koblenz	74.9	13.6	51.7	6.6	3.8	199
RSW Regionalbus Saar-Westpfalz GmbH, Saarbrücken	100.0	9.0	50.8	7.9	- ¹⁾	307
RVS Regionalbusverkehr Südwest GmbH, Karlsruhe	100.0	7.2	43.9	0.2	- ¹⁾	301
S-Bahn Berlin GmbH, Berlin	100.0	165.2	426.3	1.2	- ¹⁾	4,164
S-Bahn Hamburg GmbH, Hamburg	100.0	62.3	153.0	2.5	- ¹⁾	1,165
SBG SüdbadenBus GmbH, Freiburg	100.0	6.6	57.2	-1.5	- ¹⁾	393
Verkehrsgesellschaft mbH Untermain – VU –, Frankfurt a. M.	100.0	3.8	53.6	1.9	- ¹⁾	280

Name and domicile	Ownership in %	Equity in € million	Revenues in € million	Revenues relative change in %	Net income in € million	Employees as of 31 Dec
Weser-Ems Busverkehr GmbH (WEB), Bremen	100.0	10.2	53.7	14.6	- ¹⁾	288
Regionalbahn Schleswig-Holstein GmbH, Kiel	100.0	10.5	214.4	17.5	- ¹⁾	956
Autokraft GmbH, Kiel	96.1	9.8	65.1	4.2	1.1	646
Group division Freight Transport						
DB Cargo AG, Berlin²⁾	100.0	434.6	3,412.9	-3.6	- ¹⁾	39,858
ATG Autotransportlogistic GmbH, Eschborn/Taunus ⁵⁾	75.0	2.4	265.0	-7.7	1.4	37
BTT BahnTank Transport GmbH, Mainz	100.0	1.5	19.7	18.6	- ¹⁾	24
DB Verkehrsbau Logistik GmbH, Mainz ⁴⁾	100.0	2.6	26.2	-	-0.4	99
NUCLEAR CARGO + SERVICE GmbH, Hanau	100.0	6.2	18.1	-9.7	1.1	69
TRANSA Spedition GmbH, Offenbach a. M.	50.0	9.2	197.9	5.0	1.0	329
Transfracht Internationale Gesellschaft für kombinierten Güterverkehr mbH, Frankfurt am Main	100.0	0.5	185.3	11.7	- ¹⁾	200
Group division Passenger Stations						
DB Station&Service AG, Berlin ²⁾	100.0	1,201.5	766.4	11.0	- ¹⁾	5,593
Group division Track Infrastructure						
DB Netz AG, Berlin ²⁾	100.0	4,422.7	3,399.2	-0.5	- ¹⁾	63,689
Deutsche Bahn Gleisbau GmbH, Duisburg	100.0	7.5	47.8	5.0	- ¹⁾	312
Deutsche Gleis- und Tiefbau GmbH, Berlin	100.0	6.3	263.1	12.7	- ¹⁾	1,547
Ibb Ingenieur-, Brücken- und Tiefbau GmbH, Dresden	100.0	2.0	78.9	37.7	- ¹⁾	311
Other subsidiaries						
DB Anlagen und Haus Service GmbH, Berlin ²⁾	100.0	2.6	403.3	-4.6	- ¹⁾	7,338
DB Energie GmbH, Frankfurt am Main	100.0	527.7	731.9	-10.7	- ¹⁾	602
DBFuhrparkService GmbH, Frankfurt am Main	90.0	3.5	118.4	10.3	- ¹⁾	116
DB Informatik-Dienste GmbH, Erfurt ²⁾	100.0	212.5	348.6	61.4	- ¹⁾	856
DBTankService GmbH, Erfurt ²⁾	100.0	1.2	332.9	6.7	- ¹⁾	198
Deutsche Bahn Immobiliengesellschaft mbH, Frankfurt a. M.	100.0	0.5	74.1	1.8	- ¹⁾	1,232
DE-Consult, Deutsche Eisenbahn Consulting GmbH, Berlin	74.0	22.6	116.1	-9.0	3.7	1,074
Deutsche Eisenbahn-Reklame GmbH, Kassel	100.0	5.5	143.3	22.1	- ¹⁾	235
DVA Deutsche Verkehrs- Assekuranz-Vermittlungs-GmbH, Bad Homburg v. d. Höhe	65.0	5.7	17.9	65.2	4.7	56
BRG Bahnreinigung Frankfurt a. M. GmbH, Frankfurt a. M.	51.0	1.3	24.5	-2.6	0.5	685
BRG Bahnreinigung Hamburg GmbH, Hamburg	51.0	3.0	45.1	2.3	1.6	1,406
BRG Bahnreinigung München GmbH, München	51.0	1.7	47.9	8.7	0.5	1,172
BRG Bahnreinigung Köln GmbH, Köln	51.0	2.0	48.7	7.8	0.9	1,245
BRG Bahnreinigung Karlsruhe GmbH, Karlsruhe	51.0	1.8	35.4	-1.1	1.0	698
BRG Bahnreinigung Berlin GmbH, Berlin	51.0	2.2	57.7	3.0	1.1	2,156
Mitteldeutsche Bahnreinigung GmbH, Leipzig	100.0	1.4	53.5	-6.2	- ¹⁾	2,129
BSG Bahn Schutz&Service GmbH, Frankfurt am Main	100.0	0.2	102.6	28.5	- ¹⁾	3,042
TLC Transport-, Informatik- und Logistik-Consulting GmbH, Berlin	100.0	1.9	232.2	75.0	- ¹⁾	1,021

1) profit and loss transfer agreement

2) spun off in 1999; previous year's revenues calculated on a comparable basis

3) 1999 incl. station restaurants merged with Mitropa AG;
calculated on a comparable basis.

4) began operating in 1999

5) first time consolidation in 1999

Further information on the boards of Deutsche Bahn

Supervisory Board

Dr. Günther Saßmannshausen

Honorary Chairman of the Supervisory Board,
Hanover

- a) Braunschweigische
Maschinenbauanstalt AG
- Deutsche Shell AG
- Heraeus Holding GmbH (Chairman)
- Preussag AG
- Preussag Energie GmbH
- VAW Aluminium AG
- Volkswagen AG

Dr.-Ing. Dieter H. Vogel

Chairman of the Supervisory Board,
– since 24 March 1999 –
Businessman,
Düsseldorf

- a) ABB AG (Chairman)
- Bertelsmann AG
- Gerling Industrie-Service AG
- EXPO 2000 Hannover GmbH
- MobilCom AG

Dr.-Ing. E.h. Heinz Dürr

Chairman of the Supervisory Board
– until 24 February 1999 –
Chairman of the Supervisory Board of Dürr AG,
Berlin

- a) Dürr AG (Chairman)
- Krone GmbH (Chairman)
- Bankgesellschaft Berlin AG
- Benteler AG
- Mannesmann AG
- Preussag AG
- Stinnes AG
- b) Carl-Zeiss-Stiftung
(Commissioner of the foundation)
- Alp Transit Gotthard AG
(Administrative board)
- Landesbank Baden Württemberg
(Administrative Board)

Norbert Hansen *

Deputy Chairman of the Supervisory Board
– since 7 July 1999 –
Chairman of the German Railway
Workers' Union,
Frankfurt/Main

- a) DB Reise&Touristik AG
- DB Regio AG
- DB Cargo AG
- DB Station&Service AG
- DB Netz AG
- Mannesmann Arcor AG & Co.
- DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a.G.
- DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.

Rudi Schäfer *

Deputy Chairman of the Supervisory Board
– until 7 July 1999 –
Union Secretary (in retirement),
Bergisch Gladbach

- a) DEVK Rückversicherungs- und Beteili-
gungs-AG (Chairman)
- DEVK Allgemeine Versicherungs-AG
(Chairman)
- DEVK Allgemeine Lebensversicherungs-AG
(Chairman)

Christian Bormann *

Chairman of Works Council
DB Netz AG
Leipzig branch, location Erfurt,
Weimar-Tröbsdorf

Niels Lund Chrestensen

General Manager of N.L. Chrestensen,
Erfurter Samen- und Pflanzenzucht GmbH,
Erfurt

- a) Aufbaubank Thüringen
- b) Dresdner Bank AG
(South-East Advisory Board)

* Employee representative on the Supervisory Board

a) Member of other statutorily required Supervisory Boards

b) Member of comparable domestic and foreign company supervisory bodies

Elke Ferner

Secretary of State
Ministry of Transport, Building and Housing,
Berlin

- a) Berlin Brandenburg Flughafen Holding GmbH
PROJEKTPLANUNGS-GESELLSCHAFT MBH

Horst Fischer *

Member of Works Council DB Regio AG,
Schwabach
– since 1 August 1999 –

Dr.-Ing. E.h. Dipl.-Ing. Hermann Franz

Former Chairman of the Supervisory Board
of Siemens AG,
Erlangen

- a) Bayern Innovativ GmbH
- b) TÜV Süddeutschland Holding AG (Chairman of the Shareholder Committee)
Menzerna GmbH (Chairman of the Advisory Board)

Horst Hartkorn *

Member of Works Council for S-Bahn
Hamburg GmbH,
Hamburg
– since 1 July 1999 –

- a) S-Bahn Hamburg GmbH
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a.G.

Marlies Helling *

Personnel Manager for DB Netz AG,
Oberursel

- a) DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.

Heinz Hermanns *

Former Member of the Works Council
for Deutsche Bahn AG,
Aachen
– until July 31, 1999 –

Bernhard Ivo *

Former Member of the divisional board
of management for regional transport
of the German Railway Workers' Union,
Duisburg
– until 8 July 1999 –

- a) Sparda-Bank Essen eG
(Chairman)
Verkehrsverbund Rhein/Ruhr GmbH
Nova Allgemeine Versicherung AG

Günter Kirchheim *

Chairman of the Group Works Council
of Deutsche Bahn AG,
Chairman of the Central Works Council
of DB Netz AG,
Essen
– since 14 November 1999 –

- a) DB Netz AG
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.

Willi Klußmeier *

Former Coordinator for Works Council
Affairs of Deutsche Bahn AG,
Recklinghausen
– until 30 June 1999 –

Dr. rer. nat. Hermann Krämer

Former Member of the Management Board
of VEBA AG,
Seevetal

- a) Metro AG
Babcock Borsig AG
PreussenElektra AG
Logika AG
- b) Westdeutsche Landesbank Girozentrale
(Administrative Board)

Further information on the boards of Deutsche Bahn

Lothar Krauß *

Deputy Chairman of the
German Railway Workers' Union
Rodenbach

– since 8 July 1999 –

- a) DB Anlagen- und Haus Service GmbH
Union Druckerei und Verlagsanstalt GmbH
ADLER Versicherung AG
- b) DBV Öffentlich Rechtliche Anstalt für
Beteiligungen (Chairman)

Dr. h.c. Helmut O. Maucher

President of the Administrative Board
of Nestlé S.A.,
Vevey/Switzerland

- a) Ravensburger AG
Bayer AG
- b) Henkel KGaA (Shareholders' Committee)
L'Oréal S.A., Paris (Supervisory Board)
Montreux Palace S.A., Montreux
(Administrative Board)
Koç Holding A.S., Istanbul
(Supervisory Board)

Werner Mößinger *

Former Chairman of the Group
and Central Works Councils of
Deutsche Bahn AG,
Bensheim

– until 30 September 1999 –

- a) DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a.G.
DEVK Rückversicherungs- und Beteili-
gungs-AG

Dr. h.c. Friedel Neuber

President and Chief Executive Officer of
Westdeutsche Landesbank Girozentrale,
Düsseldorf

- a) Babcock Borsig AG (Chairman)
Douglas Holding AG
Preussag AG (Chairman)
RWE AG (Chairman)
Thyssen Krupp AG
TUI-Group GmbH
- b) AXA S.A., Paris
Bank Austria AG, Wien

Günter Ostermann *

Deputy Chairman of the
German Railway Workers' Union,
Wunstorf

– since 8 July 1999 –

- a) BHW AG
DEVK Rechtsschutz-Versicherungs-AG

Dr. Manfred Overhaus

Secretary of State
Ministry of Finance,
Berlin

- a) Deutsche Post AG
EXPO 2000 Hannover GmbH

Manfred Probst *

Deputy Chairman of the Works Council
for DB Netz AG,
Bad Überkingen

Albert Schmidt

Member of Parliament (Bundestag),
Ingolstadt

Rolf Schökel *

Chairman of the Works Council
for DB Reise&Touristik AG
Hanover branch,
Hildesheim

– since 1 December 1999 –

- a) DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a.G.
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.

Lothar Schote *

Former Head of the Training Center
Bad Homburg v.d.H.
Deutsche Bahn AG,
Mainz

– until 11 November 1999 –

- a) DEVK Allgemeine Versicherungs-AG

Dr. Alfred Tacke

Secretary of State
Ministry of Economics and Technology,
Berlin

- a) Postbank AG

Management Board

Hartmut Mehdorn

Chief Executive Officer and Chairman of the Management Board of Deutsche Bahn AG, Heidelberg

– since 16 December 1999 –

- a) SAP AG
- Lufthansa Technik GmbH
- DB Reise&Touristik AG (Chairman)
- DB Regio AG (Chairman)
- DB Cargo AG (Chairman)
- DB Station&Service AG (Chairman)
- DB Netz AG (Chairman)

Dr. Johannes Ludewig

Chief Executive Officer and Chairman of the Management Board of Deutsche Bahn AG, Alfter

– until September 30, 1999 –

Klaus Daubertshäuser *

Member of the Management Board of Deutsche Bahn AG, Local Passenger Transport, Chief Executive Officer and Chairman of the Management Board of DB Regio AG, Wettenberg

- a) S-Bahn Berlin GmbH (Chairman)
- DE-Consult Deutsche Eisenbahn Consulting GmbH
- S-Bahn Tunnel Leipzig GmbH
- Köln-Düsseldorfer Deutsche Rheinschiffahrt AG
- ZugBus Schleswig-Holstein GmbH

Dr. Christoph Franz **

Member of the Management Board of Deutsche Bahn AG, Long-Distance Passenger Transport, Chief Executive Officer and Chairman of the Management Board of DB Reise&Touristik AG, Darmstadt

– since 1 October 1999 –

- a) MITROPA AG (Chairman)
- DF Deutsche Forfait AG

Dr. Horst Föhr

Member of the Management Board of Deutsche Bahn AG, Personnel, Berlin

- a) DB Reise&Touristik AG
- DB Regio AG
- DB Cargo AG
- DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a. G.
- DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a. G.
- Sparda-Bank Berlin e.G. (Chairman)
- dvm Deutsche Verkehrsdienstleistungs- und Management GmbH (Chairman)
- Bahn Schutz & Service GmbH (Chairman)
- DB Arbeit GmbH (Chairman)
- DB Anlagen- und Haus Service GmbH (Chairman)
- DB Gastronomie GmbH (Chairman)
- b) Stiftung Bahnsozialwerk (railways social-work foundation)
- Eisenbahn-Waisenhort, a charitable foundation for orphans

Wolfgang Gemeinhardt

Member of the Management Board of Deutsche Bahn AG, Group Purchasing, Usingen

- a) DB Energie GmbH (Chairman)
- DB Projekt GmbH Köln-Rhein/Main
- DB Projekt Knoten Berlin GmbH
- Deutsche Gleis- und Tiefbau GmbH
- Planungsgesellschaft Bahnbau Deutsche Einheit mbH

Roland Heinisch

Member of the Management Board of Deutsche Bahn AG, Technology, Idstein

- a) DB Netz AG
- MVP Versuchs- und Planungsgesellschaft mbH
- DE-Consult Deutsche Eisenbahn-Consulting GmbH (Chairman)
- DB Projekt GmbH Köln-Rhein/Main
- Magnetschnellbahn Planungsgesellschaft mbH (Chairman)
- Magnetschnellbahn-Fahrweg-gesellschaft mbH
- TLC Transport-, Informatik- u. Logistik-Consulting GmbH
- b) Gemeinschaftskernkraftwerk Neckar GmbH (Administrative Board)

* Mr Daubertshäuser left the DB Regio AG Management Board on 31 March 2000 and will take up a new position on DB AG's Management Board with responsibility for the newly-formed Marketing Unit.

**Dr. Franz also took the Chair of DB Regio AG's Management Board as of 1 April 2000.

a) Membership of other legally required supervisory boards

b) Membership of comparable domestic and foreign control committees of commercial enterprises

Further information on the boards of Deutsche Bahn

Peter Münchschwander

Member of the Management Board of Deutsche Bahn AG, Track Infrastructure, Chief Executive Officer and Chairman of the Management Board of DB Netz AG, Bad Homburg

- a) DB Projekt Knoten Berlin GmbH
Planungsgesellschaft Bahnbau Deutsche Einheit mbH (Chairman)
DB Energie GmbH
DBG Deutsche Bahn Gleisbau GmbH (Chairman)
DGT Deutsche Gleis- und Tiefbau GmbH
Signal/Iduna Gruppe AG
Europäische Reisegepäckversicherung AG

Dr. Axel Nawrocki

Member of the Management Board of Deutsche Bahn AG, Long-Distance Passenger Transport, Chief Executive Officer and Chairman of the Management Board of DB Reise&Touristik AG, Aachen

– until 30 September 1999 –

Peter Reinhardt

Member of the Management Board of Deutsche Bahn AG, Real Estate, Legal and Passenger Stations,

Chief Executive Officer and Chairman of the Management Board of DB Station&Service AG, Friesenheim

– until 31 July 1999 –

Diethelm Sack

Member of the Management Board of Deutsche Bahn AG, Finance and Controlling, Frankfurt am Main

- a) DB Reise&Touristik AG
DB Regio AG
DB Cargo AG
DB Station&Service AG
DB Netz AG
Frankfurter Versicherungs-AG
GBO Gerätebau Odenwald AG
TLC Transport-, Informatik- und Logistik-Consulting GmbH (Chairman)
DB Informatik-Dienst GmbH (Chairman)
Deutsche Verkehrs-Assekuranz Vermittlungs GmbH (Chairman)
dvm Deutsche Verkehrsdienstleistungs- und Management GmbH
DB Projekt GmbH Köln-Rhein/Main
DB Anlagen- und Haus Service GmbH
Mannesmann Arcor Verwaltungs AG
Deutsche Verkehrsbank AG

- b) EUROFIMA Europäische Gesellschaft für die

Finanzierung von Eisenbahnmateriale
(Administrative Board)

Dr. Eberhard Sinnecker

Member of the Management Board of Deutsche Bahn AG, Freight Transport, Chief Executive Officer and Chairman of the Management Board of DB Cargo AG, Darmstadt

- a) Polzug, Polen – Hamburg Transport GmbH
Deutsche Umschlaggesellschaft Schiene-Straße mbH (Chairman)
Schenker AG
HANSA Rail GmbH
ABX Logistics GmbH
Scandlines AG (Chairman)

Dieter Ullsperger

Member of the Management Board of Deutsche Bahn AG, Real Estate and Passenger Stations, Chief Executive Officer and Chairman of the Management Board of DB Station&Service AG, Much

– since 1 August 1999 –

- a) DB Gastronomie GmbH
DB Anlagen und Haus Service GmbH
Deutsche Bahn Immobiliengesellschaft mbH (Chairman)
Verwertungsgesellschaft für Eisenbahn-immobilien GmbH & Co. KG (Chairman)
MITROPA AG
dvm Deutsche Verkehrsdienstleistungs- und Management GmbH
DB Projekt GmbH Stuttgart 21
- b) Inter Auxilia GmbH (Advisory Board)
Immobilien Verwertungsgesellschaft mbH (Advisory Board)

Deutsche Bahn Group 6-year summary

	1999	1998	1997	1996	1995	1994
Balance sheet (€ million)						
Tangible/intangible assets	32,815	31,155	29,866	24,034	21,815	17,982
Financial assets	680	584	665	710	367	305
Fixed assets	33,495	31,739	30,531	24,744	22,182	18,287
Inventories	866	654	604	490	597	709
Accounts receivable and other assets ¹⁾	2,346	2,141	2,277	3,755	3,139	1,804
Cash and cash equivalents	280	351	447	603	654	640
Current assets	3,492	3,146	3,328	4,848	4,390	3,153
Prepayments and deferred charges	211	76	33	30	48	53
Equity capital	8,701	8,528	8,422	6,711	6,278	6,218
Special items	23	38	47	205	177	154
Pension and other long-term provisions	3,714	9,881	9,627	9,902	9,128	7,585
Tax and other short-term provisions	9,241	2,612	2,181	2,237	1,979	1,401
Provisions	12,955	12,493	11,808	12,139	11,107	8,986
Interest-free loans from the federal government	6,344	8,284	7,363	6,308	4,781	2,340
Financial debt	4,192	2,532	1,713	858	606	513
Other liabilities	3,609	2,971	4,413	3,284	3,570	3,203
Liabilities	14,145	13,787	13,489	10,450	8,957	6,056
Accruals and deferred income	1,374	115	126	117	101	79
Balance sheet total	37,198	34,961	33,892	29,622	26,620	21,493
Income (€ million)						
Revenues	15,630	15,348	15,577	15,452	15,249	14,793
Overall performance	17,521	17,104	17,422	17,227	17,244	16,191
Other operating income	2,511	2,596	2,141	2,169	1,702	1,799
Cost of materials	-6,688	-6,595	-6,716	-6,475	-5,757	-5,195
Personnel expenses	-8,285	-8,389	-8,663	-8,881	-9,523	-9,898
Depreciation	-1,965	-1,737	-1,620	-1,387	-1,148	-984
Other operating expenses	-2,790	-2,546	-2,204	-2,169	-2,236	-1,649
Investment income/loss, net	-55	-143	-151	-127	5	19
Interest income/expense, net	-158	-89	-26	12	-4	-32
Income from ordinary activities	91	201	183	369	283	251
Income for the year	87	170	200	577	135	93
Operating income (€ million)						
EBITDA ²⁾	2,036	1,997	1,920	1,706	1,401	1,248
EBIT ³⁾	71	260	300	319	253	264

	1999	1998	1997	1996	1995	1994
Key data and ratios						
Fixed assets as % of total assets	90.0 %	90.8 %	90.1 %	83.5 %	83.3 %	85.1 %
Equity as % of total assets	23.4 %	24.4 %	24.8 %	22.7 %	23.6 %	28.9 %
Fixed assets coverage (%) ⁴⁾	89.2 %	91.9 %	87.6 %	95.5 %	92.9 %	88.9 %
Short-term liabilities (€ m)	7,325	5,803	7,145	5,992	6,018	5,232
Long-term liabilities (€ m)	21,149	20,592	18,278	16,714	14,147	9,889
Capital employed (€ m) ⁵⁾	24,911	22,656	20,878	18,600	17,147	14,926
Return on capital employed (ROCE) (%) ⁶⁾	0.3 %	1.1 %	1.4 %	1.7 %	1.5 %	1.8 %
Interest coverage ⁷⁾	1.4	2.3	2.4	5.2	4.3	4.6
Cash flow before taxes (€ m)	2,107	1,985	1,833	1,777	1,445	1,477
Cash flow return on revenues (%) ⁸⁾	13.5 %	12.9 %	11.8 %	11.5 %	9.5 %	10.0 %
Return on revenues before interest expenses and taxes (%)	2.1 %	2.3 %	2.0 %	2.9 %	2.4 %	2.2 %
Capital expenditures						
Gross capital expenditures (€ m)	8,372	7,660	7,136	7,771	7,329	7,128
Net capital expenditures (€ m) ⁹⁾	3,229	3,040	6,223	5,056	5,107	5,533
Cash flow coverage of net capex (%)	65.3 %	65.3 %	29.5 %	35.1 %	28.3 %	26.7 %
Number of employees						
Annual average	244,851	259,072	277,471	295,610	331,774	355,694
At year end	241,638	252,468	268,273	288,768	312,579	331,101

1) including securities

2) Income before tax, interest, gain from disposal of financial assets as well as depreciation

3) Income before tax, interest and gain from disposal of financial assets

4) Long-term capital / fixed assets

5) Tangible and intangible fixed assets – less interest free loans – plus net working capital

6) Return on capital employed, defined as EBIT (2) / Capital Employed (3),

introduced in 1999 as key performance measure, previous years calculated on a pro forma basis

7) Income before tax plus interest expenses / interest expenses

8) Cash Flow / revenues

9) Gross capital expenditures less investment grants by third parties

