Die Bahn DB

Deutsche Bahn AG

Financial Statements 2002

Contents

The financial statements and the management report of Deutsche Bahn AG for the financial year 2002 will be published in the German Federal Gazette (Bundesanzeiger) and filed with the Commercial Register of the Local Court (Amtsgericht) of Berlin-Charlottenburg under No. HRB 50000. The development of the Deutsche Bahn Group is extensively described in the annual report 2002, which contains the Group management report and the consolidated financial statements for the financial year 2002.

Significant Progress in Restructuring and Modernization Process

In the financial year 2002, we made significant progress towards the successful completion of the rail reform process, despite the difficult economic environment. The underlying foundation of all our activities is the **"DB Campaign" strategy**; with its approaches of restructuring, performance, and growth, it puts us well on track towards becoming a company that is attractive for the capital markets. The consistent implementation of our programs will result in a **sustained strengthening of rail as a mode of transport and a Deutsche Bahn that is in shape for the future growth markets of mobility, transportation, and logistics**.

After having focused the activities of the DB Group on our core businesses in previous years, a major emphasis in the year under review was the **further development of the Group portfolio:** In addition to the four Group divisions Passenger Transport, Freight Transport, Passenger Stations, and Track Infrastructure, we reorganized and/or founded six directly-managed "Strategic Business Units". Overall, such business units are responsible for managing our activities in the areas of rail-specific telematics (DB Telematik GmbH), project construction (DB Projektbau GmbH), energy (DB Energie GmbH), general services/facility management (DB Services GmbH), and IT (DB Systems GmbH), as well as services in the car rental/fleet management area (DB Fuhrparkservice GmbH). These business units render the majority of their services to other Group companies, as before, yet are also increasingly successful in external markets in many areas.

The **successful takeover of Stinnes AG** gives us a powerful international position as a logistics service provider. When E.ON AG, the previous majority owner, signaled its willingness to sell (within the framework of a strategic reorganization of its own business activities), we took advantage of this strategic opportunity to further strengthen our logistics position, a move which we had been planning for some time.

All our Group divisions and business units focus their efforts on present and future customer demands and on challenges from our competitors. We aim to achieve a leading competitive position in all fields of business in which we are active.

Stinnes Acquisition Makes Deutsche Bahn a Powerful Provider of Logistics Services

Following the successful completion of negotiations with the previous majority owner, E.ON AG, we acquired Stinnes AG within the framework of a public takeover bid in the year under review, which was extremely successful in its own right on top of our purchase of the 65.4 % share held by E.ON. By the end of the bidding phase in October 2002, Deutsche Bahn held a total of 99.71 % of the shares, which corresponded to a purchase price of € 2.5 billion. Based on this equity position, Deutsche Bahn initiated a squeeze-out in accordance with Sec. 327a ff. German Stock Corporation Act (AktG) in December 2002. A proposal to redeem the remaining shares held by minority stockholders in exchange for cash compensation was approved at the special general meeting of Stinnes AG on February 17, 2003. When this resolution is implemented, we will be the sole owner.

The Stinnes AG portfolio is structured into three divisions. Its **Transportation** division (Schenker group) makes Stinnes/Schenker one of the leading companies in European land transport. At the same time, the company also has a strong international position in air and sea freight. This division represents a complementary, forward-looking, value-enhancing addition to our activities in the Group Freight Transport division. The other two Stinnes divisions – the **Chemicals** division (Brenntag group) is an international leader in chemicals logistics and the **Materials** division (Interfer group) focuses its activities in the areas of steel trading and commodities/ materials logistics – are also well-positioned. Despite their high profitability and development potential, we plan to divest the Chemicals and Materials divisions in the medium term, as their activities do not fit in with our core business. In contrast, we will merge the Transportation division with our existing activities in the Group Freight Transport division in the current financial year, to form the new Group Transport and Logistics division.

Stinnes also strengthened its individual divisions in the year under review through various joint ventures and equity investments, particularly the acquisition of French logistics group Joyau near the end of 2002. With this move, Schenker France has multiplied its capacity and customer ties and now belongs to the top tier of logistics service providers in France as well. Joyau will be included in the annual statements of Stinnes and in the consolidated financial statements of DB Group from financial 2003 onwards.

Telecommunications Facilities Acquired from Arcor DB Telematik

The establishment of the **DB Telematik** business unit is largely based on a reorganization of rail telematics activities between Deutsche Bahn and Arcor AG & Co., the contracts for which were signed in January 2002. Under these contracts, all rail-specific telecommunications facilities were purchased from DB Netz AG, and Arcor DB Telematik GmbH was charged with operating and servicing these facilities. Deutsche Bahn AG initially held a 49.9 % share in this company. We acquired the remaining shares on July 1, 2002. The company has operated as DB Telematik GmbH since.

Project Construction Activities Consolidated in New Company

To optimize our numerous construction projects, we decided in late 2001 to consolidate the DB Group's builder functions for planning, project management, and construction monitoring processes in a new company. **DB ProjektBau GmbH** began its work in full on January 1, 2003, following preparatory activities during the year under review. We expect this consolidation to simplify and standardize the respective process steps, and significantly reduce the necessary DB Group resources in the medium term. This step also introduces a clear interface between the contractor and the builder functions in important infrastructure projects. The processes relating to the builder function have been consolidated within DB ProjektBau GmbH, while our infrastructure companies DB Energie GmbH, DB Netz AG, and DB Station&Service AG have redefined their contractor functions to be compatible with the interface. This process required modifications to the management and organizational structures at DB Station&Service AG and DB Netz AG, which were also implemented on January 1, 2003.

Consolidation of Activities: DB Services GmbH and DB Systems GmbH Business Units

DB Services GmbH, a directly managed business unit, consolidates all business activities involving facility management for fixed and mobile assets, including staging and transportation services along with facilities management for DB Group properties. To this effect, the corresponding service companies in the DB Group were merged to form DB Services GmbH effective January 1, 2002.

To further optimize our IT services, we merged our subsidiaries TLC Transport-, Informatik- und Logistik-Consulting GmbH (TLC) and DB Informatik-Dienste GmbH (IDG) as of January 1, 2002, to form **DB Systems GmbH**, creating an efficient, full-service IT company within the DB Group. This reorganization will result in even further standardization of the Group IT processes along with the resulting efficiency improvements.

Other Changes in the Group Portfolio

We made other small changes to the portfolio structure of the DB Group to improve our competitive position and streamline organization. These changes have only a minor impact on comparability to the previous year's figures. In particular, the changes mainly involve the Group Passenger Transport and Freight Transport divisions. In the Group Passenger Transport division, we separated our night passenger travel and car carrier activities from DB Reise&Touristik AG and grouped them in our subsidiary DBAutoZug GmbH. In addition, the "On-Train Service" business unit previously run by our subsidiary Mitropa AG was transferred to DB Reise&Touristik AG (for daytime transport) and its subsidiary DB European RailService GmbH (for nighttime transport). In the Regional and Urban Transport unit, DB Regio AG was able to expand its position in public road passenger transport through additional equity investments and takeovers of smaller bus operators. For this purpose, the company Kreisomnibusverkehr Bad Kissingen GmbH, Bad Kissingen, was purchased by Omnibusverkehr Franken GmbH, and Nikolaus Hanekamp GmbH & Co. KG, Cloppenburg, was purchased by Weser-Ems Busverkehr GmbH to round out their respective activities.

Within the framework of our program for promoting mid-sized companies, the business units SüdostBayernBahn, Kurhessenbahn, Erzgebirgsbahn, and Oberweißbacher Berg- und Schwarzatalbahn were transferred from DB Regio AG to DB RegioNetz Verkehrs GmbH (RNV). The necessary infrastructure has been leased from DB Netz AG by DB RegioNetz Infrastruktur GmbH (RNI).

The founding of DB Regio Sverige AB, Stockholm/Sweden, as a subsidiary of DB Regio AG in the third quarter of 2002 marked our entry into the international public transport segment.

Our subsidiaries in the Group Freight Transport division also continued to enhance their position through joint ventures, holdings, and takeovers. In the latter six months of 2002, DB Cargo AG purchased 20 % of BLS Cargo AG, Bern/Switzerland. To strengthen its position in combined rail/road transport, DB Cargo AG purchased 50 % of Kombiverkehr KG, Frankfurt am Main, in June 2002. DB Cargo AG also increased its previous minority holding in Spedition Hangartner AG, Aarau/Switzerland, to 100 % in the latter six months of 2002. Hangartner is one of the leading forwarding companies in European combined rail/road transport. With economic effect of February 1, 2002, DB Cargo AG increased its holdings in BTS BUSS-Trans Container Service GmbH & Co. KG (BTS), Hamburg, to 100 %. In future, Kombiverkehr KG plans to purchase a 25 % interest in BTS. Effective this financial year, DB Cargo AG and DB Netz AG increased their holdings in Deutsche Umschlaggesellschaft Schiene-Straße (DUSS) GmbH, Bodenheim, boosting the total share owned by the DB Group to 100 %. In addition – associated with a reduction of DB Cargo AG's holdings – Transfracht Internationale Gesellschaft für kombinierten Güterverkehr mbH has also been managed jointly (50 %/50 %) with its new shareholder Hamburger Hafen- und Lagerhaus Aktiengesellschaft (HHLA) since the start of 2003.

Effective January 1, 2002, the shares of DB Verkehrsbaulogistik GmbH previously held by DB Cargo AG were transferred to DB Netz AG. The company is now part of the Group Track Infrastructure division.

Group-Wide “Fokus” Program Continues Success in the Year under Review

The cornerstone of our restructuring and modernization program is our “Fokus” restructuring program, which initially began in the year 2000 with 25 subprojects spread throughout the DB Group. As in the previous year, **all defined goals were reached** in the year under review. The DB Regio unit of the Group Passenger Transport division, for example, made major progress in its comprehensive decentralization and streamlining of organizational structures, as well as in the renegotiation of transport contracts. The main optimization activities in the DB Reise&Touristik unit involved an optimized line and stop concept and the introduction of the new pricing and marketing system. The Group Freight Transport division was able to implement its market focus program (MORA C) to reorganize the transport of single freight cars. The Group Track Infrastructure division continues to work on comprehensive reorganization projects in the operations and maintenance areas. Other “Fokus” projects concentrate on Group-wide issues, including the fields of purchasing, information technology, administrative expenses, and facilities. Following the successful implementation of numerous projects, we resolved to reorganize the “Fokus” project portfolio in February 2003. We expect “Fokus” to make another significant contribution to improving our profitability in the year under review.

European Timetable Introduced Successfully

The introduction of the new timetable on December 15, 2002, marked the first time that all European railroads implemented new, coordinated timetables simultaneously. The seamless introduction is a further example of the involved railroads’ combined efforts – within the framework of European integration – to offer coordinated, customer-friendly services and improve the competitive position of rail compared to other modes of transport.

New Pricing System Introduced for Long-Distance Passenger Transport

The introduction of our new pricing and revenue management system for long-distance transport (Group Passenger Transport division) in December 2002 greatly simplified the pricing system, **reduced prices for the vast majority of our customers** and at the same time improved the potential for economic operations management through effective load balancing. Special-price offers for our customers have been introduced alongside the benefits of an “open system”, which means spontaneous trips are still possible. This system puts us at the global forefront in rail transport. At the same time, we started **“bahn.comfort”**, a special service program for frequent travelers. We also expanded our information and distribution channels, and now offer customers up to **“7 ways to a ticket”**: DB ReiseZentrum (travel center), travel agencies with a DB license, independent agencies, ticketing machines, phone-based information and booking service, in the internet, and on the train.

New Cologne–Rhine/Main Line Integrated in the New Timetable

After comprehensive testing and trial runs, the new Cologne–Rhine/Main line was commissioned on July 25, 2002. ICE 3 trains began operating between Cologne and Frankfurt on August 1, 2002, initially every two hours; hourly connections commenced in September. The line was fully integrated in the new timetable that took effect on December 15, 2002. Trains now travel at **regularly scheduled top speeds of 300 km/h** for the very first time in Germany. The journey between the Cologne and Frankfurt conurbations now takes only 75 minutes, nearly an hour less than before. The 177-kilometer line represents a major milestone for long-distance passenger transport in Germany and also represents the **backbone of a European high-speed route** from London, Amsterdam, or Brussels to southern Germany and beyond.

Product Campaign and Expansion of Collaborations in Freight Transport

Our Group Freight Transport division began a product campaign in the full-train area in the year under review. This program unifies customer demands for custom-tailored solutions with the necessity for production according to standardized, plannable processes. **Clearly defined products were introduced: “Plantrain”, “Variotrain”, and “Flextrain”**, each of which offers different levels of transport frequency and order flexibility. The Group Freight Transport division plans to add individual service modules and expand coverage to the transport of single freight cars in the medium term. Several equity investments and joint ventures have **strengthened our position in combined rail/road transport**. The Group Freight Transport division aims to have a Europe-wide presence at all economically relevant seaports, in order to get more traffic onto the rails.

The further intensification of collaborations with other railroads continued to be an emphasis in the year under review. Therefore the **collaboration with SNCF, the French National Railways, was intensified**: DB Cargo AG approved the optimized, international deployment of interoperable locomotives for this purpose. Eight pilot trains have been running since June 2002 on the cross-border route between the Mannheim and Woippy (near Metz) marshalling yards. Our goal is to run all freight transports non-stop across the Franco-German border at Saarbrücken by the end of 2003.

DB Cargo AG has begun several collaborative projects with BLS Cargo AG, Bern/Switzerland, that include linking the companies' IT systems, joint product development, and uninterrupted traction, to create an integrated process chain in cross-border transport in future. To optimize transalpine traffic along the Brenner route, DB Cargo AG and the Italian and Austrian partner railroads Trenitalia (TI) and Rail Cargo Austria (RCA) founded the **international BrennerRailCargo Alliance (BRC)** to get more Brenner-bound freight traffic onto the rails.

Comprehensive Restructuring Measures in the Infrastructure Areas

Our infrastructure divisions, Passenger Stations and Track Infrastructure, continued their rapid pace of modernization and project expenditures. The temporary burdens imposed by the increased expenditures are more than offset by benefits for our customers **in terms of increased system speeds** and **reduced journey times**, along with increased attractiveness of the stations through our **cleanliness program** and our **"Safe Station"** and **"Smoke-Free Station" projects**.

Special Challenges Imposed by Severe Flooding in Eastern Germany

The development of our subsidiaries was also impacted by a natural disaster in the year under review. In August 2002, severe flooding that plagued much of eastern Germany also caused heavy damage to Deutsche Bahn facilities. Particularly hard-hit was the rail infrastructure in Saxony and Saxony-Anhalt. Deutsche Bahn suffered extreme damage in the greater Dresden area, along the Elbe, and in the valleys of the Weißeritz, Mulde, and Müglitz rivers. The track infrastructure here was either totally destroyed and washed away or heavily damaged at numerous sites. Some 400 kilometers of track were affected in Saxony and Saxony-Anhalt alone – heavy damage was sustained by 130 kilometers of train embankment and 94 bridges, ten of which were completely destroyed. 250 switches and 25 interlockings were also damaged. Some twenty regional and long-distance lines had to be shut down and the timetable had to be completely redesigned. By consolidating our planning and construction resources, we quickly managed to reestablish the most important regional and long-distance connections – if provisionally at first. The cost of restoring the infrastructure, including sensible related measures, amounts to some € 910 million. Damage to other facilities (including lost revenues and other damages) is estimated at some € 145 million.

Economic Environment

As in the previous year, **global economic development** remained below expectations once again in financial 2002. The nascent economic recovery that had been gaining momentum since the start of the year, due to the rapid growth of the U.S. economy, began to falter by mid-year. Overall global growth, at some 2.8 %, was hardly better than in the previous year (+2.2 %). Key to the worsening outlook were major declines in stock prices, which resulted in loss of wealth worldwide. Another factor was increased uncertainty among investors and consumers due to escalation of the Iraq conflict, along with the associated sharp increase in crude oil prices.

Developments on the **European continent**, the main operating environment for our Group companies, were also less than satisfactory. Growth of the gross domestic product (GDP) in the euro zone was a mere 0.8 %, even less than the previous year's weak figure (+1.4 %). Only the export markets provided a major impetus, but even its dynamism was curbed by the appreciation of the euro over the course of the year. Domestic demand remained weak. Total EU GDP growth of around 1 % was slightly higher than in the euro zone, due to above-average growth in Great Britain. Development in Central and Eastern European countries, which achieved higher GDP growth rates, was more positive.

GDP growth in **Germany** was much less than forecasted and, at a real 0.2 % in the year 2002, was even less than the previous year's weak figure (+0.6 %). At the same time, this growth rate was the second-lowest recorded in Germany since reunification (1993: –1.1 %). An increase in the real export surplus had a positive effect, while domestic demand declined by 1.5 %. Declines resulted from a repeated drop in equipment spending of 9.4 % (previous year: –5.8 %), a decline in construction investments of 5.9 % (previous year: –6 %), and a decline in real consumer spending of 0.6 % (previous year: +1.5 %).

Transport Sectors and Development of Transport Performance

The weak overall economic environment in the year under review had a significant impact on the development of the passenger transport and freight transport sectors. The growth rates of all modes of transport fell short of the previous year's values and forecasts for both passenger and freight transport. Our subsidiaries also had to cope with supply interruptions caused by the flood catastrophe in eastern Germany and a major landslide along the Rhine route. In sum, the total reduction in transport performance exceeded the declines we anticipated from our programs targeted at streamlining supply. At the same time, the continuing strong competition we faced confirmed the necessity and legitimacy of the supply optimization measures introduced in the previous year.

Renewed Overall Decline in the Passenger Transport Sector

According to preliminary figures, the **overall German market** (motorized private traffic, rail, public road passenger transport, domestic air traffic) fell by around 1.5 % in financial 2002 (previous year: –1.1 %), which represents the third consecutive year of decline. Transport performance of motorized individual traffic declined by some 1 % (previous year: –1.2 %). In addition to the overall weak economy, rising fuel prices played a major role in these developments.

The **transport performance development of our subsidiaries in rail passenger transport** primarily reflects negative external factors, in addition to the supply adjustment measures we introduced in mid-2001, and which were effective for the full year for the first time. The impact of the weak economy dominated, in addition to interruptions caused by the Elbe flooding. In total, our transport performance declined by 6.2 % to 69.8 billion passenger kilometers (pkm) (previous year: +0.1 %). This represents a slight loss of market share compared to the overall transport sector. Performance fell by 6.1 % to 33.2 billion pkm in long-distance rail passenger transport (previous year: –2.4 %) and by 6.2 % to 36.7 billion pkm in local rail passenger transport (previous year: +2.5 %).

Non-state-operated (NSO) railroads, which are primarily active in local rail passenger transport, enjoyed a growth in transport performance, albeit from a low base.

Public road passenger transport also suffered from overall trends. In scheduled services, growth in the numbers of pupils, apprentices and students compensated for the decline in commuter traffic caused by the worsening employment situation. Non-scheduled services decreased in line with reduced consumer demand.

Transport performance in **domestic air traffic** declined by some 3.5 % in the year 2002, due to ongoing overall uncertainty following the terrorist attacks on the United States, as well as decreasing numbers of business travelers.

Overall, **competition has continued to intensify** in the passenger transport segment. This is true of both intermodal and intramodal competition, in which we face a wide range of competitors from municipal and state-operated railroads to mid-sized companies and international corporations active in rail transport.

Weak Development of the Freight Transport Sector

Because the economic upswing that was forecasted for the second half of the year failed to materialize, the **German freight transport sector** (DB Cargo AG, road freight transport – both regional and long-distance, including foreign-flagged vehicles – and inland waterway transport) was weak overall. Based on preliminary data, the overall market stagnated (previous year: +1.1 %). Growth came from **road freight transport**, which was able to benefit from (still) rosy exports and to increase its transport performance by around 1 % (previous year: +2.8 %).

The **development of transport performance at our subsidiary DB Cargo AG**, with a decline of 2.7 % (previous year: –3.1 %) to 72.4 billion ton-kilometers (tkm), reflects the overall poor economic conditions, interruptions due to flooding in eastern Germany, and increasing intermodal and intramodal competition. The market-focused adjustments within the framework of our MORA C program also took effect for the first time. Drops in the transport of imported coal had clearly visible effects, as did the poor state of the construction industry. We also registered drops in the transport demand for petroleum products, motor vehicles, semi-finished and finished goods, and cereals and feedstuff in the past year, some of them more drastic than others. Transports of iron ores and fertilizers increased. Nonetheless, despite increases in transports of forest products, machinery, fabricated metal products, and chemical products, these increases were not enough to maintain transport performance at the previous year's level. As in 2001, more than half of transport performance by DB Cargo AG was rendered in cross-border and international transports.

Overall, our subsidiaries in the Group Freight Transport division (**including our international subsidiaries** Railion Benelux N.V. and Railion Denmark A/S) achieved a transport performance of 78.0 billion tkm, a decline of 2.9 % from the previous year's figure.

The **other rail transport companies** recorded an increase in transport performance – as partners of DB Cargo, through the takeover of various freight transport points within the framework of MORA C, as well as competitors – albeit from a low base.

Based on preliminary data, **inland waterway transportation** declined by some 1 % (previous year: –2.5 %). Positive developments in transports of imported coal from the ARA (Amsterdam, Rotterdam, Antwerp) ports and in the container transport segment were offset by a significant drop in demand for transports of steel and construction materials.

The freight transport sector continues to be characterized by **intense competition** among the various modes of transport as well as increasing intramodal competition, the latter especially in the transports of petroleum products, chemicals, automobiles, and containerized shipping.

Business Performance

Revenue and Result Trends

DB AG did not achieve **any revenues** in financial 2002. Inventory changes were also of minor significance to our business development. Internally produced and capitalized assets declined slightly in the year under review to € 466 million (previous year: € 519 million).

Other operating revenues of € 2,903 million (previous year: € 2,859 million) contain income from services provided to Group and non-Group companies, rents and leases, and gains on sales of properties (property, plant and equipment) within the scope of scheduled realization of our real estate holdings.

The decline in **cost of materials** to € 1,304 million (previous year: € 1,509 million) must be considered in light of the write-offs of inventories implemented within the framework of the takeover of the heavy maintenance facilities in the previous year.

Personnel expenses in the amount of € 682 million (previous year: € 651 million) rose slightly compared to the previous year's level. They included wages and salaries as well as compulsory social insurance contributions for the staff employed by DB AG, taking the compensation by the German federal government into account.

Depreciation in the amount of € 155 million (previous year: € 70 million) resulted from scheduled depreciation in the amount of € 54 million from office equipment and write-offs in the amount of € 101 million chiefly from plots, caused by value changes resulting from utilization changes as well as urban development measures.

Other operating expenses of € 1,054 million (previous year: € 1,413 million) included rents and leases, and other operating expenses, such as fees, contributions, insurance payments, services rendered by non-Group companies, and indemnification.

Investment income of € –376 million (previous year: € 171 million) was due primarily to developments in income at our subsidiaries DB Netz AG and DB Station&Service AG, which were reflected in transfers of high losses. Despite their impressive improvements in productivity, these two subsidiaries were not able to compensate for the negative impact of a variety of factors – including declining compensation from the federal government for burdens resulting from German reunification (for surplus personnel expenses and increased cost of materials) in the area of the former Deutsche Reichsbahn, increased expenditures resulting from our Group-wide modernization program, significantly higher maintenance expenditures in the case of DB Netz AG, and increased expenditures resulting from our immediate action program and provisions for project risks in the case of DB Station&Service AG. DB AG renders centralized financing activities for the DB Group in accordance with the Group companies' financing needs and passes on the borrowed funds essentially at the same conditions. The **interest balance** was € –113 million in the year under review (previous year: € –60 million). This decline resulted primarily from an increase in interest-bearing outside funds.

In total, DB AG reported **negative income before taxes** in the amount of € –329 million (previous year: € –130 million). The **net loss** is identical to income before taxes. Together with the balance sheet loss carried forward from the previous year in the amount of € –135 million, we arrive at a balance sheet loss of € –464 million (previous year: € –135 million).

Balance Sheet Structure

The **balance sheet total** as of December 31, 2002, amounted to € 26.1 billion (previous year: € 24.8 billion). The increase – which was accompanied by declines in properties and current assets – is primarily due to the provision of additional funds to finance the Group companies, as well as the increase in financial assets resulting from the purchase of Stinnes AG.

Financial assets represent the majority on the assets side, in accordance with our holdings in the management companies. As in the previous year, properties of € 3.2 billion consist primarily of land and leasehold rights (€ 3.0 billion). Of the financial assets in the amount of € 19.6 billion (previous year: € 16.3 billion), 71.7 % or € 14.1 billion consisted of holdings in affiliated companies, while 25.5 % or € 5.0 billion consisted of loans to affiliated companies. The increase is due primarily to the purchase of Stinnes AG. Current assets of € 3.4 billion (previous year: € 4.5 billion) consisted of accounts receivable and other assets (€ 2.7 billion), as well as cash and cash equivalents and securities (together € 0.4 billion), and inventories (€ 248 million).

Equity declined slightly from € 8.8 billion to € 8.5 billion (– 3.9 %). The equity ratio also declined, from 35.5 % to 32.3 %, due to an increase in the balance sheet total. The release and utilization of provisions resulted in a reduction in provisions to € 5.6 billion (previous year: € 5.9 billion). **Liabilities** of € 12.1 billion (previous year: € 10.1 billion) consist mainly of liabilities due to affiliated companies (€ 8.4 billion). The increase was due mainly to higher liabilities due to our subsidiary DB Finance B.V., Amsterdam/Netherlands, and is based on the total of € 1,984 million of bonds issued by DB Finance B.V. in financial 2002 that was transferred in the form of a loan. The share of liabilities in the balance sheet total amounted to 46.4 % (previous year: 40.7 %).

Capital Expenditures

Gross capital expenditures of DB AG in properties and intangible assets amounted to € 71 million (previous year: € 87 million). Major areas of capital expenditures included the new construction and renovation of real estate, the development of properties, and the acquisition of office equipment and information technology.

Financial Situation

Central Treasury Consolidates Resources

DB AG's treasury is the central treasury for the DB Group. This structure ensures that all Group companies can borrow and invest funds at the best possible conditions. Before we seek funding from outside sources, we conduct intra-Group financing transactions. When external funds are borrowed, DB AG takes out short-term loans in its own name, whereas long-term funds are generally obtained through the Group's finance company, DB Finance B.V., Amsterdam/Netherlands. These funds are then passed on to the Group companies in the form of time deposits or loans. This concept enables us to pool risks and resources for the entire Group. It also enables us to consolidate our expertise, capture synergy effects, and minimize refinancing costs. Stinnes AG was not yet integrated in the DB Group financing structures in the financial year 2002; instead, it conducted banking transactions independently in its function as the Stinnes Group's management company. Once Stinnes AG has been integrated into the organizational structures of the DB Group in the current financial year, all financing requirements in this area will also be covered by the comprehensive corporate financing of the DB Group.

Rating Agencies Once Again Confirm Outstanding Creditworthiness

The annual rating reviews conducted by the rating agencies confirmed our outstanding credit ratings once again in the year under review: Moody's with "Aa1" and Standard & Poor's with "AA". The announcement of plans to take over Stinnes led Moody's to change its outlook from "Stable" to "Negative" in July 2002. The Standard & Poor's outlook was confirmed as "Stable". Stinnes does not have an independent rating.

Covering the Financing Requirements of the Group Companies

DB AG finances the activities of its subsidiaries with long-term loans and, in the short-term area, through cash pooling. Receivables from loans and the net position in cash pooling increased from € 3.1 billion in the previous year to € 5.4 billion.

A breakdown of the position in respect of the subsidiaries allocated to the various Group divisions shows the following development:

- Passenger Transport: The overall position increased from € 1.3 billion to 1.8 billion.
- Freight Transport: The overall position increased from € 0.0 billion to € 0.1 billion.
- Passenger Stations: The overall position increased from € 0.6 billion to € 0.8 billion.
- Track Infrastructure: The overall position increased from € 1.6 billion to € 2.9 billion.

These changes in comparison to the previous year resulted primarily from changes to the respective positions in cash pooling. Other holdings resulted in a negative position in cash pooling for DB AG in the amount of some € 0.6 billion (previous year: € –0.4 billion).

Financing

To refinance the financing requirements of the Group companies, DB AG obtained new loans within the scope of general Group financing in the amount of € 1,984 million through its subsidiary Deutsche Bahn Finance B.V. For the most part, these funds resulted from bond issues (one each denominated in U.S. dollars, Swiss francs, and euros) with a total volume of € 1.592 million and terms of 5 and 10 years. We also obtained two loans totaling € 434 million from the European Company for the Financing of Railway Rolling Stock (EUROFIMA), Basle/Switzerland. DB AG placed two bonds itself with a total volume of € 59 million.

In the short-term sector, similar to the previous year, the DB Group had guaranteed credit facilities of approximately € 2.1 billion as well as the Multi-Currency Multi-Issuer Commercial Paper program of € 1 billion as of the end of financial 2002.

Employees

At the end of financial 2002, a total of 15,248 people were employed by DB AG (previous year: 17,733). The decline is due primarily to the spin-off of the Stendal maintenance facility, the sale of the special Halberstadt facilities, intra-Group transfers, natural staff turnover, and separations accompanied by socially acceptable measures. Of the 15,248 employees at the end of the year, 2,746 (previous year: 2,498) performed Group management functions. In addition, as of December 31, 2002, a total of 1,440 apprentices were employed at DB AG (previous year: 2,334).

Technology

Our customers demand high-quality products and services from Deutsche Bahn. To achieve this, we have to include quality and reliability as decisive criteria for our internal processes and for the condition of our technical means of production. In light of the increasing competition we face, both intramodal and from other companies on the rails, the maximum reliability of our means of production must be our primary goal, as this reliability is a basic prerequisite for cost-effective operations. We also have to maintain our established **high safety standards** and continue to optimize the integrated rail system **through further innovations and structural improvements**.

Quality Management and Maximum Safety as the Foundation for a Sustained Competitive Advantage

The intrinsic nature of the rail system gives it a significant safety advantage over other modes of transport. We combine this advantage with our high safety demands, which are reflected in the safety standards of our production systems and means, as well as in our corporate culture. We are making every effort to attain further improvements to these high safety standards through ongoing improvements to our systems and processes. We also invest a great deal in comprehensive training measures.

We **continued to develop our quality management and reporting system** with the inclusion of new tools and methods during the year under review. Our quality improvement measures are based, among others, on the Six Sigma and CIP (Continuous Improvement Process) methods. We continually measure, monitor, and adjust our activities to achieve these goals. We also make comprehensive use of the BahnStrategyCard (a balanced scorecard) as a control tool. One example of such quality improvement measures is our “Rail Operations Quality” project, which we successfully implemented to fight problems with delays in early 2003.

Continued Refinement of Our Technology Strategy

We continued to develop our technology strategy, based on a threefold approach: vehicle strategy, track infrastructure strategy, and a strategy for command and control technology. Modularization and standardization are the primary criteria that will characterize future capital expenditures strategies for our technical means of production. Our goal is to reduce the overall life cycle costs of our means of production, in addition to their procurement costs, and to improve the efficiency of our processes in both the operating and maintenance areas. Our **vehicle strategy** is aimed at achieving a major reduction in vehicle heterogeneity in the medium term, which will result in significant cost savings in both the procurement and ongoing maintenance of our rolling stock. Our **track infrastructure strategy** is also aimed at capturing additional cost savings through ongoing standardization and quality improvements. We have developed differentiated strategies for our **command and control technology** that define sensible line standards dependent on the specific operating requirements.

In the interest of optimizing international rail transport, we also strive to achieve increasing technical interoperability with our European neighbors through the optimized planning of multisystem locomotive usage and rationalization effects from the joint development of the next generation of trains, among other measures. For example, we are working together closely with SNCF, the French National Railways, and FS, the Italian State Railways, on the procurement of the next generation of high-speed trains. We plan to largely complete our joint preparations in the current year. After a comprehensive trial period, we aim to commission the first jointly-specified high-speed trains in 2010.

Our strategic considerations are based on the current and foreseeable short-term legal framework. The EU demands for **increased interoperability among national rail systems** are an especially important factor. Council Directive 96/48/EC on the interoperability of the trans-European high-speed rail system, which became binding during the current year, is a prime example of such demands. The Directive was incorporated into national German law effective December 1, 2002.

Forward-Looking Collaboration Between Railroad Companies and Manufacturers

The ongoing modernization of rail technology and the consistent implementation of innovations are crucial to railroads' long-term competitiveness. These steps demand an entirely new quality of intensive collaboration between railroad companies and manufacturers. Furthermore, European integration is transforming the challenges faced by Europe's railroads. To deal with the accelerating traffic growth forecasted for the coming years, every mode of transport will have to play to its systemic strengths. The increasing demands for respective speed, efficiency, and cost-effectiveness require intensified research efforts from the manufacturers, universities, and specialized institutes.

We see our role in consolidating customer demands and communicating them to industry, promoting the development of competitive, pan-European products for passenger and freight transport. For the technological developments to satisfy the high demands on performance and cost-effectiveness, top quality is needed in procurement and operations monitoring processes.

We expect the manufacturing industry to supply rail technology that functions reliably and to advance technical innovation for the optimization of the integrated rail system. Crucial factors include comprehensive standardization among manufacturers and the modularization of components with open, standardized interfaces.

To achieve further increases in efficiency and improve the competitiveness of the rails as a mode of transport, we need an **ongoing, extensive exchange between railroads and manufacturers** on the subjects of system development, operation, and maintenance. Additional improvements to the integrated rail system, combined with mature, reliable, and cost-effective technology, are the keys to attracting more traffic to the rails throughout Europe – for the benefit of the railroads and the manufacturers.

Supplemental Information

Amendment to the Regional Restructuring Act Completed

The federal and state governments reached agreement on the amendment to the Regional Restructuring Act (Sec. 5 RegG), which defines future state funding for local rail passenger transport and other local public transport, in June 2002. According to this agreement, which took effect on July 1, 2002, the states will receive € 6.745 billion annually from the federal government, plus a fixed increase of 1.5 % p. a., until 2007. Based on this agreement, our subsidiaries have already been able to conclude their first long-term transport contracts.

Amendments to Public Procurement Regulations Provide Needed Clarity

Amendments to German Public Procurement Regulations in October 2002 stipulated that transport contracts can generally be concluded without a prior competitive tender. The conclusion of long-term transport contracts we strove for in Thuringia and Brandenburg was achieved in accordance with the new regulations. Competition in regional transport continues to increase each year. In the coming years, the ordering organizations will tender a large portion of the total market volume.

Some 12.9 million train-path kilometers (tpkm) were tendered in 2002 alone. Of the 71.7 million tpkm awarded through bid tenders to date, our Group Passenger Transport division won 55 %. Most recently, DB Regionalbahn Westfalen and DB Regionalbahn Rhein-Ruhr were able to win the “Border Triangle” (1.8 million tpkm), “Sauerland Network” (2.9 million tpkm), and “Haard Line” (3.1 million tpkm) tenders. In particular, the Haard Line tender represented the first competitive tender of RegionalExpress (RE) services in the electrified network in North Rhine-Westphalia. DB Regio AG has submitted a bid for the tender of the “Western Network” (4.6 million tpkm) in Schleswig-Holstein (Hamburg–Westerland); a decision is expected in the summer of 2003.

Competition Officer’s Report Confirms Non-Discriminatory Network Access

The DB AG Competition Officer, who was appointed in February of the year under review, published his first Competition Report, which was based on comprehensive investigations. The report once again confirmed that access to the DB Netz AG rail network is non-discriminatory. The follow-up report published in February 2003 corroborated this result, and showed that **Germany is at the forefront of implementing liberalization policy in a pan-European comparison**.

Risk Report

Our business activities pose risks as well as opportunities. Our risk management activities aim to proactively minimize these risks. Our risk management system processes all the relevant risk-related information. The DB Group operates an integrated risk management system in line with the requirements of the German Act on Corporate Control and Transparency (KonTraG). This system, which is continually enhanced and refined, allows us to quickly introduce offsetting measures.

Active Risk Management in the DB Group

The risks inherent to the DB Group – without Stinnes – include:

- **Market risks** such as overall economic development and cyclical demand for services. Major factors influencing passenger transport – consumer spending and number of gainfully employed persons – have been declining in the current year. The most important factor in freight transport is the transportation demand for consumer products, steel and mining products, petroleum products, chemical products, and building materials – some of which is subject to cyclical fluctuations. Other market risks include the effects of increasing deregulation in European transport markets and significant increases in competition across all modes of transport. We are reacting to these developments with extensive measures aimed at improving efficiency and reducing costs, in addition to optimizing our service offerings. We are responding to risks resulting from changing customer demands – including the ordering organizations – and from shifts in traffic patterns with intensified market monitoring and a change in our service spectrum. To deal with market risks due to changes to the legal framework conditions at both the European and the domestic level – such as the completed amendment to the Regional Restructuring Act with its influence on the fees to be paid by the ordering parties – we actively represent our position in the ongoing consultations and debates.
- **Operating risks:** The DB Group operates a networked production system of high technological complexity. We combat the risk of interruptions in service through systematic maintenance, the employment of qualified staff, and ongoing quality assurance and process improvement measures.

- **Project risks:** The modernization of the overall rail system involves immense capital expenditures as well as a number of highly complex projects. Changes in the legal framework, delays in implementation, or necessary modifications during the project lifetimes – which often take several years – result in project risks that can often affect multiple areas due to our networked production structures. Our activities continue to focus on major projects like the Berlin hub (including Berlin Central Station-Lehrter Station), the new Nuremberg–Ingolstadt–Munich line, and the introduction of GSM-R. Our experiences from the Cologne–Rhine/Main line have been applied to similar projects in a targeted manner. An incremental commissioning concept has been developed for the Berlin hub/Berlin Central Station. We conducted additional analyses in the year under review to identify potential risks for the new Nuremberg–Ingolstadt–Munich line and for the introduction of GSM-R. In general, all new projects must pass a full plan approval procedure before implementation can begin. We are also improving the quality of our planning and processes through a targeted expansion of capacity among our in-house planning engineers. Once identified, risks are compensated for by introducing offsetting measures and by additional provisions.
- **Financial risks:** We use financial instruments and derivatives to hedge our exposure to interest rate changes, currency risks, and energy and other price fluctuations. These instruments are described in the Notes.
- **Political and economic uncertainties:** Our political, legal, and social environment is subject to constant change. A stable framework is needed to effectively plan our future corporate activities. We strive to positively influence these framework conditions and eliminate existing hindrances through open dialog.

We consistently anchor risk management in our standard processes. In addition, the Group-wide “Fokus” program, which was started in the year 2000, continued to achieve the predicted success in the year under review. Furthermore, we took out insurance policies to secure unavoidable risks in order to limit the financial consequences of potential damages and liability risks for the DB Group.

Effective Risk Management System

The principles underlying the risk management policy are formulated by Group management and implemented at DB AG and its subsidiaries. Our system for the early recognition of risks entails quarterly reporting to the DB AG Management Board and Supervisory Board. The risks noted in the risk report are categorized and classified by their probability of occurrence; in addition to the possible consequences, we also analyze potential offsetting measures and their costs. All suddenly detected risks and unfavorable developments must be reported immediately. Our Group Controlling department is responsible for coordinating all risk management activities for the DB Group. In addition, planned acquisitions are subject to intensified monitoring. The Group Finance and Treasury department is responsible for limiting and monitoring credit risks, market price risks, and liquidity risks associated with our corporate refinancing, which is strictly limited to our operations. Consolidating these transactions (money market, securities, foreign exchange, derivatives) with DB AG enables us to manage and limit the associated risks. The Finance and Treasury area is organized based on the Minimum Requirements for Trading (MaH) formulated for financial institutions, the derived criteria of which meet all the requirements of the German Act on Corporate Control and Transparency (KonTraG).

Integration of the Stinnes Group into DB Risk Management

Stinnes AG already had its own risk management system for the Stinnes Group and all its subsidiaries, the basics of which correspond to the system established at the DB Group.

The Stinnes risk analysis shows that general business risks have no significant consequences for the Stinnes Group. Due to the special nature of its business, the Transportation division (Schenker) faces risks from the granting of customs guaranties and – especially after the terrorist attacks of September 11, 2001 – the submission of non-objection certificates to airlines, which could have serious consequences in individual cases. In the past several years, Stinnes has continually revised and improved its rules for granting customs guaranties. Stinnes purchased insurance policies in 2002 to cover the risks related to air transport and also monitors strict compliance with country-specific regulations on security measures for the transport of air and sea freight.

Several companies from the Stinnes “Brenntag” division are being sued in the U.S. for damages resulting from the delivery of health-impairing materials. These deliveries took place before the Stinnes Group purchased the companies in question. To date, all claims have been covered by existing insurance policies. Based on claims adjustment to date, Stinnes assumes that future claims for damages will also be covered by existing insurance policies.

Stinnes will be fully integrated into the DB Group’s risk management system by the end of the current financial year.

Risk Portfolio Free of Existence-Threatening Risks

The risk management systems of the DB Group in its previous form, as well as of the newly integrated Stinnes Group, provide an overview of the sum total of risks exceeding defined materiality thresholds in a risk portfolio, in addition to a detailed individual listing. Based on our current assessment of risks, offsetting and hedging measures, and provisions, no risks capable of threatening the Group’s continued existence are discernable, now or in the foreseeable future.

Report by the Management Board on Relations with Associated Companies

The Federal Republic of Germany is the sole shareholder of DB AG. Pursuant to Sec. 312 of the German Stock Corporation Act (AktG), the Management Board of DB AG has compiled a report on its relations with associated companies. The report concludes with the following (translated) 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 consideration in each and every legal transaction.

In the year under review, no measures were taken or committed on the initiative or in the interest of the federal government or of any company associated with it."

Events After the Balance Sheet Date

New Traction Current Pricing System Ensures Transparency

Our subsidiary DB Energie GmbH introduced a new, transparent traction current pricing system (TCPS) effective January 1, 2003. At the same time, the technical infrastructure to support usage-specific, remote-readable billing of mobile electricity consumers was deployed. The TCPS fully conforms with all legal requirements and guarantees all railroads the simple calculation of their energy costs. It is a single-tier pricing system for full power supply, with time zone-specific composite prices in cents per kilowatt hour. The single-tier nature of the pricing system guarantees identical prices for comparable train journeys and facilitates the simple calculation of energy costs by our customers.

Hour-specific price differentiation – in high, medium, and low rates – results from the distinct procurement and supply situation. The price differentiation is fair according to the input involved and creates incentives for shifting traffic to non-peak times. The implementation of the TCPS was accompanied by a traction current supply contract that has been adapted to new conditions that apply uniformly to all customers and which correspond to typical full-supply contracts in the utilities sector. Energy sales to non-Group customers have increased by a factor of seven since the year 2000; we expect this figure to double again by 2007.

Important Agreement Reached in Wage Negotiations

In March 2003, following difficult negotiations, the Employers' Association of Mobility and Transport Service Providers (Agv MoVe) reached an agreement with the Transnet and GBDA unions for wage increases at Deutsche Bahn. This agreement, which has a term of two years retroactive to March 1, 2003, includes wage increases in the years 2003 and 2004 and the full alignment of wage levels in eastern and western Germany by September 1, 2006. This agreement gives us a steady foundation for pursuing our restructuring process. At the time this report was authored, negotiations with the independent Train Drivers Union (GDL) were still underway. We hope for a rapid conclusion of the negotiations based on the results achieved with Transnet and GDBA.

Stinnes General Meeting Approves Squeeze-Out

At the special meeting of Stinnes AG shareholders on February 17, 2003, a resolution regarding the squeeze-out of minority shareholders in accordance with Sec. 327a ff. German Stock Corporation Act (AktG) was passed with 99.97 % of the votes. The squeeze-out will become effective as soon as the transfer decision is entered in the commercial register.

Reorganization of Real Estate Activities Completed

The sale of an extensive Deutsche Bahn real estate portfolio to Aurelis Real Estate GmbH & Co. KG was concluded in March 2003. The portfolio of Deutsche Bahn properties no longer deemed essential to operations that was purchased by Aurelis consists of 1,849 plots of developed and undeveloped real estate with a total area of some 30 million square meters. The shares in Aurelis are held by WestLB AG (39 %), Westdeutsche ImmobilienBank (10 %), and Westdeutsche Immobilienbeteiligungsgesellschaft (2 %). DB AG retains a 49 % share in the company. Once all approvals have been obtained from the involved companies and regulatory authorities, the transaction will be executed as of April 1, 2003. This land sale represents one of the largest real estate transactions ever in Germany, as well as a decisive step in the strategic reorganization of our real estate activities and the necessary focus on our core business.

Deutsche Bahn Acknowledges Corporate Governance Principles

Since the start of the rail reform process, Deutsche Bahn AG has placed great store in transparent, documented enterprise management by the Management Board and Supervisory Board. With the ratification of the “German Corporate Governance Code”, which was developed by a government commission and submitted in February 2002, and the “Transparency and Disclosure Act”, Germany now possesses a code of internationally and domestically recognized standards for conscientious, responsible enterprise management. The German Corporate Governance Code applies mainly to listed companies. Because we support the basic premise of clear rules and transparent processes, we voluntarily pledge to follow the recommendations of the code. In fact, major portions of its contents have been regular practice at Deutsche Bahn for many years now. The Management Board and Supervisory Board approved corporate governance principles for DB AG in March 2003. They have been published online under www.bahn.de/ir and take effect in July 2003. The application of these corporate governance principles at Deutsche Bahn will be a subject of our Annual Report 2003.

Strategy

The DB Group has reached the final phase of the **rail reform** process, which we began in 1994. In the meantime, the market for mobility and logistics services has developed into an extraordinarily **challenging** international **competitive environment**, often between different modes of transport. We face this competition on the rails, as well as in other modes of transport.

Our strategy aims to create a **customer-focused, competitive, resource-rich** company that can thrive in this dynamic, market-based, competitive landscape and achieve the goals of the rail reform program. Our traditional **core unit, rail operations**, is being thoroughly streamlined and modernized, which strengthens the competitiveness of the entire rail sector. Upon this foundation, we are building a promising, sustainable **international provider of mobility and logistics services** that intelligently exploits the systemic strengths of the various modes of transport and establishes customer-friendly interfaces with upstream and downstream value creation levels. In particular, this **integration in comprehensive systems** will ensure that the rails will win a commensurate share of future traffic growth.

Our strategy pursues two complementary **goals**: First of all, we intend to satisfy our customers with competitive, **high-value products** and win new customers. Secondly, we have declared our goal of getting the DB Group into shape for a future **initial public offering**. Therefore, we consistently aim to satisfy the requirements of the capital markets. To achieve this objective, we implemented a **value management concept** as early as 1999, along with long-term targets for the DB Group as a whole and for the individual Group divisions. Measured by ROCE (return on capital employed, the ratio of EBIT to capital employed), we have set a medium-term goal of 10 % – irrespective of the temporary operating loss we accept as a consequence of our accelerated restructuring course.

In the same line, we developed our **strategic “DB Campaign” program** in the year 2001, which is based on three pillars: consistent **restructuring**, significant improvements in **performance**, and a focus on future **growth**. The specific measures that we initiated to achieve each individual goal have already had a sustained impact on our business, and we continue to monitor their progress. In the restructuring area, our ongoing “Fokus” program is the major program. At the same time, we are increasingly focusing on additional performance improvements and on capturing potential growth.

Targeted Expansion: Competitive "One-Stop" Solutions

Not least due to the visible changes to markets and our competitors, we are complementing our restructuring program with a **customer-oriented enhancement** of our **service spectrum** in Germany and internationally.

To exploit the **systemic strengths** of rail over medium and long distances, optimizing **cross-border rail traffic** must be a top priority. We are expanding our international activities in freight transport through **Railion**, our international rail carrier. At the same time, we are cooperating closely with railroads in neighboring countries in both freight and passenger transport. We are also pursuing **collaborations** in border regions in order to offer seamless mobility services in local cross-border transport.

Particularly in the growing market for **logistics services**, customers are increasingly demanding integrated solutions. We have to direct our complex logistics processes to give our customers simple, high-quality solutions as a **"one-stop shop"**. The acquisition of **Stinnes AG** was an important step in meeting our customers' demands, thus improving our competitiveness.

Overall, we are striving to achieve better **networking**, even with **services from non-Group transport companies**. Measures range from the consolidation of individual offers on the rails – our collaborations with regional railroads in freight transport are a good example – to seamless integration with other modes of transport in the mobility chain, such as linking airport train stations with our long-distance traffic network.

On the Way to Becoming an International Mobility and Logistics Service Provider

As the restructuring process progresses, it will increasingly become possible to exploit **potential growth**. All current forecasts point to stable growth in the mobility, transportation, and logistics markets for the foreseeable future. We have formulated clear **future prospects** for our various Group divisions and business units:

- In **long-distance transport**, the Group Passenger Transport division offers **competitive services** for fast connections **between German conurbations** and **to other European cities**: rapid, relaxed travel and comfortable city-to-city connections at attractive prices. Our challenge here is to defend our regular customer business from competition on the roads, in the air, and on the rails. We are targeting further, organic growth – primarily through ongoing supply optimization and professional revenue management. In parallel, we continue to pursue the optimization of international traffic – currently through collaborations with railroads in neighboring countries, and later potentially through the liberalization of foreign markets.

- In the increasingly open market for **public local passenger transport**, our Group Passenger Transport division stands for **seamless mobility in cities and beyond** through integrated transport systems – as the market leader in Germany, our home market, and with good prospects of expansion into other European countries. It goes without saying that our Group Passenger Transport division will continue to improve its offerings and defend its position as the leading company in the German rail transport sector through fair competition.
- The Group **Freight Transport** division is being expanded to become a **leading international transport and logistics service provider**. We organize **efficient solutions** for our customers with start-to-finish support and excellent quality – in Germany, Europe, and worldwide – on the rails, the roads, at sea, and in the air. The acquisition of the Stinnes Group represents a major step in expanding our logistics competencies. At the same time, Stinnes' pan-European sales presence is a major platform for future growth. By merging the consolidated competencies in the DB Group, we intend to win a major share of expected market growth, in both traditional rail transport and in the logistics area.
- The Group **Passenger Stations** division is **optimizing** its some 5,600 stations not only in their function as traffic stations, but also as representative calling cards of our company and the respective cities. Together with the federal government and municipal authorities, we have to **provide for the integrated function** of railroad stations – both in cities and in the countryside – in the best interests of our customers, the general public, and our company.
- Our **rail network** remains the **guarantee of all rail transport performance in Germany: integrated, reliable, affordable**. The primary challenge for the Group Track Infrastructure division is to continue to capture the identified **optimization potential**. We aim to further increase our performance by successively implementing our "Netz 21" strategy. Moreover, the continued existence of the rail/wheel system as an **integrated system** in Germany enables us to capture its production- and development-related synergies.
- Our **internal service providers** add significant value for Deutsche Bahn customers and for the entire rail system. They will **primarily offer rail-specific services** with a level of expertise and at prices that competitors cannot render in this form, and even win over non-Group customers for these services.

Capital Expenditure Program Continues at a High Level until 2007

To modernize the rail system and strengthen our market position, the companies of the DB Group will **maintain a high level of capital expenditures** in the medium term. In total, capital expenditures of some € 45 billion are planned through the year 2007 within the scope of existing DB activities. With more than 90 % of its total volume, most of this program is focused on the Passenger Transport, Freight Transport, and Track Infrastructure divisions. We will **significantly reduce the average age of our rolling stock** and **improve the availability of the rail network**. The program will benefit both customers of our own Group transport companies and non-Group companies, as users of the DB Netz AG infrastructure. Combined with other productivity improvements, we are helping to lay the foundation for rail to gain a strong share of the forecasted market growth. We expect that the acquired **logistics activities** of the Stinnes division will require additional capital expenditures that are **relatively minor** – we predict a volume of some € 2 billion by the end of 2007.

Success Depends on Effective Political Framework

Our future success remains dependent on the transportation policy framework, which is **increasingly defined by the European Union**. Our structures are in full harmony with EU regulations. We have been a **forerunner** in implementing this policy framework in countless areas in Germany: In **rail liberalization**, for example, Germany boasts a leading role in comparison with other European countries. Every operator is free to enter the market, and some 280 service providers currently compete on the German rail network. For our own prospects and those of other rail operators in Europe, and especially for the prospects of a Europe that is growing together, it is **essential** that the politicians in every European country achieve a **harmonization of their transportation framework** – both for rail transport and for other modes of transport. Major issues in intermodal competition include fair treatment in determining who pays for infrastructure costs as well as the taxation of energy consumption.

Stinnes Integration the Main Challenge in the Current Financial Year

Among the numerous programs and measures we are implementing, the integration of the Stinnes activities will be a particular focus in the current financial year, during which we will merge and optimize the competencies of the former Group Freight Transport division with the Stinnes/Schenker Transportation division. Once the working groups have developed the detailed, multistage concepts, we will implement the corresponding measures successively in the current year. Under these plans, Stinnes AG will at the same time become the management company for the new Group Transport and Logistics division – scheduled for the third quarter. The existing Group Freight Transport division and the Transportation division of the former Stinnes Group will be merged here. We will investigate demerger options for the Brenntag and Interfer units, although we see no need for immediate action. The new target structure will thus integrate the specific competencies of the Schenker organization with the rail transport expertise of the Group Freight Transport division.

Outlook and Expectations for the Financial Year 2003

Uncertain Outlook for Overall Economy and Transport Sectors

The global economy is extremely unstable at the start of the year 2003. The upswing that was expected in the second half of 2002 has yet to materialize. The future direction of the global economy, especially the euro zone and Germany, is greatly in doubt. The risk of a lasting destabilization of the entire Gulf region and its drastic impact on the global economy cannot be completely discounted. Developments in the mobility, transportation, and logistics sectors cannot escape these trends. Accordingly, the general forecasting uncertainty made accurate predictions of market developments impossible at the time these Financial Statements went to press.

We Will Continue to Pursue Our "DB Campaign" Goals

In the current financial year, we will continue to implement our strategic refocusing within the programs that comprise our "DB Campaign – Restructuring, Performance, Growth". We expect renewed major gains from our "Fokus" restructuring program. At the same time, we will redouble our efforts in the performance area. We will also intensify our efforts to focus our corporate portfolio on attractive, high-growth business segments.

We expect competition to increase in both passenger and freight transport. We plan to maintain our position – and even improve it where possible – through our clear strategic focus and the realization of further optimization potential. In long-distance passenger transport, our successful supply optimization measures, the establishment of the new pricing and revenue management system, and the integration of the new Cologne-Rhine/Main line in the year under review all represent important steps that we expect will pay off in the current financial year. We intend to defend our market position in regional and urban transport with convincing services. We are moving forward in freight transport with our product campaign in full-train transport and the intensification of our combined rail/road transport activities, where we are especially benefiting from our strengthened position after the Schenker takeover. In freight transport, we will have to pay particular attention to the increasing internationalization of our competitors. We have to improve our competitiveness in international transport if we expect to gain from long-term growth trends. We expect the merger of our existing Group Freight Transport division with the Stinnes/Schenker activities – forming the new Group Transport and Logistics division – to give a major positive impetus to our market presence. We will continue to consistently pursue our modernization programs in the Group Track Infrastructure and Passenger Stations divisions. The emphasis in the Service area will lie on realizing further efficiency gains.

We will continue our capital expenditure and modernization program in the current financial year, as it reinforces the DB Group's efforts to get into shape for the future. The scheduled reduction in federal compensation for burdens inherited from the former Deutsche Reichsbahn (surplus personnel expenses and increased cost of materials), which was granted for the final time in the year 2002, amounts to some € 443 million for us and our subsidiaries in the year 2002.

This financial year is the first full year of our ownership of the Stinnes Group, which has a major impact on key financial data of the DB Group. This primarily involves the revenue and profitability structure – Stinnes will be fully consolidated for the first time.

We will also actively contribute to key transport policy debates. Our emphasis here lies on intensified efforts to open European rail networks to international passenger and freight transport – in line with the infrastructure already created in Germany – as well as the reduction of the competitive disadvantages faced by rail transport, in order to level out the framework conditions among the various modes of transport.

Reliable Income Forecast for the Financial Year 2003 Not Possible

In addition to the long-term programs we are currently implementing, we have begun to initiate additional offsetting measures to compensate for the foreseeable burdens imposed by the current economic framework. In light of the sustained uncertainty, however, it is not currently possible to make a final forecast of revenues or income figures for the financial year 2003. Accordingly, we will delay our forecasts of the expected annual result until estimations of overall economic development have become sufficiently stable.

Statements Relating to the Future
This Management Report contains forward-looking statements based on beliefs of Deutsche Bahn Group management. When used in this document, the words “anticipate”, “believe”, “estimate”, “expect”, “intend”, and “plan” are intended to identify forward-looking statements. Such statements reflect the current views of Deutsche Bahn Group, DB AG, the Group divisions, and individual companies with respect to future events and are subject to risks and uncertainties. Many factors could cause the actual results to be materially different, especially those described in the “Risk Report”. Actual results may vary materially from those projected here. The Deutsche Bahn Group does not intend or assume any obligation to update these forward-looking statements.

Financial Statements Deutsche Bahn AG

Balance Sheet

on December 31, 2002

Assets

in € million	Note	Dec 31, 2002	Dec 31, 2001
A. Fixed assets			
Intangible assets	(2)	1	3
Properties	(2)	3,158	4,046
Financial assets	(2)	19,609	16,272
		22,768	**20,321**
B. Current assets			
Inventories	(3)	248	278
Accounts receivable and other assets	(4)	2,703	3,138
Securities	(5)	0	348
Cash and cash equivalents		418	709
		3,369	**4,473**
C. Prepayments and accrued income		**1**	**0**
		26,138	**24,794**

Equity and Liabilities

in € million	Note	Dec 31, 2002	Dec 31, 2001
A. Equity			
Subscribed capital	(6)	2,150	2,150
Capital reserves	(7)	5,310	5,310
Retained earnings	(8)	1,471	1,471
Balance sheet loss		– 464	– 135
		8,467	**8,796**
B. Provisions	(9)	**5,550**	**5,870**
C. Liabilities	(10)	**12,090**	**10,103**
D. Accruals and deferred income	(11)	**31**	**25**
		26,138	**24,794**

Statement of Income

January 1 through December 31, 2002

in € million	Note	2002	2001
Inventory changes		– 14	24
Other internally produced and capitalized assets		466	519
Overall performance		**452**	**543**
Other operating income	(15)	2,903	2,859
Cost of materials	(16)	– 1,304	– 1,509
Personnel expenses	(17)	– 682	– 651
Depreciation		– 155	– 70
Other operating expenses	(18)	– 1,054	– 1,413
		160	**– 241**
Investment income	(19)	– 376	171
Net interest	(20)	– 113	– 60
Income before taxes		– 329	– 130
Income taxes		0	0
Income after taxes		**– 329**	**– 130**
Loss carried forward		– 135	– 5
Balance sheet loss		**– 464**	**– 135**

Statement of Cash Flows

January 1 through December 31, 2002

in € million	Note	2002	2001
Income before taxes		**– 329**	**– 130**
Depreciation of properties[1]		155	70
Changes to pension provisions		4	36
Cash flow before taxes		**– 170**	**– 24**
Changes to other provisions		– 325	– 626
Gains/losses from disposal of properties[1]		– 297	– 207
Gains/losses from disposal of financial assets		– 2	– 21
Changes to current assets (excl. cash and cash equivalents)		812	– 1,671
Changes to other operating liabilities		1,841	– 450
Income taxes		0	0
Cash flow from business activities		**1,859**	**– 2,999**
Proceeds from disposal of properties[1]		406	703
Payments for purchase of properties[1]		– 69	– 250
Proceeds from disposal of financial assets		7	38
Payments for the purchase of financial assets		– 2,725	– 5
Investing activities		**– 2,381**	**486**
Proceeds from long-term Group financing		2,139	1,142
Proceeds from short-term Group financing		– 2,429	1,287
Proceeds from issuing bonds and new loans and MCCP		521	46
Repayment of bonds and loans		0	0
Financing activities		**231**	**2,475**
Net increase (decrease) in cash		**– 291**	**– 38**
Cash and cash equivalents, beginning of year	(21)	709	747
Cash and cash equivalents, end of year	(21)	**418**	**709**

[1] including intangible assets

Fixed Assets Schedule

in € million	Acquisition and manufacturing costs Balance at Jan 1, 2002	Additions	Transfers	Disposals
Intangible assets				
1. Licences, patents, trademarks, and similar rights	26	0	0	0
2. Advance payments	0	0	0	0
	26	**0**	**0**	**0**
Properties				
1. Land, leasehold rights, and buildings including buildings on land owned by others				
a) Land and leasehold rights	3,516	4	– 696	– 86
b) Commercial, office, and other buildings	402	9	31	– 15
c) Permanent way formation and structures	5	0	0	0
	3,923	**13**	**– 665**	**– 101**
2. Track infrastructure, signaling and control equipment	15	0	1	– 1
3. Rolling stock for passenger and freight transport	11	0	0	– 10
4. Technical equipment and machinery other than No. 2 or 3	212	8	3	– 16
5. Other equipment, operating and office equipment	99	16	4	– 17
6. Advance payments and construction in progress	43	32	– 38	0
	4,303	**69**	**– 695**	**– 145**
Financial assets				
1. Investments in affiliated companies	10,645	2,715	695	0
2. Loans to affiliated companies	5,084	503	0	– 581
3. Investments in associated companies	546	10	0	– 5
4. Loans to associated and related companies	0	0	0	0
5. Long-term securities	0	0	0	0
6. Other loans	0	0	0	0
	16,275	**3,228**	**695**	**– 586**
Total fixed assets	**20,604**	**3,297**	**0**	**– 731**

Balance at Dec 31, 2002	Accumulated depreciation: Balance at Jan 1, 2002	Depreciation financial year 2002	Transfers	Disposals	Balance at Dec 31, 2002	Book value: Balance at Dec 31, 2002	Balance at Dec 31, 2001
26	– 23	– 2	0	0	– 25	1	3
0	0	0	0	0	0	0	0
26	**– 23**	**– 2**	**0**	**0**	**– 25**	**1**	**3**
2,738	– 8	– 101	0	1	– 108	2,630	3,508
427	– 77	– 13	– 3	3	– 90	337	325
5	– 1	0	0	0	– 1	4	4
3,170	**– 86**	**– 114**	**– 3**	**4**	**– 199**	**2,971**	**3,837**
15	– 9	0	0	0	– 9	6	6
1	– 9	0	0	8	– 1	0	2
207	– 105	– 20	3	10	– 112	95	107
102	– 48	– 19	0	14	– 53	49	51
37	0	0	0	0	0	37	43
3,532	**– 257**	**– 153**	**0**	**36**	**– 374**	**3,158**	**4,046**
14,055	– 2	0	0	0	– 2	14,053	10,643
5,006	0	0	0	0	0	5,006	5,084
551	– 1	0	0	0	– 1	550	545
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
19,612	**– 3**	**0**	**0**	**0**	**– 3**	**19,609**	**16,272**
23,170	**– 283**	**– 155**	**0**	**36**	**– 402**	**22,768**	**20,321**

Notes

for the Financial Year 2002

The **annual financial statements of Deutsche Bahn AG** have been drawn up in accordance with the provisions of the German Commercial Code (HGB) and the German Stock 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, legally required items have been consolidated in the Balance Sheet and in the Income Statement. The Notes contain the required details and explanatory remarks.

1 Accounting and Valuation Methods

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

Intangible assets acquired for valuable consideration are carried at acquisition costs and written down on a straight-line basis. Acquired software that constitutes a low-value asset in each individual case is fully written off during the first year.

Properties (property, plant and equipment) are carried at acquisition or manufacturing cost less scheduled depreciation, where applicable. Write-downs for asset impairment are recognized if recovery of the carrying amounts is no longer to be expected.

Manufacturing costs include direct costs, prorated material and production overheads, and scheduled depreciation. Prorated material and production overheads as well as depreciation are determined on the basis of actual capacity utilization. Neither interest on borrowed funds nor administrative overhead is included in manufacturing costs.

Scheduled depreciation is recognized using the straight-line method based on the normal useful lives. Depreciation is determined in accordance with the tax depreciation tables. The **useful lives** of the main groups are shown in the table below:

	Years
Software, other licences	5
Permanent way structures, bridges	75
Track infrastructure	20 – 25
Buildings and other constructions	10 – 50
Signaling equipment	20
Telecommunications equipment	5 – 20
Rolling stock	15 – 30
Other technical equipment, machinery, and vehicles	5 – 25
Factory and office equipment	5 – 13

Properties of minor value with individual values of up to € 2,000 are fully depreciated in the year of acquisition and carried as disposals.

Financial assets are carried at acquisition cost and are subject to write-downs for asset impairment where appropriate.

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 a decline in economic usefulness, long storage periods, price changes in the procurement markets, or any other decline in value are taken into account by adjusting such values accordingly.

Accounts receivable and other assets are stated at nominal or face value unless a lower carrying amount is required in individual cases. Discernible risks have been taken into account by individual or lump-sum valuation adjustments.

Securities held as current assets are valued at acquisition cost.

Pension provisions are carried as liabilities at their going-concern value in accordance with Section 6 a of the German Income Tax Act (EStG). As in previous years, the calculations are based on the 1998 mortality tables of Prof. Dr. Klaus Heubeck. The amounts of pension provisions are calculated according to actuarial principles and at a fixed 6 % interest rate for discounting purposes.

All other **provisions** are stated at the amount required, based on sound business judgement. Provisions take all discernible risks into account. Furthermore, reserves for contingencies have been set up in accordance with Section 249 (2) HGB. The remaining provisions are determined at full cost.

Liabilities are carried at the expected settlement amount.

Receivables and liabilities stated in foreign currency are translated at the selling or buying rate on the creation date. Adjustments are made if the exchange rates effective at the balance sheet date lead to lower receivables or higher liabilities.

Notes to the Balance Sheet

2 Fixed Assets

Movements in fixed assets are shown on the pages 38 and 39.

In the financial year 2002, **write-offs for asset impairment of properties** amounted to € 101 million (previous year: € 0 million).

3 Inventories

in € million	2002	2001
Raw materials and manufacturing supplies	234	248
Unfinished products, work in progress	14	28
Advance payments to suppliers	0	2
Total	**248**	**278**

Valuation adjustments in the amount of € 121 million (previous year: € 126 million) were made to take into account the strict lower of cost or market value principle as well as marketability discounts.

4 Accounts Receivable and Other Assets

in € million	2002	of which with a remaining term of more than one year	2001
Trade receivables	262	20	228
Receivables due from affiliated companies	1,580	0	455
Receivables due from companies in which a participating interest is held	10	0	87
Other assets	851	271	2,368
Total	**2,703**	**291**	**3,138**

Value adjustments for accounts receivable and other assets amounted to € 170 million (previous year: € 121 million).

The **receivables due from affiliated companies** almost exclusively involve receivables from cash pooling.

The main elements of **other assets** are tax receivables and a claim against the Federal Railroad Fund (BEV) under the “Trilateral Agreement” for the transfer of real estate. In 2001, “Other Assets” included short-term cash investments of € 1,775 million.

5 Securities

Most of the securities carried as current assets in 2001 were sold in 2002.

6 Subscribed Capital

Subscribed capital amounts to € 2,150 million. Equity capital is subdivided into 430,000,000 no-par value bearer shares. The shares are held entirely by the Federal Republic of Germany.

7 Capital Reserves

Capital reserves remained unchanged at € 5,310 million.

8 Retained Earnings / Other Retained Earnings

Retained earnings remained unchanged at € 1,471 million.

9 Provisions

in € million	2002	2001
Provisions for pensions and similar liabilities	90	86
Tax provisions	331	319
Other provisions	5,129	5,465
Total	**5,550**	**5,870**

€ 4 million (previous year: € 36 million) were transferred to **provisions for pensions and similar liabilities** in the financial year 2002. This includes employee-financed pension liabilities in the amount of € 1 million for the first time.

Other provisions consisted of the following:

in € million	2002	2001
Personnel-related commitments	122	152
Restructuring charges	241	265
Inherited environmental liabilities	2,573	2,620
Reconveyance obligations	305	321
Other risks	1,888	2,107
Total	**5,129**	**5,465**

Personnel-related commitments mainly concern leave entitlements, profit-sharing bonuses, and early retirement benefits. Severance pay and similar expenses are reported under provisions for **restructuring charges**.

Provisions for **inherited environmental liabilities** relate primarily to the remediation of residual pollution caused before July 1, 1990, in the regions served by the former Deutsche Reichsbahn. A provision of € 2.9 billion was set aside for this purpose in the opening balance sheet of Deutsche Reichsbahn and taken over unchanged to Deutsche Bahn AG's opening balance sheet. Provisions for **reconveyance obligations** were set up for potential restitution claims on property in the area of the former Deutsche Reichsbahn.

All remaining contingent liabilities are allocated to **other risks**. These primarily include provisions for:

- Recultivation and renaturation (decommissioning of railroad tracks and related facilities),
- Deferred maintenance work (also includes future measures to be taken in connection with the preparation for sale of real estate),
- Risks from pending business, guaranties, as well as for contingent liabilities arising from deliveries and services not yet invoiced.

10 Liabilities

in € million	2002	of which with a residual maturity of up to 1 year	of which with a residual maturity of 1 to 5 years	of which with a residual maturity of over 5 years	2001
Bonds	67	0	0	67	46
Liabilities due to banks	51	0	0	51	51
Advance payments received for orders	9	9	0	0	20
Trade accounts payable	148	146	2	0	121
Liabilities due to affiliated companies	8,442	1,482	2,075	4,885	7,477
Liabilities due to companies in which a participating interest is held	1,895	23	263	1,609	1,452
Other liabilities	1,478	1,114	364	0	936
of which tax liabilities	(14)	(14)	(0)	(0)	(14)
of which social security liabilities	(11)	(11)	(0)	(0)	(11)
Total	**12,090**	**2,774**	**2,704**	**6,612**	**10,103**

Liabilities due to companies in which a participating interest is held include long-term, interest-bearing loans from EUROFIMA European Company for the Financing of Railway Rolling Stock (Basle/Switzerland) amounting to € 1,872 million (previous year: € 1,438 million). These liabilities have to be secured pursuant to EUROFIMA's memorandum of association by assignment of railroad equipment (rolling stock). The required security was provided by assigning rolling stock of the subsidiaries DB Reise&Touristik AG, DB Regio AG, and DB Cargo AG.

No other **liabilities** have been secured.

The increase in **other liabilities** is due almost exclusively to the utilization of the Multi-Currency Commercial Paper program in the amount of € 500 million.

For a listing of **financial debt** and the corresponding comments, please see Note (14).

11 Accruals and Deferred Income

Accruals and deferred income consist primarily of accrued rents from hereditary tenancy contracts.

12 Contingent Liabilities

in € million	2002	2001
Liabilities from guaranties	183	226
Liabilities for third-party liabilities	380	638
Total	**563**	**864**

Deutsche Bahn AG furnished an unconditional, irrevocable **guaranty** to the benefit of Deutsche Bahn Finance B.V., Amsterdam, for its Multi-Currency Commercial Paper program issued in the amount of € 1 billion. This guaranty was valuated at € 500 million as of December 31, 2002, and carried under "Other Liabilities".

The **liability for third-party liabilities** was the result of the spin-off of subsidiaries from Deutsche Bahn AG. Pursuant to Section 158 in conjunction with Section 133 of the German Conversion Act, Deutsche Bahn AG and its management companies of the businesses set up as separate legal entities as of January 1, 1999, are jointly and severally liable for the indebtedness of Deutsche Bahn AG as of December 31, 1998. This liability is limited to obligations due within five years of notice of entry of the spin-offs in the Commercial Register – i.e. to obligations becoming due no later than June 30, 2004. The memo item includes all liabilities of Deutsche Bahn AG incurred by December 31, 1998, that were transferred on January 1, 1999, to the spun-off businesses set up as separate stock corporations, that are becoming due no later than June 30, 2004, and are unpaid as of December 31, 2002.

13 Other Financial Commitments

in € million	2002	2001
Purchase order commitments for capital expenditures	25	27
Outstanding contributions	353	349
Commitments under rental, leasing, and other debt obligations with external parties	1,153	1,244
thereof affiliated companies	(14)	(22)
Total	**1,531**	**1,620**

The **outstanding contributions** concern EUROFIMA European Company for the Financing of Railway Rolling Stock (Basle/Switzerland).

Commitments under rental, leasing, and other debt obligations with external parties are carried at their nominal values. The two tables below list the corresponding **nominal values and the net present values** (as of December 31, 2002) by due date:

in € million	Nominal value	Net present value at 7.5 %
Lease payments		
due within 1 year	87	83
due within 1 to 5 years	320	256
due after 5 years	409	219
Total	**816**	**558**

Leasing plays only a minor part in the financing of necessary business assets. During the financial year 2002, lease payments totaled € 89 million (previous year: € 84 million).

in € million	Nominal value	Net present value at 7.5 %
Rental and other external-party liabilities		
due within 1 year	66	64
due within 1 to 5 years	194	158
due after 5 years	77	46
Total	**337**	**268**

14 Financial Instruments

Deutsche Bahn AG, as the central treasury for the Deutsche Bahn Group, is responsible for all financing and hedging activities. In terms of functions and organizational structure, lending and trading workflows in the front office on the one hand and processing and control in the back office on the other hand are kept clearly separate. The Treasury department operates in the financial markets in compliance with the Minimum Requirements for the Trading Activities of Credit Institutions established by the German Banking Supervisory Authority and it is subject to periodic internal audits.

A. Financial Instruments

The main financial instruments and total **financial debt** as of December 31, 2002, are listed in the following table, with nominal amounts and book values being equivalent:

	Currency	Residual maturity in years	Nominal interest rate in %	Book value 2002 in € million
Unlisted bonds				
Total DB AG	JPY, USD	8.7–9.5		67
Total DB Finance B.V.	HKD, JPY, CHF	9.5–9.8		126
Total				**193**
DB Finance B.V. bonds: [1]				
Bond 1997 – 2007	DEM	4.8	5.750	511
Bond 1998 – 2003 [2]	DEM	max. 0.3	1.125	42
Bond 1998 – 2008	DEM	5.4	5.000	767
Bond 1999 – 2009	EUR	6.5	4.785	1,350
Bond 2000 – 2010	EUR	7.5	6.000	1,000
Bond 2001 – 2006	DEM	4.0	4.500	31
Bond 2001 – 2006	CHF	3.7	3.375	265
Bond 2001 – 2008	DKK	5.8	5.250	54
Bond 2001 – 2008	SEK	5.8	5.500	42
Bond 2001 – 2008	NOK	5.8	7.000	50
Bond 2001 – 2013	EUR	10.9	5.125	750
Bond 2002 – 2007	CHF	4.4	3.250	512
Bond 2002 – 2007	USD	4.6	4.500	604
Bond 2002 – 2008	CHF	6.0	3.000	170
Bond 2002 – 2012	EUR	9.6	5.375	500
Bond 2002 – 2008	USD	5.0	FRN	76
Bond 2002 – 2006	USD	3.8	FRN	51
Bond 2002 – 2006	EUR	3.8	FRN	100
Total				**6,875**
EUROFIMA loans:				
Loan 1995 – 2005 [3]	DEM	2.7	4.750	7
Loan 1996 – 2006	DEM	3.9	6.000	256
Loan 1997 – 2009	DEM	7.0	5.625	256
Loan 1999 – 2009	EUR	6.8	5.750	400
Loan 2000 – 2014	EUR	11.8	5.970	219
Loan 2001 – 2014	EUR	11.7	5.410	300
Loan 2002 – 2012	EUR	9.6	FRN	34
Loan 2002 – 2012	EUR	9.6	FRN	400
Total				**1,872**
Liabilities due to banks:				
Note loan 1998 – 2008	DEM	5.3	5.310	51
Commercial Paper:				**500**
Total financial debt				**9,491**

[1] The DB Finance B.V. bonds were passed on to Deutsche Bahn AG as loans.
[2] Bondholders have the option of conversion into Deutsche Lufthansa AG shares held by Deutsche Bahn AG.
[3] The EUROFIMA loans to D.A.CH. Hotelzug (Zurich/Switzerland), now trading as CityNightLine CNL AG (Zurich/Switzerland), were taken over as part of a purchase of rolling stock by Deutsche Bahn AG as of December 31, 1996.

An amount of € 42 million of the total financial debt has a residual maturity of up to one year.

In addition to the liabilities shown on the balance sheet, banks had opened guaranteed **credit facilities** to Deutsche Bahn AG totaling € 2.1 billion as of December 31, 2002, to cover short-term liquidity requirements. Deutsche Bahn AG had drawn on none of these credit lines as of December 31, 2002.

B. Financial Derivatives

Financial derivatives are used to hedge against interest rate or currency exposures in connection with the financial transactions of the Deutsche Bahn Group. Each individual deal corresponds to an on-balance sheet item or an anticipated exposure (bonds, loans, etc.). Speculative transactions are not permitted. The use, settlement, and control of derivative transactions are governed by Group guidelines. Market valuations and risk assessments are conducted on an ongoing basis as part of the Deutsche Bahn Group's risk management system.

Deutsche Bahn is increasingly meeting its refinancing needs in currencies outside the euro area. These positions are immediately converted to euro-denominated liabilities to exclude any currency risk. Derivatives for fuel were purchased to hedge against price risks in commodity markets.

Interest rate swaps and interest rate/currency swaps were conducted to cover possible **interest rate risks**. Resulting interest differentials are apportioned on an accrual basis. Future interest differentials are not carried on the balance sheet because they actually are pending transactions.

Foreign exchange risks were of marginal significance to Deutsche Bahn AG. To reduce exposure to exchange rate fluctuations in respect of payables denominated in foreign currencies, foreign currency forwards were used.

Commodity risks at Deutsche Bahn AG primarily involve the purchase of fuels. Deutsche Bahn AG conducted various hedging transactions to reduce its exposure to diesel price fluctuations. Swaps and options were used in these transactions.

The total **notional value** of hedging transactions listed below represents the sum of all purchase and sales contracts being hedged. The tonnage is specified for commodity transactions. From the level of this notional volume, conclusions can be drawn as to the extent to which financial derivatives were used, but this level does not reflect the risk inherent in the use of such derivatives.

The **fair market value** of a derivative financial instrument is equivalent to its cost of liquidation or the amount at which the instrument could be exchanged. The fair values listed below were computed as per the balance sheet date using common financial models; offsetting changes in the values of the items being hedged were not taken into account. In turn, the related financial derivatives are not taken into account for stating the underlying transactions in the balance sheet (no hedge accounting). Because valuation units (derivative/underlying) were formed, the fair values of derivatives as well as changes in the fair values of the underlying transactions are shown in the following tables.

The **credit risk** is the danger of loss due to nonperformance by counterparties (risk of default). It represents the replacement cost (at fair value) of transactions with a positive fair value giving Deutsche Bahn AG a claim against its counterparties. The risk of default of counterparties is actively controlled by our high demands on the financial standing of counterparties both when entering into a contract and for its entire term as well as by the setting of risk limits. The following information on the credit risk contains the cumulative result of all individual risks.

Notional and Fair Market Values of Interest Rate Derivatives

in € million	2002	2001
Total notional value	6,722	4,403
Performance of valuation units:		
Fair market value of derivatives	– 23	– 57
Change in the fair market value of underlying transactions	– 222	8
Total	**– 245**	**– 49**

On December 31, 2002, the portfolio of interest rate derivatives consisted almost exclusively of interest rate swaps with a remaining term of more than one year. The change in the fair market value of the underlying transactions results from the decline in interest rates over the course of the past year.

Notional and Fair Market Values of Currency Derivatives

in € million	2002	2001
Total notional value	394	0
Performance of valuation units:		
Fair market value of derivatives	– 14	0
Change in the fair market value of underlying transactions	14	0
Total	**0**	**0**

As of December 31, 2002, existing contracts to offset foreign exchange risks consisted exclusively of currency futures contracts with a remaining term of less than one year.

Notional and Fair Market Values of Commodity Derivatives

in € million	2002	2001
Total notional volume (diesel fuel in t)	648,000	894,000
Performance of valuation units:		
Fair market value of derivatives	– 2	– 11
Change in the fair market value of underlying transactions	2	11
Total	**0**	**0**

As of December 31, 2002, the portfolio of commodity derivatives consisted primarily of contracts with a remaining term of up to one year. These transactions were transferred 1:1 to the subsidiary DB Energie GmbH.

Credit Risk of Interest Rate and Commodity Derivatives

in € million	2002	2001
Credit risk of interest rate and commodity derivatives	**188**	**54**

The increase in credit risk in comparison to the previous year is due to an expansion of hedging activities.

The single biggest risk, i.e. a risk of default by a specific counterparty, amounts to € 37 million and relates to a counterparty having a Moody’s rating of Aa3.

As regards credit risks arising from contracts with a remaining term of more than one year, all counterparties have a Moody’s rating of no less than A2.

Notes to the Income Statement

15 Other Operating Income

in € million	2002	2001
Income from costs debited to Group companies and other intra-Group cost allocations	686	689
Services to external parties and sale of materials	1,171	1,289
Rents and leases	363	384
Other operating income	116	136
Gains on sales of properties	307	244
Income from the release of provisions	199	115
Gains on the reversal/recovery of write-downs/write-offs of receivables	61	2
Other income unrelated to accounting period	0	0
Total	**2,903**	**2,859**

16 Cost of Materials and Supplies

in € million	2002	2001
Cost of raw materials, supplies, and merchandise	287	418
Cost of services purchased	149	202
Maintenance expenses	880	911
Subtotal (gross cost of materials)	**1,316**	**1,531**
Federal government contributions	– 12	– 22
Total	**1,304**	**1,509**

The cost of services and merchandise purchased for **self-constructed assets** is recognized under cost of materials. Such cost is capitalized by inclusion in other internally produced and capitalized assets under properties.

Federal government contributions were provided in accordance with Article 2 Section 22 (1) No. 3 German Railroad Restructuring Act. They were intended to reduce Deutsche Bahn's increased cost of materials for harmonizing the levels of development, technical equipment, and productivity in the area of the former Deutsche Reichsbahn (East Germany) with those in the area of the former Deutsche Bundesbahn (West Germany). Federal government contributions were reduced from year to year in proportion to the forecasted decrease in the additional cost of materials and were granted for the final time in the year 2002.

17 Personnel Expenses

in € million	2002	2001
Wages and salaries		
for employees	521	517
for civil servants assigned		
Payments to the Federal Railroad Fund IAW Article 2 Section 21 (1) (2) German Railroad Restructuring Act	55	60
Ancillary remuneration paid directly	1	1
	578	**578**
Compulsory social security contributions, pensions and similar benefits, and support payments		
for employees	115	121
for civil servants assigned (payments to the Federal Railroad Fund IAW Article 2 Section 21 (1) (2) German Railroad Restructuring Act)	18	9
	133	**130**
of which for pensions and similar benefits	(65)	(73)
Subtotal (gross personnel expenses)	**711**	**708**
Contributions by the Federal Railroad Fund	– 29	– 57
Total	**682**	**651**

Expenses related to **pensions and similar benefits** also include social security contributions paid by employers as well as supplemental social security contributions paid by employers for civil servants assigned but on leave of absence.

The **contributions by the Federal Railroad Fund (BEV)** were made in accordance with Article 2 Section 21 (5) No. 1 German Railroad Restructuring Act. They were a compensation for increased personnel expenses in the area of the former Deutsche Reichsbahn (East Germany) as compared to those in the area of the former Deutsche Bundesbahn (West Germany). These contributions were reduced from year to year in proportion to the forecasted decrease in personnel expenses, and were granted for the final time in the year 2002.

18 Other Operating Expenses

in € million	2002	2001
Expenses for intra-Group offsets	298	407
Rents and leases	178	176
Fees and dues	32	36
Miscellaneous operating expenses	423	700
Losses on the disposal of fixed assets	8	16
Expenses relating to set-up of allowances for and write-off of accounts receivable	115	75
Other expenses unrelated to accounting period	0	3
Total	**1,054**	**1,413**

€ 35 million (previous year: € 37 million) of **miscellaneous operating expenses** are attributable to "other taxes".

19 Investment Income

in € million	2002	2001
Income from participating interests	2	18
of which from affiliated companies	(2)	(12)
Income from associated companies	4	6
Income from profit transfer agreements	490	385
Transfer of losses	– 872	– 238
Total	**– 376**	**171**

20 Net Interest

in € million	2002	2001
Income from other securities and long-term loans	286	280
of which from affiliated companies	(286)	(280)
Other interest and similar income	206	131
of which from affiliated companies	(82)	(51)
Interest and similar expenses	– 605	– 471
of which to affiliated companies	(– 408)	(– 355)
Total	**– 113**	**– 60**

Notes to the Cash Flow Statement

The cash flow statement is set out in accordance with German Accounting Standard No. 2 (DRS 2), Cash Flow Statement, developed by the German Accounting Standards Board of the German Accounting Standards Committee e.V. (DRSC).

The cash flow statement shows a breakdown of cash flows by business activities, investment activities, and financing activities. Cash flow before taxes is reported under the cash flow from business activities.

21 Cash and Cash Equivalents

This item comprises cash and cash equivalents (cash on hand, Deutsche Bundesbank balance, cash in banks, and checks) as shown on the balance sheet.

Supplemental Information

22 List of Shareholdings

The complete list of shareholdings in accordance with Section 285 No. 11 HGB has been filed with the Commercial Register of the Local Court of Berlin-Charlottenburg under No. HRB 50000.

23 Employees

	2002 Annual average	2002 As of Dec 31	2001 Annual average	2001 As of Dec 31
Wage and salary earners	14,763	13,733	16,187	16,013
Civil servants assigned	1,603	1,515	1,786	1,720
Subtotal	**16,366**	**15,248**	**17,973**	**17,733**
Apprentices	1,542	1,440	2,254	2,334
Total	**17,908**	**16,688**	**20,227**	**20,067**

The civil servants who work at Deutsche Bahn AG were generally assigned as of its registration date by virtue of Article 2 Section 12 German Railroad Restructuring Act ("civil servants assigned"). Although they work for Deutsche Bahn AG, their official employer is the Federal Railroad Fund (BEV).

24 Total Emoluments of the Management Board and the Supervisory Board, Including Former Members

in € thousand	**2002**	**2001**
Total Management Board emoluments	5,094	4,694
Emoluments of former Management Board members	1,018	995
Pensions provisions for former Management Board members	12,717	10,971
Total Supervisory Board emoluments	232	224
Emoluments of former Supervisory Board members	0	0
Loans granted to Management Board members	0	0
Loans granted to Supervisory Board members	0	0

For the names and functions of the members of the Supervisory Board and the Management Board, please see the pages 60–63.

25 Events After the Balance Sheet Date

Events after the balance sheet date are stated in the Management Report.

26 Proposed Appropriation of Profit/Loss for the Year

After the net loss for the year and including the loss carried forward from the previous year of € 134,721,940.56, the income statement of Deutsche Bahn AG shows a balance sheet loss of € 464,022,256.09 as of December 31, 2002, which will be carried forward into the next financial year.

Berlin, March 28, 2003

Deutsche Bahn AG
The Management Board

Independent Auditor's Report

The Consolidated Financial Statements were audited by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, who added the following auditor's certificate:

"We have audited the annual financial statements, together with the bookkeeping system, and the management report of Deutsche Bahn Aktiengesellschaft, Berlin, for the business year from January 1 to December 31, 2002. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and German 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 annual financial statements in accordance with German principles of proper accounting and in the 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 accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company’s position and suitably presents the risks of future development.”

Frankfurt/Main, March 28, 2003

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Kämpfer)	(Jäcker)
Wirtschaftsprüfer	Wirtschaftsprüfer

Management Board of Deutsche Bahn AG

Hartmut Mehdorn
Chairman and CEO
of the Management Board,
Berlin
a) DB Reise&Touristik AG (Chairman)
DB Regio AG (Chairman)
DB Cargo AG (Chairman)
DB Station&Service AG (Chairman)
DB Netz AG (Chairman)
Stinnes AG (Chairman)
S-Bahn München GmbH (Chairman)
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungs-verein a. G.
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a. G.
Lufthansa Technik AG
SAP AG
Vattenfall Europe AG
WestLB AG
b) Bayerische Magnetbahn-vorbereitungsgesellschaft mbH (Chairman)
Projektgesellschaft METRORAPID mbH (Chairman)
Railog GmbH (Advisory Board)
Allianz Versicherungs-AG (Advisory Board)
Bayerische Hypo- und Vereinsbank AG (Advisory Board)
Commerzbank AG (Berlin State Advisory Board)
Deutsche Bank AG (Advisory Board, Eastern Region)
Dresdner Bank AG (Advisory Management Council)

Dr. Norbert Bensel
Personnel,
Berlin
– since May 21, 2002 –
a) DB Reise&Touristik AG
DB Regio AG
DB Cargo AG
DB Station&Service AG
DB Netz AG
DB Gastronomie GmbH (Chairman)
DB Vermittlung GmbH (Chairman)
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungs-verein a. G.
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a. G.
Partner für Berlin Gesellschaft für Hauptstadt-Marketing mbH
Senator Entertainment AG
b) DBFuhrparkService GmbH (Chairman)
DB Services GmbH (Advisory Board, Chairman)

Klaus Daubertshäuser
Marketing,
Wettenberg
a) DB Reise&Touristik AG
DB Regio AG
DB Cargo AG
DB Station&Service AG
DB Netz AG
DE-Consult Deutsche Eisenbahn Consulting GmbH
S-Bahn Berlin GmbH (Chairman)
b) DEVK Deutsche Eisenbahn Versicherung Lebensversicherungs-verein a. G. (Advisory Board)
Sparda-Bank Baden-Württemberg eG (Advisory Board)

Dr. Christoph Franz
Passenger Transport,
Chairman and CEO of the Management Board of DB Reise&Touristik AG,
Chairman and CEO of the Management Board of DB Regio AG,
Darmstadt
a) DEVK Allgemeine Versicherungs-AG
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a. G.
DF Deutsche Forfait AG
Lufthansa CityLine GmbH

Roland Heinisch
Track Infrastructure/Integrated Operations, Chairman and CEO of the Management Board of DB Netz AG,
Idstein
a) DB Reise&Touristik AG
DB Regio AG
DB Cargo AG
DB Systems GmbH

Dr. Bernd Malmström
Freight Transport,
Chairman and CEO of the Management Board of DB Cargo AG,
Chairman and CEO of the Management Board of Stinnes AG,
Mainz
a) Brenntag AG (Chairman)
Scandlines AG (Chairman)
Scandlines Deutschland GmbH (Chairman)
Schenker AG (Chairman)
Stinnes Interfer AG (Chairman)
ThyssenKrupp Serv AG
b) BLG Bremer Lagerhausgesellschaft AG (Advisory Board)
HansaRail GmbH
Kombiverkehr GmbH & Co. KG (Administrative Board)
Polzug GmbH
Railog GmbH (Advisory Board)
Scandlines Denmark A/S (Chairman of the Administrative Board)
Stinnes Corporation (Chairman)

Dr. Karl-Friedrich Rausch
Technology,
Weiterstadt
a) DB Reise&Touristik AG
DB Regio AG
DB Cargo AG
DB Energie GmbH (Chairman)
DB Systems GmbH
b) Bayerische Magnetbahnvorbereitungsgesellschaft mbH
Gemeinschaftskernkraftwerk Neckar GmbH (Administrative Board)
IFB Institut für Bahntechnik GmbH
MVP Versuchs- und Planungsgesellschaft für Magnetbahnsysteme mbH
Projektgesellschaft METRORAPID mbH
Signal Iduna Gruppe (Advisory Board)

Diethelm Sack
Chief Financial Officer,
Frankfurt/Main
a) DB Reise&Touristik AG
DB Regio AG
DB Cargo AG
DB Station&Service AG
DB Netz AG
Stinnes AG
DB Services Immobilien GmbH
DB Systems GmbH (Chairman)
DEVK Allgemeine Lebensversicherungs-Aktiengesellschaft
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a. G.
b) DB Services GmbH (Advisory Board)
Dresdner Bank Luxembourg S.A.
DVA Deutsche Verkehrs-Assekuranz-Vermittlungs-GmbH (Chairman)
EUROFIMA Europäische Gesellschaft für die Finanzierung von Eisenbahnmaterial (Administrative Board)

a) Membership in Supervisory Boards required by law
b) Membership in comparable Supervisory Boards of domestic and foreign companies

Information as of December 31, 2002, or the date of resignation.

Supervisory Board of Deutsche Bahn AG

Dr. Günther Saßmannshausen
Honorary Chairman
of the Supervisory Board,
Hanover
a) Braunschweigische
Maschinenbauanstalt AG
Heraeus Holding GmbH
Preussag Energie GmbH
ahr care office GmbH
Einhorn Verwaltungsgesellschaft
mbH (Chairman)

Dr. Michael Frenzel
Chairman of the Supervisory Board,
Chairman of the Executive Board
of TUI AG,
Burgdorf
a) AXA Konzern AG
Continental AG
E.ON Energie AG
Hapag-Lloyd AG (Chairman)
Hapag-Lloyd Flug GmbH (Chairman)
ING BHF-Bank AG
ING BHF Holding AG
TUI Deutschland GmbH (Chairman)
Volkswagen AG
b) Norddeutsche Landesbank
Preussag North America Inc.,
Greenwich, Connecticut, USA
(Chairman of the Board of Directors)

Norbert Hansen*
Deputy Chairman of the
Supervisory Board,
Chairman of TRANSNET German
Railroad Workers' Union,
Hamburg
a) DB Reise&Touristik AG
DB Regio AG
DB Cargo AG
DB Station&Service AG
DB Netz AG
DEVK Deutsche Eisenbahn
Versicherung Lebensversicherungs-
verein a. G.
DEVK Deutsche Eisenbahn
Versicherung Sach- und HUK-
Versicherungsverein a. G.
DEVK Vermögensvorsorge- und
Beteiligungs-AG

Niels Lund Chrestensen
General Manager of N. L. Chrestensen,
Erfurter Samen- und Pflanzenzucht
GmbH,
Erfurt
a) Thüringer Aufbaubank

Peter Debuschewitz*
Management Representative for the
State of Berlin,
Deutsche Bahn AG,
Taufkirchen

Horst Fischer*
Member of the Works Council,
Northern Bavaria Region,
Franconian regional transport
of DB Regio AG,
Fürth

Volker Halsch
State Secretary, Ministry of Finance,
Berlin
– since February 5, 2003 –

Horst Hartkorn*
Chairman of the Works Council
of S-Bahn Hamburg GmbH,
Hamburg
a) S-Bahn Hamburg GmbH
DEVK Deutsche Eisenbahn
Versicherung Lebens-
versicherungsverein a. G.
DEVK Deutsche Eisenbahn
Versicherung Sach- und HUK-
Versicherungsverein a. G.

Jörg Hensel*
Chairman of the Central Works Council
of DB Cargo AG,
Hamm
a) DB Cargo AG

Günter Kirchheim*
Chairman of the Group Works Council
of Deutsche Bahn AG,
Chairman of the Central Works Council
of DB Netz AG,
Essen
a) DB Netz AG
DEVK Deutsche Eisenbahn
Versicherung Lebensversicherungs-
verein a. G.
DEVK Deutsche Eisenbahn
Versicherung Sach- und HUK-
Versicherungsverein a. G.
DEVK Vermögensvorsorge- und
Beteiligungs-AG
DEVK Pensionsfonds AG

Lothar Krauß*
Deputy Chairman of TRANSNET
German Railroad Workers' Union,
Rodenbach
a) DB Services Technische Dienste
GmbH
Union Druckerei und Verlagsanstalt
GmbH
DBV Winterthur Holding AG

Heike Moll*
Member of the Central Works Council
of DB Station&Service AG,
Munich
a) DB Station&Service AG

Ralf Nagel
State Secretary, Ministry of Transport,
Building and Housing,
Berlin
b) Berlin Brandenburg
Flughafen-Holding GmbH
Projektplanungs Gesellschaft mbH

Dr. rer. nat. h.c. Friedel Neuber
Duisburg-Rheinhausen
a) Babcock Borsig AG (Chairman)
Hapag-Lloyd AG
RWE AG (Chairman)
TUI AG (Chairman)
ThyssenKrupp AG
RAG Aktiengesellschaft
b) Landwirtschaftliche Rentenbank
(Administrative Board)

Günter Ostermann *
Deputy Chairman of TRANSNET
German Railroad Workers' Union,
Wunstorf
a) BHW AG
DEVK Rechtsschutz-Versicherungs-AG
Sparda-Bank Hannover e.G.
(Chairman)
DEVK Pensionsfonds AG

Dr. Manfred Overhaus
State Secretary, Ministry of Finance,
St. Augustin
– until January 10, 2003 –
a) Deutsche Post AG
Deutsche Telekom AG
b) GEBB Gesellschaft für Entwicklung,
Beschaffung und Betrieb mbH

Albert Schmidt
Member of Parliament (Bundestag),
Ingolstadt
– until December 31, 2002 –

Prof. Dr. Ekkehard D. Schulz
Chairman of the Management Board
of ThyssenKrupp AG,
Krefeld
a) Axa Konzern AG
Commerzbank AG
MAN AG
RAG Aktiengesellschaft
RWE Plus AG
ThyssenKrupp Automotive AG
(Chairman)
ThyssenKrupp Materials AG
(Chairman)
ThyssenKrupp Steel AG (Chairman)
TUI AG
b) ThyssenKrupp Budd Company,
Troy, Michigan, USA
Evangelisches und Johanniter
Klinikum Duisburg/Dinslaken/
Oberhausen gem. GmbH

Dr. Ulrich Schumacher
Chairman of the Management Board
of Infineon Technologies AG,
Starnberg
b) Infineon Technologies Asia Pacific
Pte. Ltd., Singapore
(Chairman of the Board of Directors)
Infineon Technologies Austria AG,
Villach, Austria (Chairman)
Infineon Technologies Japan K.K.,
Tokyo, Japan
(Chairman of the Board of Directors)
Infineon Technologies North
America Corp.,
Wilmington, Delaware, USA
(Chairman of the Board of Directors)

Dr. Alfred Tacke
State Secretary,
Ministry of Economics and Labor,
Celle
a) Postbank AG

Dr.-Ing. E.h. Dipl.-Ing. Heinrich Weiss
Chairman of the Management Board
of SMS AG,
Hilchenbach-Dahlbruch
a) Commerzbank AG
Ferrostaal AG
HOCHTIEF AG
J.M. Voith AG
SMS Demag AG (Chairman)
b) Concast Holding AG, Zurich,
Switzerland (Chairman)
Thyssen-Bornemisza Group,
Monaco

Margareta Wolf
Parliamentary State Secretary,
Federal Ministry for the Environment,
Nature Conservation, and Nuclear
Safety,
Rüsselsheim-Bauschheim
– since January 1, 2003 –

Horst Zimmermann *
Chairman of the Central Works Council
of DB Reise&Touristik AG,
Nuremberg
a) DB Reise&Touristik AG

* Employee representative on the Supervisory Board
a) Membership in other Supervisory Boards required by law
b) Membership in comparable Supervisory Boards of domestic and foreign companies

Information as of December 31, 2002,
or the date of resignation.

Report of the Supervisory Board for the Financial Year 2002

The Supervisory Board monitored and advised the Management Board during the period under review. To this effect, the Management Board regularly informed the Supervisory Board of the company's position and development.

Meetings of the Supervisory Board

The Supervisory Board convened for four meetings in the financial year 2002. During its meetings, the Supervisory Board discussed oral and written reports by the Management Board on the business situation of Deutsche Bahn AG (DB AG) and its Group companies, important transactions, and planned policy. The Supervisory Board was extensively involved in the work of the Management Board and the company's position and development. In particular, it undertook in-depth consultations – based on documented materials and supplementary oral reports – on business transactions that are subject to Supervisory Board approval according to law or the Articles of Association.

In addition, the Executive Committee of the Supervisory Board maintained regular contact with the Management Board to discuss crucial business policy issues. The Executive Committee of the Supervisory Board assembled for four meetings. During these meetings, the Executive Committee discussed in detail the major topics pending for the respective meetings of the full Supervisory Board. The Executive Committee was also regularly informed of the assessment of the company's risk situation. The Executive Committee also made the decisions referred to it on personnel-related issues involving the Management Board.

The Chairman of the Supervisory Board was in constant contact with the Management Board, and particularly with the CEO, and was continually briefed on all important business developments.

Work Focus

In its meeting on December 4, 2002, the Supervisory Board approved the financial year 2003 budget plan and acknowledged receipt of the medium-term planning 2003–2007 and the long-term strategic goals of DB AG, which were brought to its attention and which it debated at length with the Management Board.

The Supervisory Board continued to intensively follow the major construction projects in the year 2002, such as the new Cologne–Rhine/Main line, the north-south link of the Berlin hub – Berlin Central Station-Lehrter Station – and the construction and expansion of the Nuremberg–Ingolstadt–Munich line, as well as the corresponding cost risks.

In its meetings of March 13 and July 3, 2002, the Supervisory Board discussed the reorganization of the rail telecommunication segment. It approved the acquisition of the rail telecommunication segment from Arcor AG & Co. through the purchase of 100 % of the shares of Arcor DB Telematik GmbH (now operated under the name DB Telematik GmbH), as well as the purchase of the rail-specific telecommunications facilities from Arcor by DB Netz AG. DB Netz AG subsequently transferred its holdings in DB Telematik GmbH to DB AG.

In its meeting of July 3, 2002, the Supervisory Board approved a voluntary, public takeover offer by DB Sechste Vermögensverwaltungsgesellschaft mbH, a wholly-owned subsidiary of DB AG, to all Stinnes AG stockholders. At the same time, the Supervisory Board approved the conclusion of a framework agreement under which Stinnes Vermögensverwaltungs-Aktiengesellschaft, a wholly-owned subsidiary of E.ON AG, undertook to accept DB AG's takeover bid for its 65.4 % holding in Stinnes AG. Following the successful execution of the takeover bid, DB AG now indirectly holds some 99.71 % of all Stinnes AG shares. We plan to purchase the remaining 0.29% of shares through a squeeze-out in accordance with Sec. 327a ff. German Stock Corporation Act (AktG).

Financial Statements

The annual accounts prepared by the Management Board and the Management Report of DB AG as of December 31, 2002 were audited, together with the corresponding Group documents, and were issued an unqualified audit certificate by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Frankfurt am Main, the auditors selected by the Annual General Meeting. Furthermore, as part of its audit of the financial statements, the auditor also examined the company's risk management system, as required pursuant to the German Act on Control and Transparency (KonTraG), and raised no objections.

The auditor's report was discussed at length during the balance sheet meeting on May 20, 2003 in the presence of the auditors, who attested the audit reports. The auditors presented the primary results of the audit and made themselves available for questions. The Supervisory Board accepted the results of the audit.

The Supervisory Board examined the annual accounts, the Management Report of DB AG, the consolidated financial statements, the Group Management Report for the financial year 2002, and the proposal for appropriation of retained earnings and raised no objections. The annual financial statements of DB AG for the financial year 2002 have been approved. They have thus been adopted.

The auditors also inspected the report prepared by the Management Board on relations with associated companies and issued it an unqualified audit certificate. The Supervisory Board also examined this report and raised no objections to the Management Board's declaration at the end of this report nor to the result of the audit by PwC.

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

Mr. Albert Schmidt, Member of the German Bundestag, resigned from his Supervisory Board seat effective December 31, 2002. At the special general meeting on December 4, 2002, Mrs. Margareta Wolf, Parliamentary State Secretary at the Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety, was elected his successor, effective January 1, 2003.

In his letter of December 12, 2002, Dr. Manfred Overhaus (State Secretary) resigned from the Supervisory Board effective January 10, 2003. Mr. Volker Halsch, State Secretary at the Federal Ministry of Finance, was appointed his successor on the Supervisory Board by the Federal Republic of Germany, in accordance with Sec. 9 (2) of Deutsche Bahn AG's Articles of Incorporation, by letter of February 3, 2003.

On May 21, 2002, Dr. Norbert Bensel took the position on the Management Board vacated by Dr. Horst Föhr, Board Member responsible for Personnel and Labor Director.

The Supervisory Board wishes to thank Dr. Overhaus (State Secretary), Mr. Schmidt, and Dr. Föhr for their committed, constructive work on the respective boards.

The Supervisory Board would also like to thank the Management Board, all employees and employee representatives of DB AG and its associated companies for their dedication during the financial year 2002.

Berlin, May 2003
For the Supervisory Board

Dr. Michael Frenzel
Chairman

Financial information can be requested from Investor Relations:

Phone: +49 (0) 30 297-61678
Fax: +49 (0) 30 297-61961
E-Mail: investor.relations@bahn.de
Internet: www.bahn.de/ir

Corporate publications can be requested from Corporate Communications:

Fax: +49 (0) 30 297-62086
E-Mail: medienbetreuung@bahn.de

The complete Annual Report and additional information are available on the Internet:

www.bahn.de/presse

Deutsche Bahn AG
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D-10785 Berlin
Germany

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