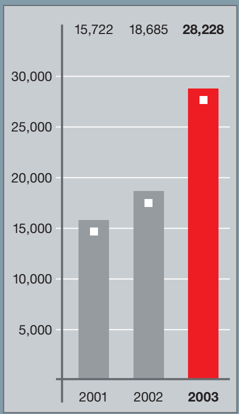
Die Bahn DB

Annual Report **2003**

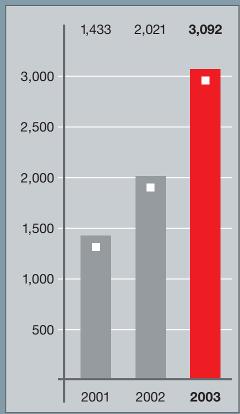
Performance Measures

Revenues
in € million



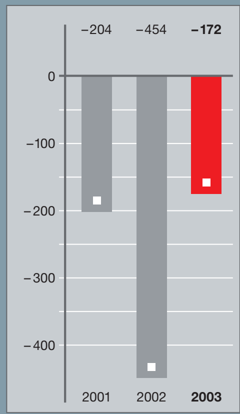
↑ 2002 to 2003:
+51.1%

EBITDA before special burden compensation
in € million



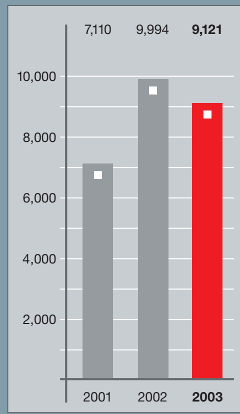
↑ 2002 to 2003:
€ +1,071 million

Operating income after interest
in € million



↑ 2002 to 2003:
€ +282 million

Gross capital expenditures
in € million



↘ 2002 to 2003:
−8.7%

Key figures in € million		**2003**	**2002**	**Change in %**
Revenues		28,228	18,685	+ 51.1
Revenues – comparable		15,890	15,575	+ 2.0
Income before taxes		– 133	– 438	+ 69.6
Income after taxes		– 245	– 468	+ 47.6
Fixed assets		41,362	39,775	+ 4.0
Total assets		47,647	46,023	+ 3.5
Equity		5,076	5,708	– 11.1
Interest-bearing debt		12,731	11,051	+ 15.2
EBITDA before special burden compensation		3,092	2,021	+ 53.0
Income effect special burden compensation		–	443	–
EBITDA		3,092	2,464	+ 25.5
Operating income after interest		– 172	– 454	+ 62.1
EBIT		465	37	–
Capital employed		30,964	30,428	+ 1.8
Return on capital employed	in %	1.5	0.1	–
Cash flow before taxes		2,600	2,052	+ 26.7
Gross capital expenditures		9,121	9,994	– 8.7
Net capital expenditures[1]		4,013	5,355	– 25.1
Employees (as of Dec 31)		242,759	250,690	– 3.2

Performance figures		**2003**	**2002**	**Change in %**
Passenger Transport				
Passengers	million	1,681.7	1,657.2	+ 1.5
Passenger kilometers	million pkm[2]	69,534	69,848	– 0.4
Train kilometers	million train-path km[3]	722.8	720.0	+ 0.4
Freight Transport[4]				
Freight carried	million t	282.3	278.3	+ 1.4
Ton kilometers	million tkm[5]	79,864	77,981	+ 2.4
Mean transport distance	km	282.9	280.2	+ 1.0
Train kilometers	million train-path km[3]	204.1	211.0	– 3.3
Passenger stations[6]		5,665	5,710	– 0.8
Train kilometers on track infrastructure	million train-path km[3]	988.2	967.4	+ 2.2
Non-Group customers	million train-path km[3]	70.4	50.2	+ 40.2
Length of line operated	km	35,593	35,804	– 0.6

[1] Gross capital expenditures less investment grants from third parties

[2] Passenger kilometers: product of number of passengers and mean travel distance

[3] Train-path kilometers: driving performance in km of trains on rail

[4] Please note: all ton figures represent metric tons (1,000 kg = 2,200 lbs.)

[5] Ton kilometers: product of freight carried and mean transport distance

[6] Thereof in 2003: 5,443 managed by the Group Passenger Stations division

Key Figures

Group division Passenger Transport in € million	2003	2002	Change in %
External revenues	11,157	11,179	– 0.2
Divisional revenues	11,699	12,090	– 3.2
Operating income after interest	– 34	225	–
Operating cash flow	853	1,065	– 19.9
Gross capital expenditures	1,304	1,847	– 29.4
Employees as of Dec 31	68,180	71,037	– 4.0

Group division Transport and Logistics in € million	2003	2002	Change in %
External revenues[1]	10,804	5,321	+ 103
Divisional revenues[1]	11,486	5,892	+ 94.9
Operating income after interest[1]	288	66	–
Operating cash flow[1]	637	264	+ 141
Gross capital expenditures[1]	537	406	+ 32.3
Employees as of Dec 31	60,973	59,111	+ 3.2

Group division Passenger Stations in € million	2003	2002	Change in %
External revenues	249	226	+ 10.2
Divisional revenues	852	810	+ 5.2
Operating income after interest	38	– 218	–
Operating cash flow	140	– 120	–
Gross capital expenditures	630	591	+ 6.6
Employees as of Dec 31	5,074	5,309	– 4.4

Group division Track Infrastructure in € million	2003	2002	Change in %
External revenues	273	203	+ 34.5
Divisional revenues	3,774	3,957	– 4.6
Operating income after interest	– 307	– 529	+ 42.0
Operating cash flow	585	326	+ 79.4
Gross capital expenditures	6,254	6,754	– 7.4
Employees as of Dec 31	44,080	49,556	– 11.1

Group division Services in € million	2003	2002	Change in %
External revenues	259	219	+ 18.3
Divisional revenues	4,336	3,946	+ 9.9
Operating income after interest	119	141	– 15.6
Operating cash flow	373	412	– 9.5
Gross capital expenditures	245	369	– 33.6
Employees as of Dec 31	31,613	29,839	+ 5.9

[1] The Stinnes businesses were included in the 2002 figures only pro rata temporis at their 4th quarter financial data.

Previous year's figures were adjusted in case of structural changes.

Group Passenger Transport division

Attractive mobility services – the calling card of our Group Passenger Transport division. Our services encompass rail transport and, with increasing importance, land transport by bus. Intelligent integration is our overreaching objective – we create convenient, customer-focused mobility chains in our Long-Distance Transport and Regional and Urban Transport business units. Measured by transport performance, we are one of the leading transport companies in Europe.

Group Transport and Logistics division

The successful integration of Stinnes in 2003 created this new Group division – a leader in the transportation and logistics areas. Our market presence consists of the business units Schenker, Freight Logistics, Intermodal, and Railion. Schenker holds a leading position in European overland transport as well as in the global sea and air freight business. Freight Logistics and Intermodal are focused on European markets. Railion holds a leading position in European rail freight transport.

Group Passenger Stations division

In addition to their role as entry portals to Deutsche Bahn’s trains, our stations are also hubs that link the different modes of transport, marketplaces, and calling cards for the cities and regions they serve. The Group Passenger Stations division is in charge of the operation of passenger stations as traffic stations, as well as developing and marketing the associated station space.

Group Track Infrastructure division

This Group division is responsible for operating the high-performance rail infrastructure (long-distance/conurbation network, regional network, marshalling yards and transshipment terminals), marketing of customer-focused train-path usage offers, drawing up the timetables, and maintenance and upkeep. The Group Track Infrastructure division is also responsible for the strategic development of the rail infrastructure through capital expenditures in the existing network, new construction, and expansion. Our rail network is available to all railroads on a non-discriminatory basis.

Group Services division

This Group division organizes and renders services effectively and efficiently, making a major contribution to establish the DB Group as a leading provider of mobility and logistics services. The Group division provides a wide range of services that are consistently focused on market demand, including station security, cleanliness, and service; telecommunications and telematics; fleet, real estate, energy, and IT management; and vehicle maintenance and upkeep.

The Group Passenger Transport, Transport and Logistics, and Track Infrastructure divisions are represented by the corresponding division managers on the DB AG Management Board. The Group Passenger Stations and Services divisions are headed by general managers vested with full power of representation, who report to the CEO and Chairman of the DB AG Management Board.

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Chairman's Letter

Dear Ladies and Gentlemen,

We brought a difficult financial year 2003 to a successful close, passing another important milestone on our way to becoming the "Best Railroad" and getting in shape for an initial public offering. The end of the year 2003 also marked the first full decade of the German Rail Reform program, launched in January 1994, of which we are very proud.

During the year 2003, we were faced with many economic and competitive challenges. The boost to our key markets that was expected from an improving economy failed to materialize, even as we were confronted by increasingly stiff competition. As a result, intensification of our internal measures was the predominant factor in achieving our defined goals.

Our achievements in the year under review are underscored by our most important figures: Our revenues increased to 28.2 billion euros – representing growth of around two percent, even without consolidation-related changes. Thanks to our rigid cost management, we were able to significantly improve our operating result after interest, with an increase of over 282 million euros compared to the previous year. The most impressive figure was the improvement to our EBITDA (earnings before interest, taxes, depreciation, and amortization) from operating activities: Including consolidation-related effects, our EBITDA improvement amounted to over a billion euros in 2003 – after some 500 million euros in each of the past several years.

Our gross capital expenditures continued at an extremely high level, 9.1 billion euros. This figure actually represents a slight increase adjusted for the effects of our acquisition of telecommunications facilities from Arcor, which were included in the previous year's figure. These funds were dedicated primarily to improvements to our infrastructure and further modernization of our fleet.

We were able to keep our transport performance at nearly the previous year's level, despite the persistent weakness of the economy. We even managed to gain market share in the German passenger transport sector, which declined overall. Our transport and logistics activities also showed positive trends, both domestically and internationally. As a result, our gains in rail freight transport were somewhat higher than the market average.

Following our acquisition of Stinnes in the previous year, 2003 was a year of consolidation, as well as implementation of a variety of ongoing improvements. The smooth launch of our new Group Transport and Logistics division in September 2003, under the lead of Stinnes AG, represented a successful, nearly seamless amalgamation of existing and new competencies. A major Group division has now become more customer-friendly and better equipped for the future, our Group portfolio is better balanced, and we now have a much more international profile overall.

Hartmut Mehdorn
CEO and Chairman
of the Management Board
Deutsche Bahn AG

In our Group Passenger Transport division, we continued our restructuring efforts to better focus on the specific needs of the regional and urban transport areas. Other organizational issues included consolidating our service companies in a new, separate Group division, the sale of real estate properties no longer essential to our operations, and preparation for the divestiture of activities that we do not consider part of our core business, but purchased as part of the Stinnes acquisition.

But please also allow me to present the financial year 2003 in the broader context of our Group's longer-term development. Since the launch of our "DB Campaign" strategy in the year 2001, with its threefold aims of restructuring, performance, and growth, we have implemented comprehensive modernization measures and programs for the benefit of our customers – and in doing so, elected to deliberately accept operating losses in the financial years 2001 through 2003. According to our plans, the year 2003 was to mark a turnaround in our operating result, a goal that we have achieved. With our significantly improved operating income after interest (although it is still negative) compared to the previous year's figure, we remain on our announced course of returning to profitability in the current financial year. We will also achieve this goal.

Measured by developments since the start of the Rail Reform, we can look back at our achievements with pride. Deutsche Bahn has accepted the task assigned to it of becoming a leading international provider of mobility and logistics services, and has taken major steps in modernizing the rail system as a mode of transport. At the same time, the dynamic growth in utilization of our infrastructure by non-Group companies is clear proof that other railroads are also profiting from our progress, making the rail transport sector as a whole the major beneficiary of our efforts.

In hard numbers, our development since the start of German Rail Reform is impressive indeed: Transport performance in rail passenger transport has increased by over 11 percent, while the increase in rail freight transport is even higher, at 15 percent. In fact, including our international subsidiaries, we now drive 24 percent more ton-kilometers than in 1993. Add to this the increasing share of non-Group railroads, which any comprehensive consideration of the Rail Reform program must take into account: More than 280 other rail operators currently use our network – on a non-discriminatory basis and at the same conditions as Deutsche Bahn AG.

In the past years, we have invested nearly 79 billion euros in modernizing Deutsche Bahn – some 33 billion of which we contributed from our own funds. We have increased productivity in our core rail operations by 163 percent. Quantified as EBITDA prior to special burden compensation, our internal measure of operating improvements, the DB Group's result in 2003 was over five billion euros higher than in the first year of the rail reform process. And in the past ten years, we have saved taxpayers around 108 billion euros – 44 billion more than originally forecast. In sum, the Rail Reform program must be considered a resounding success.

For the immediate future, we will continue to focus on several critical tasks carried over from the past financial year. We will pay particular attention to the issue of "service and quality" in financial year 2004, as we are aware that we have significant potential for improvement in this area. We are successively implementing a variety of measures, under the direct supervision of the holding company's Management Board, to improve customer information, service quality, and operational reliability – especially on-time performance in rail passenger transport. We have made significant gains in this area and will continue to do so. In addition, our customer charter – which we are introducing on our own accord – will grant our customers additional, legally binding rights in passenger transport.

Our strategic medium-term goals remain getting into shape for a future initial public offering and making further progress towards becoming the leading provider of mobility and logistics services. To meet our customers' needs, we must be able to offer end-to-end logistics solutions – on an international stage. This comprehensive product range enhances the survivability of the rail freight transport sector, while improving growth potential at the same time. In the medium term, we will also take advantage of opportunities for expansion in passenger transport, both within Germany and internationally.

In passenger transport, a particular focus in the past financial year, we continued to refine our services. The positive customer response to our efforts is gratifying, and is also an indication of further growth opportunities. We see significant medium-term potential in providing services tailored specifically to our customer's needs, combined with further optimization of the mobility chain through improved information, e-ticketing, and smoother transfers between the individual modes of transport.

The ongoing modernization of our infrastructure, the essential foundation for an effective rail system, remains our medium- to long-term mission. While we devote significant amounts of internal funds to this purpose, federal funding levels are a primary factor in the speed of implementation. In light of current government budget problems, we are responding to the significant cuts in federal funding in 2004 and the years to come by developing a clear prioritization scheme for individual projects. In this context, we have conducted extensive talks with the federal and state governments over the past several months, which we will continue in future.

In the increasingly globalizing economy, customer-focused, environmentally friendly mobility based on efficient, effective transport systems is an increasingly important location factor. We make a considerable contribution to boosting this location factor in our key market of Germany. At the same time, European integration – not least the latest eastward EU enlargement – is changing the face of our key markets. We see ourselves well-positioned to deal with these future developments – particularly our Group Transport and Logistics division, which will benefit from this chance. Cooperation with railroads in neighboring countries can help us leverage the systematic strengths of the rails, especially over longer distances. As European rail freight transport markets in our neighboring countries continue to liberalize, casting off their inflexible structures, rail freight transport can gain an increased share of overall market growth. We will continue to seize these opportunities for growth in Europe, as well as those posed by the prospering global logistics markets.

Notwithstanding the potential in international passenger transport on long-distance journeys, cross-border local transport services, or potential market entry in neighboring markets, our main focus in passenger transport will continue to be on our key German market. We are accepting the challenges posed by intensifying competition and intend to defend our leading position in the market.

Building on the success of the Rail Reform to date, we have defined a clear course, which we are actively pursuing with our “DB Campaign” program. At the same time, in line with our aim to offer environmentally friendly mobility, we intend to make further significant cuts in CO_2 emissions by the year 2020 as our contribution to climate protection.

We have set ambitious goals for ourselves. But our future success will also depend on partnership-like dealings with our company, fair framework conditions, and impartial judgment and acceptance of our services. I therefore wish to expressly thank our customers for choosing Deutsche Bahn services, our business partners for their team play and cooperation, and our employees for their daily dedication in making our highly complex system run smoothly. We, the Management Board and staff of the DB Group, will intensify our efforts to become even more customer-focused, effective, and efficient in the current financial year.

I thank you for your faith in our objectives.

Yours sincerely,

Hartmut Mehdorn
CEO and Chairman of the Management Board
Deutsche Bahn AG

The Management Board

Hartmut Mehdorn

Chairman and CEO

Hartmut Mehdorn, born in 1942, holds a master's degree in Engineering and began his career in design development at aircraft manufacturer Focke-Wulf. Mr. Mehdorn has held positions at VFW-Fokker, in the Management Board of Airbus Industrie S.A., as director of the Management Board of the MBB Transport- und Verkehrsflugzeuge Group and member of the Management Board at MBB, as CEO of Deutsche Airbus GmbH and member of the Management Board of Deutsche Aerospace AG, as CEO of Heidelberger Druckmaschinen AG, and as member of the Management Board of RWE AG. He joined the Management Board at Deutsche Bahn AG as Chairman and CEO in 1999.

Diethelm Sack

CFO

Diethelm Sack, born in 1948, earned his master's degree in Business and Management Economics and then initially worked as business manager at Franz Garny AG. He then served as manager at VDO Adolf Schindling AG from 1976 – 1991. He was appointed to the Deutsche Bundesbahn Management Board in 1991 and assumed the position of CFO. He assumed the same responsibilities for Deutsche Reichsbahn in a dual posting starting in 1993. He has been CFO of Deutsche Bahn AG since its founding.

Dr. Norbert Bensel

Personnel

Dr. Norbert Bensel was born in 1947, and initially worked at Schering AG after completing his master's degree in Chemistry. He moved on to insurance company R+V Versicherung in 1987, where his last position was Head of Human Resources. He worked at Daimler-Benz Aerospace AG starting in 1992 and became a member of the Management Board at Daimler-Benz Inter-Services (debis) AG and member of the Management Board at debis Systemhaus GmbH in 1996. He became a member of the Management Board at Daimler-Chrysler Services AG in 2001, and joined the Management Board at Deutsche Bahn AG in 2002.

Klaus Daubertshäuser

Marketing and Political Relations

Klaus Daubertshäuser was born in 1943. Following completion of his apprenticeship as an industrial clerk, he became an aide for the state government of Hesse before he was elected to the Bundestag, Germany's lower house of parliament, in 1976. Starting in 1980, he served as transport policy spokesman of the SPD party's Bundestag faction and chairman of the transport working group, and became a member of the executive council of the SPD Bundestag faction in 1983. He served as member of the Administrative Board of Deutsche Bundesbahn from 1988 – 1993, and in the same position at Deutsche Reichsbahn starting in 1991. He has been a member of the Management Board at Deutsche Bahn AG since its founding.

Dr. Karl-Friedrich Rausch

Passenger Transport

Dr. Karl-Friedrich Rausch, born in 1951, holds a doctorate in Industrial Engineering and began his career path as a research associate at TU Darmstadt. He worked at Deutsche Lufthansa AG from 1985 – 2000 – in his last position as Chairman of the Divisional Board of Management at Lufthansa Passage Airline. He has been a member of the Management Board at Deutsche Bahn AG since 2001, for the Technology area until 2003, and since then for Passenger Transport.

Dr. Bernd Malmström

Transport and Logistics

After earning his doctorate in Law, Dr. Bernd Malmström, born in 1941, first worked in various management positions at VFW-Fokker/MBB from 1974 – 1980. He joined the Veba Group in 1980, where he remained until 1986, then joined the Management Board of Stinnes AG, where he assumed responsibility for the transport division in 1991. He served as CEO at Schenker-Rhenus AG from 1996 – 2000, and was also appointed Deputy CEO of Stinnes AG in 1998. He joined the Management Board at Deutsche Bahn AG in 2000.

Roland Heinisch

Track Infrastructure

Born in 1942, Roland Heinisch earned his master's degree in Engineering before he began an internship at Deutsche Bahn in 1970, and subsequently became depot superintendent and section leader of a testing facility. He transferred to Bundesbahn headquarters in 1975. He was appointed deputy member of the Management Board for corporate development at Deutsche Bundesbahn in 1991. In 1992, he became a full member of the Management Board at Deutsche Bundesbahn and Deutsche Reichsbahn, responsible for the areas of research and technology. He has been a member of the Management Board at Deutsche Bahn AG since its founding. Mr. Heinisch was in charge of the Technology area until the year 2000, when he assumed responsibility for the Track Infrastructure area.

Financial Communication

Financial Communication

- Outstanding rating (Aa1/AA) confirmed again
- Bond issues of € 1.7 billion concentrate on the long end
- Value management: Positive ROCE development
- Corporate governance principles established successfully

Deutsche Bahn Bond Issues

Current Rating

Rating of Deutsche Bahn AG	Long-term rating	Short-term rating
Rating agency		
Moody's	Aa1 Outlook "Stable"	P-1
Standard & Poor's	AA Outlook "Stable"	A-1+

The annual rating reviews by rating agencies Moody's and Standard & Poor's took place in May 2003. Following a temporary drop to "Negative" in the fall of 2002, which immediately followed initial information regarding the acquisition of Stinnes AG, Moody's changed its outlook back to "Stable" in the year under review. S & P's rating has remained unchanged since its first review in 2000.

Issues in 2003

Deutsche Bahn Bond Issues in 2003

ISIN	SID	Issuer	Currency	Volume (millions)	Coupon	Issue date	Due date	Term in years
XS 0164 831 843	804 491	Deutsche Bahn Finance B.V.	EUR	500	4.750 %	March 6	March 2018	15
XS 0164 831 843	804 491	Deutsche Bahn Finance B.V.	EUR	300 (increase)	4.750 %	April 24	March 2018	15
XS 0164 831 843	804 491	Deutsche Bahn Finance B.V.	EUR	200 (increase)	4.750 %	April 29	March 2018	15
XS 0171 904 583	894 173	Deutsche Bahn Finance B.V.	EUR	500	4.250 %	June 26	July 2015	12
XS 0171 904 583	894 173	Deutsche Bahn Finance B.V.	EUR	200 (increase)	4.250 %	Sept 18	July 2015	12

Due to the long-term nature of our fixed assets structure, investor interest in bonds with terms of over 10 years in the year under review was accommodating. Consequently, we focused our issuance activities on this sector, issuing two bonds with terms of 15 and 12 years, respectively, through our international financing subsidiary Deutsche Bahn Finance B.V., Amsterdam. Each issue had an initial volume of € 500 million. The subsequent strong demand prompted us to increase the volume of the 15-year bond by an additional € 500 million and the 12-year bond by € 200 million, each at much more favorable spreads.

Expansion of Investor Relations

We significantly broadened our IR activities, conducting road shows at major European and Asian financial markets. As in the previous year, we also held individual talks with numerous analysts and major investors. Our activities also included the financial center of Singapore for the first time.

Value Management

Our financial controlling efforts aim at achieving a sustained increase in our enterprise value. An integrated value management approach ensures that resources are allocated on a value basis. One major measure of the development of our Group portfolio and investment allocation is ROCE (Return on Capital Employed). We have defined target rates of return for the Group as a whole and for the individual Group divisions. These different target rates of return reflect the character and risks of the respective business operations. We use the target rates of return as measurements of current performance and focus our plans – including our capital expenditures – based upon them. This ensures an efficient allocation of resources, while aligning us with the requirements of current and future investors at the same time. We rate the strategic prospects of our core business areas and strategic capital expenditures within the framework of a comprehensive Strategic Management Process (SMP). Redemption coverage and gearing are the key financial ratios we use to control our balance sheet structure.

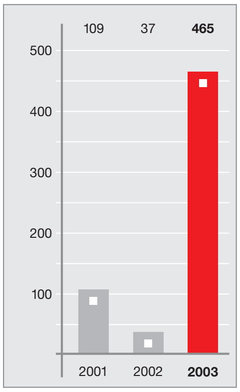
Return on Capital Employed
in %

Value-based control – Return on Capital Employed: Return on Capital Employed is calculated as the ratio of EBIT (operating income before interest and taxes) to employed capital. Operating income before taxes is adjusted for special effects unrelated to operating activities. Overall, the DB Group aims to achieve a long-term ROCE of around 10 %. The successive improvement in our profitability planned in the coming years, converging on the target rate of return, is in line with market demands that we earn rates of return that cover or exceed our risk-specific cost of capital.

Return on Capital Employed figures in € million resp. %	2003	2002	Long-term goal
EBIT	465	37	
Capital employed	30,964	30,428	
ROCE	**1.5 %**	**0.1 %**	**10 %**

Capital employed continues to increase as a result of our far-reaching capital expenditures programs. This effect amounted to € 536 million in the year under review. Based on the significant increase in EBIT by € 428 million, we were able to boost ROCE to 1.5 % in the year under review. Although this does not yet cover the cost of employed capital, our ROCE is clearly moving in a positive direction. We expect this trend to continue in the coming financial years.

EBIT
in € million



2002 to 2003:
€ + 428 million

Reconciliation of EBIT 1) from the Statutory Accounts in € million	**2003**	**2002**	**Change**
Income before taxes	– 133	– 438	+ 305
Exclusion of investment income	– 51	– 46	– 5
Adjustment for special effects unrelated to operating activities	12	30	– 18
Operating income after interest	– 172	– 454	+ 282
Exclusion of net interest	637	491 2)	146
EBIT	**465**	**37**	+ 428

1) Any variances between business management data and reporting in accordance with the German Commercial Code in the consolidated income statement result from adjustments performed to facilitate the comparability of trends in operating business.
2) Value adjusted, as compared to the consolidated statement of income IAW the German Commercial Code

Calculation of Capital Employed from Balance Sheet Data in € million	**2003**	**2002**	**Change**
Properties and intangible assets	40,093	38,869	+ 1,224
Interest-free loans (infrastructure financing contributions by the federal government)	– 7,512	– 7,726	+ 214
Subtotal	32,581	31,143	+ 1,438
Inventories	+ 1,399	+ 1,515	– 116
Accounts receivable and other assets	+ 4,462	+ 4,347	+ 115
Liabilities other than interest-bearing liabilities or interest-free loans from infrastructure financing	– 6,759	– 5,771	– 988
Prepayments and accrued income	+ 159	+ 115	+ 44
Accruals and deferred income	– 878	– 921	– 43
Net working capital	– 1,617	– 715	– 902
Capital employed	**30,964**	**30,428**	+ 536

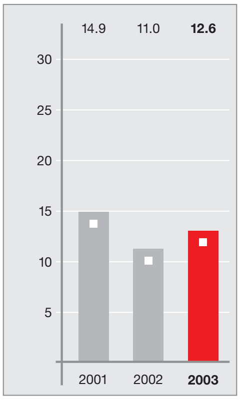
The specific ROCE targets set for our individual Group divisions apply correspondingly to the management of the overall Group capital expenditures program.

- **Strategic prioritization:** For strategic control of our Group portfolio and to prioritize investments, we link our ROCE concept with an evaluation of our market attractiveness and our competitiveness that we conduct within the framework of our SMP. Our goal is to focus scarce resources – under value considerations – on promising business segments in which we have a leading market and competitive position. We also estimate market and execution risks as part of our strategic valuation.
- **Balance sheet controlling – redemption coverage and gearing:** We borrow some of the funds that we require to finance our capital expenditures from the capital markets. In recent years, we intentionally accepted an increase in debt levels in order to finance our capital expenditures and modernization programs. Under the current framework, we expect our operating cash flow to increase significantly, resulting in a successive improvement of our key performance indicators. We aim to maintain debt levels appropriate for our current credit rating.

Our key performance measures for debt controlling are redemption coverage and gearing. Redemption coverage is the ratio of operating cash flow to adjusted net financial debt. Operating cash flow is equivalent to operating income after interest plus depreciation and amortization. Adjusted net financial debt is the sum of interest-bearing liabilities, interest-free loans, and the net present value of rental and leasing obligations. Gearing is the ratio of net financial debt (interest-bearing liabilities plus net present value of interest-free loans, minus cash and cash equivalents) to total shareholders' equity. In the mid-term, we plan to achieve 30 % redemption coverage and gearing with a ratio of net financial debt to shareholders' equity of 1:1.

We had already anticipated that we would fail to achieve our long-term targets in the year under review due to our intensified modernization policy: Gearing was 320 % (previous year: 257 %), redemption coverage was 12.6 % (previous year: 11.0 %). We expect these key figures to improve significantly within the next five years.

Redemption coverage
in %



Redemption coverage in € million	**2003**	**2002**	**Long-term goal**
Operating cash flow	2,455	1,973	
Net financial debt, adjusted	19,504	17,857	
Redemption coverage	12.6 %	11.0 %	≥ 30 %

Gearing in € million	**2003**	**2002**	**Long-term goal**
Net financial debt	16,222	14,643	
Equity	5,076	5,708	
Gearing	320 %	257 %	≤ 100 %

Calculation of operating cash flow in € million	**2003**	**2002**	**Change**
Operating income after interest	– 172	– 454	+ 282
Depreciation (management data)	2,627	2,427	+ 200
Operating cash flow	**2,455**	**1,973**	+ 482

Calculation of net financial debt in € million	**2003**	**2002**	**Change**
Interest-bearing liabilities	12,731	11,051	+ 1,680
Cash and cash equivalents	– 265	– 271	+ 6
NPV of interest-free loans	3,756	3,863	– 107
Net financial debt	**16,222**	**14,643**	+ 1,579
NPV of rental and leasing obligations	3,282	3,214	+ 68
Net financial debt, adjusted	**19,504**	**17,857**	+ 1,647

Corporate Governance

Corporate governance is an internationally recognized term for responsible enterprise management and monitoring. The "German Corporate Governance Code Government Commission", appointed by the Federal Ministry of Justice, submitted the first German Corporate Governance Code in February 2002. Since then, its recommendations have become general practice for listed stock corporations – its primary target. The "Transparency and Disclosure Act" took effect in July 2002, and Section 161 was also added to the German Stock Corporation Act (AktG) in this context. Pursuant to the above provisions, a company's management and supervisory boards are required to declare once a year that the recommendations of the Code have been and are being complied with or which of the Code's recommendations are not being applied. The Code itself is reviewed annually. The establishment of corporate governance standards in Germany is rooted in similar developments at an international level. The resulting reciprocal interchange serves the ongoing development of corporate governance in legislation and practice.

A key element and success factor in the German Rail Reform program was the transformation from the previous bureaucratic structures of Deutsche Bundesbahn and Deutsche Reichsbahn as state-run enterprises to Deutsche Bahn AG (DB AG), an enterprise subject to German Stock Corporation Law. The unambiguous delegation of entrepreneurial responsibility to the corporate bodies that resulted from this transformation went hand-in-hand with a clear assumption of (transport-related) political responsibilities by the central government or those of the federal states.

DB AG has always been in favor of the creation of uniform corporate governance standards. We expect them to augment trust in our corporate management among our business partners, investors, employees, and the public at large. The introduction of the German Corporate Governance Code prompted us to reexamine our existing internal rules and procedures with regard to the interaction between Management Board and Supervisory Board, our Annual General Meeting, transparency in general, our financial reporting, and our Group accounting and auditing. Our examination showed that major areas of the Code are not yet applicable (or applicable only in a very limited scope) to DB AG, a non-listed company. In other areas, such as close cooperation between the corporate bodies, current practices at DB AG are already largely compliant with the Code's recommendations.

Overall, full adoption of the German Corporate Governance Code was not possible, which is why the Management Board and Supervisory Board have elected not to submit a declaration of compliance to date. In light of the numerous stakeholder interests in our company, our broad-based entry into the capital markets since the start of the Rail Reform program, and our focus towards getting in shape for an initial public offering, we have elected to follow the recommendations of the Code voluntarily in the form of our own "Corporate Governance Principles". These Principles have been approved by the Management Board and Supervisory Board and took effect on July 3, 2003. The current version of Deutsche Bahn's comprehensive Corporate Governance Principles is available online at "www.bahn.de/ir". The Corporate Governance Principles at DB AG adapt the Code to the industry-specific and enterprise-specific requirements of DB AG as a non-listed company. The Supervisory Board and Management Board identify fully with these principles.

Our Corporate Governance Principles ensure responsible, transparent enterprise management aimed at achieving a sustained increase in the company's value. We place great store in the clarity, reliability, and openness of our communications, with the aim of strengthening and expanding the trust in the development of our company.

- **General management principles:** As a stock corporation under German law, Deutsche Bahn has a dual management and monitoring structure, with a Management Board and a Supervisory Board. The Management Board is responsible for independently managing the enterprise. The Supervisory Board appoints, monitors, and advises the members of the Management Board. The members of both bodies, including their mandates, are listed on pages 226 – 229. The Annual General Meeting, the gathering of the shareholders, is the company's third body. Due to the current ownership structure – 100 % of shares are held by the Federal Republic of Germany – the Annual General Meeting is not held publicly.

  Under the current Group structure, DB AG acts as a management holding company for the integrated DB Group. The business portfolio is divided into five Group divisions, which in turn are divided into strategic business units and areas, and also harbors central Group and service functions.

- **Cooperation between Management Board and Supervisory Board:** The Management Board and Supervisory Board cooperate closely to the benefit of the enterprise. The Management Board coordinates the strategic approach with the Supervisory Board and discusses the current state of strategy implementation with the Supervisory Board at regular intervals. For transactions of fundamental importance, the Articles of Association or the Supervisory Board specify provisions requiring the approval of the Supervisory Board. The Management Board reports regularly, without delay and comprehensively, on all issues regarding planning, business development, risk situation, and risk management. It points out deviations of the actual business development from previously formulated plans and targets.

  To ensure sound enterprise management, the Management Board and Supervisory Board are committed to discussing issues openly, but under an obligation of confidentiality. All board members ensure that the staff members they employ observe the confidentiality obligation accordingly.

- **Supervisory Board:** The Supervisory Board advises and monitors the Management Board in the conduct of their activities. The DB AG Supervisory Board consists of 20 members, comprised of equal numbers of representatives from the shareholder and employee sides, in accordance with the German Codetermination Act. Shareholder representatives are appointed at the Annual General Meeting, while employee representatives are elected in accordance with the stipulations of the Codetermination Act. As a rule, Supervisory Board members should not be older than 68 years of age at the time of their appointment. If a vote of the Supervisory Board results in a tie, a second vote is taken; should this second vote also result in a tie, the Chairperson of the Supervisory Board casts the deciding vote. The Supervisory Board has formed committees: the Executive Committee, a Mediation Committee in accordance with the stipulations of the Codetermination Act, and the new Audit Committee established in the year under review. In particular, the Audit Committee handles issues involving accounting and risk management, the necessary independence required of the auditor, the issuing of the audit mandate to the auditor, the determination of auditing focal points, and the fee agreement. No previous Management Board member may serve as chairman of the Audit Committee.
- **Management Board:** The DB AG Management Board (currently seven members) is responsible for independently managing the Group. In doing so, it is obliged to act in the enterprise's best interests and undertakes to increase the sustainable value of the enterprise. It develops the strategic focus, coordinates it with the Supervisory Board and ensures its implementation. It also arranges for adequate risk management and risk controlling. Management Board members are subject to a blanket non-competition clause during their tenure. They must disclose all emerging conflicts of interest to the Supervisory Board without delay and also inform their fellow Management Board members. No such cases occurred during the year under review. The Management Board's remuneration consists of fixed and variable components. The amount of the variable component is largely tied to the performance of the operating business of the DB Group. The remuneration of the Management Board is listed by fixed and variable components in the Notes to the Consolidated Financial Statements on page 219. A general age limit of 65 years has been specified for members of the Management Board.
- **Risk management:** The qualified control of opportunities and risks poses a major challenge for company management. The early identification and reduction of risks resulting from the company's business activities are a foremost priority for Management Board and Supervisory Board. Accordingly, the integrated, Group-wide risk management system is focused on the early identification of risks, opportunities, and potential counteractive measures. The Management Board and Supervisory Board are informed of the results regularly. The risk management system is subject to continual refinement. For more information, refer to the statements in the Risk Report on pages 105–108.

- **Financial reporting and rendering of accounts:** Financial communications encompass the publishing of financial statements and consolidated financial statements, as well as a semi-annual report. We report on current developments in near-time through our investor relations activities and enterprise communications. Dates of major recurrent publications (including our Annual Report and Interim Report) are published with sufficient lead time in a financial calendar. We use the Internet to publish information quickly and comprehensively.

  The rendering of accounts for both the Group consolidated financial statements and the financial statements of DB AG are based on the stipulations of the German Commercial Code (HGB). In future, we plan to report the Group consolidated financial statements based on IFRS (International Financial Reporting Standards).

The Management Board and Supervisory Board modified DB AG's Corporate Governance Principles in the year under review, following the revision of the German Corporate Governance Code in May 2003, within the framework of their annual review of changed legal requirements and developments at the domestic and international levels. At the same time, they confirmed the efficiency of and compliance with the Corporate Governance Principles.

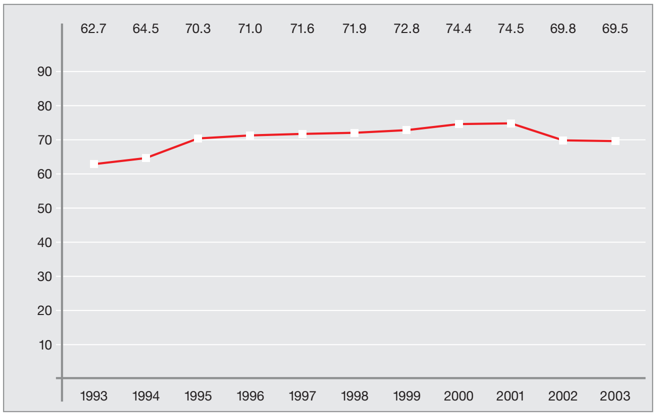
10 Years of Deutsche Bahn AG

German Rail Reform – A Success Story

Transformation from State-Run Railroads to a Modern Service Company

Shrinking market shares in freight and passenger traffic, large annual losses, and the resulting growth in debt characterized the dramatic situation at Deutsche Bundesbahn in the late eighties. German unification brought another challenge, in the guise of Deutsche Reichsbahn, the former East German railroad. The railroads' situation was dire following decades of severe underinvestment. Both Deutsche Bundesbahn and Deutsche Reichsbahn had to be rescued. The technical quality

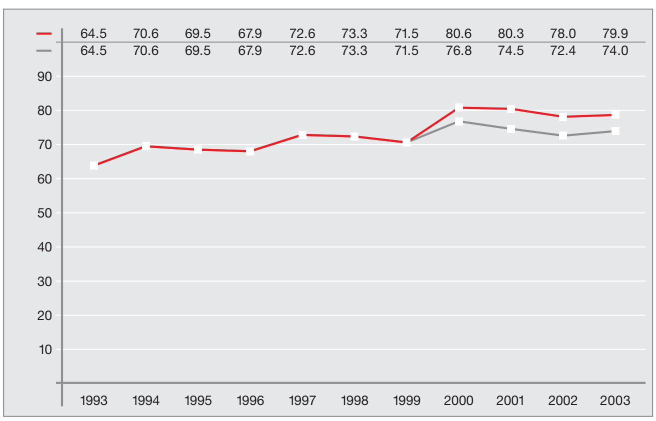
More Traffic on the Rails



Transport performance passenger transport (billion pkm)

Passenger Transport

A central objective of the German Rail Reform was to attract more traffic to the rails. With our improved services, we have turned around the negative trend from the decades prior to 1993, increased our transport performance, and participated in market growth. Despite the market-focused restructuring of our services and discontinuation of unprofitable routes, we have increased our transport performance on the rails by 11 % since 1993 and increased our market share slightly from 7 % to 8 %. With modern vehicles and improved services, we are a market-driven company.



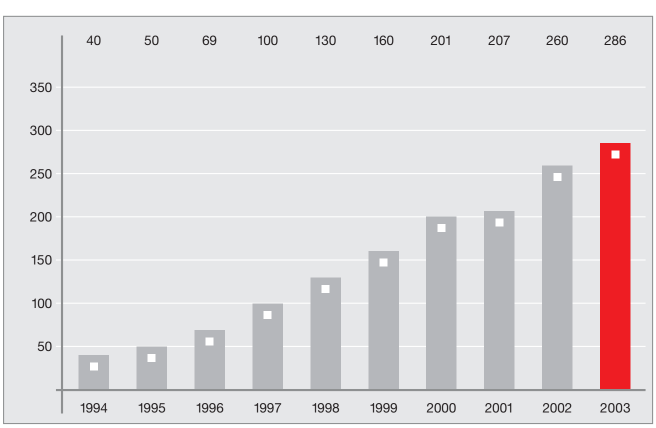
Transport performance freight transport (billion tkm)

Railion —
Railion Deutschland AG —

Freight Transport

Despite necessary adjustments in service, we have increased our transport performance in rail freight transport by 15 % compared to 1993 on a like-for-like basis, and have participated in market growth. At the same time, more and more non-Group companies are becoming active in rail freight transport – either as partners or competitors; their share increased faster than the overall market in 2003. Our current structure, with subsidiaries Railion Danmark and Railion Nederland, has a European focus; we have boosted transport performance by a total of 24 % and are capturing an increasing share of cross-border traffic.

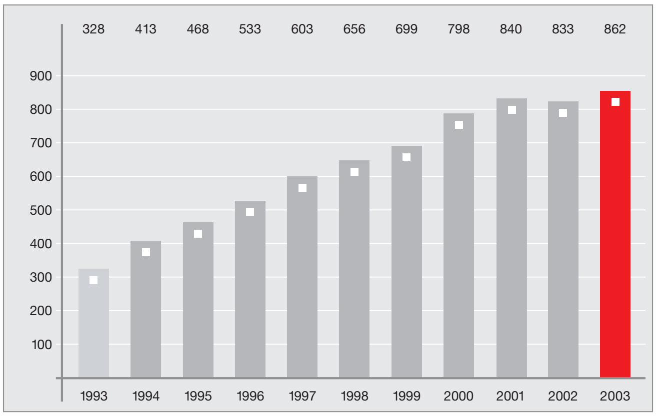
Open Access to Infrastructure



Number of non-Group rail infrastructure customers

A key element of the German Rail Reform was the establishment of non-discriminatory access to the rail infrastructure. Since we opened our network, which we did earlier and on a broader basis than nearly any other country in Europe, more and more non-Group railroads render passenger and freight transport services over our network each year. Some 280 non-Group companies now use our infrastructure – trend increasing. The “Rail Liberalization Index 2002” study confirmed our leading role in Europe. We publish our own Report of the Competition Officer regularly.

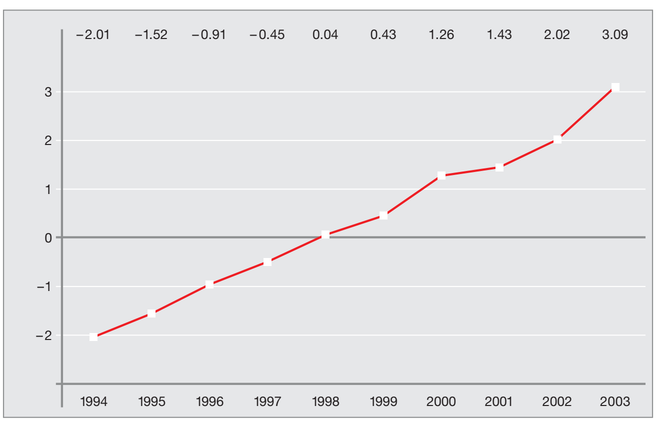
Creating Efficient Structures



Productivity – rail (thousand ptkm per employee)

Productivity Increases

A major focus of the German Rail Reform was to establish more efficient structures and processes. By the financial year 2003, we were able to more than double productivity (+163 %) in rail operations, compared to the pre-reform period, thanks to growth in transport performance, more efficient processes, sustained modernization efforts, and capital expenditures in modern technology. The inevitable staff reductions in our core rail operations area were dealt with in a socially acceptable manner.

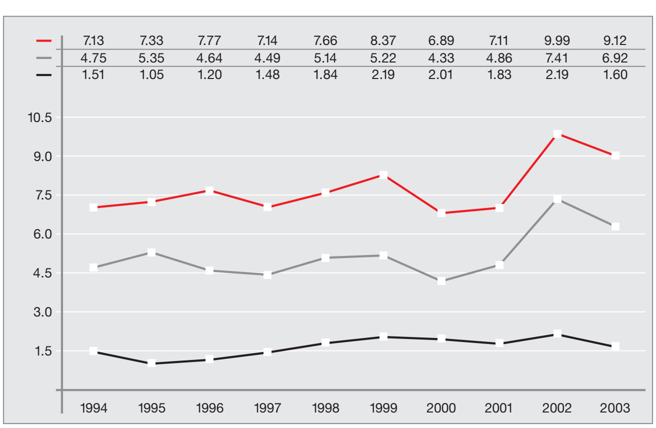


EBITDA before special burden compensation (in € billion)

Significant Improvement in Operating Result

The big jump in productivity also resulted in a significant increase in our operating result, measured by EBITDA before special burden compensation. In this context, it is particularly important to adjust for the special compensation we received from 1994–2002, in declining amounts each year, for the structural deficits at Deutsche Reichsbahn. The success of our restructuring measures is clear at the bottom line: We have increased earnings from operations by a total of around € 5.1 billion since 1994.

Germany's Largest Investor



Gross capital expenditures (in € billion)

Total —
Thereof infrastructure —
Thereof rolling stock —

We have invested some € 79 billion since 1994 – especially in the infrastructure (around € 53 billion) and modernizing our rolling stock (around € 17 billion) – to compensate for decades of previous underinvestment. The beneficiaries of this capital expenditures are not only our customers, who make use of our mobility and logistics services, but also the numerous companies that have rendered services to us since 1994. With our capital expenditures in future mobility, the DB Group has made an impressive contribution towards making Germany a better place to do business, and has also done more to create and save jobs in Germany than nearly any other company.

of the Deutsche Reichsbahn network, in particular, was horrible; the obsolete infrastructure prevented efficient production. The German Rail Reform, with the founding of Deutsche Bahn AG as a business enterprise on January 1, 1994, was the consequential approach to get rail transport back in shape for the future.


BERLIN
S
TAXI
673

Berlin Central Station [today: Berlin Eastern Station] (1989)


BERLI

Berlin Eastern Station (2000)


OSTHALLE
Thomaskirchhof
COMMERZBANK

Leipzig Central Station (1994)

Sparda-Bank
Uns finden Sie gut!
LEIPZIGER VOLKSZEITUNG
10
11
EAST

Leipzig Central Station (2000)

Attractive Stations Are DB AG's Calling Card

Station Renaissance Initiated

Our more than 5,600 stations and 2,400 concourse buildings are the entryway to our rail system and the calling card of our company, as well as of the cities and regions, which is why the DB Group has invested on a high level in its stations since 1994. After all, we want our 1.7 billion travelers and 2.4 billion other visitors each year to have a pleasant stay. Accordingly, we adjusted our priorities after inception of the German Rail Reform. Our stations

Facts & Figures

Completed Projects (Selection)	Completed
Leipzig Central Station	1997
Frankfurt/Main Airport Station	1999
Hanover Central Station	2000
Cologne Central Station	2000
Uelzen	2000
Oberstdorf	2001
Hamburg Dammtor	2002
Rostock Central Station	2003
Stations of the RhineNeckar S-Bahn (metro)	2003

Ongoing Projects (Selection)
Berlin Central Station-Lehrter Station
Erfurt Central Station
Kiel Central Station
Wiesbaden Central Station
Jena Paradies
Kaiserslautern
Baden-Baden Central Station
Dresden Central Station (hall roof)
Stations of the Immediate Action Program

Stations as Mobility Hubs

We have renovated many, many stations since the start of the German Rail Reform, always aiming for a balanced mix between DB service facilities and space for retailers and gastronomy. The renovations centered on giving the existing buildings a facelift and combining them with modern elements. The result is that many stations have become magnets for excursions and shopping in addition to their role as mobility hubs. The DB Group depends on collaboration with the federal states and municipalities for the modernization of stations of all sizes. After all, we are all equally interested in an appropriate appearance of our stations.

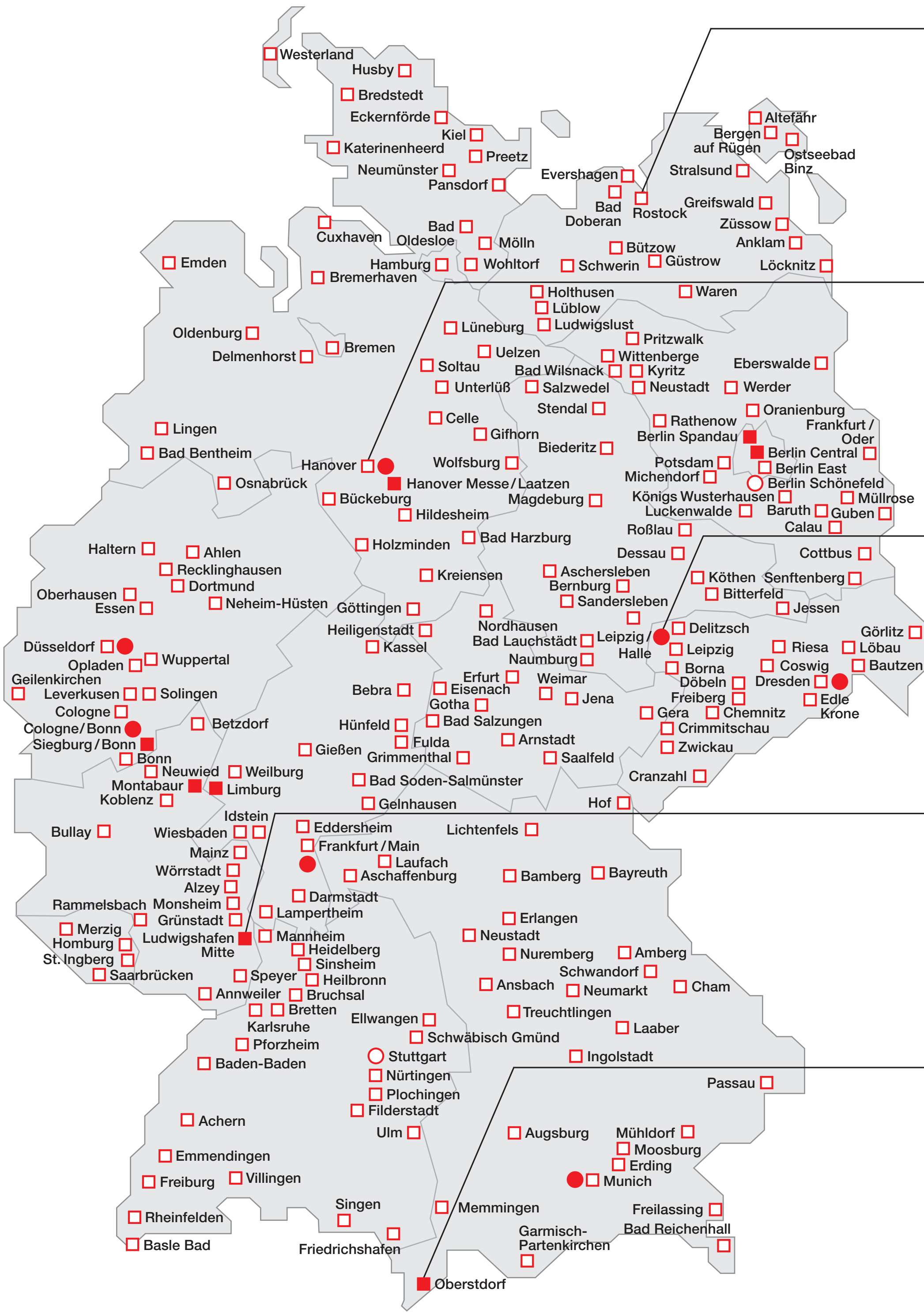
Aside from appearance, service, safety, and cleanliness are essential elements of attractive stations – which is why we began our 3-S concept, which stands for these three important elements, early on in the rail reform process. Our 3-S centers coordinate the activities of service staff and cleaning and security personnel. Our ServicePoints provide on-the-spot assistance. The DB ServiceStores are another component for boosting customer focus, increasing our direct presence in more thinly populated areas. With ticket sales and a wide range of products aimed at traveler needs, passengers can get the same products and services at a DB ServiceStore that are standard at larger stations.

Immediate Action Program

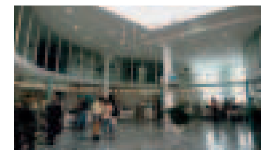
Whereas a majority of our capital expenditures were targeted at the larger stations in the past, our current focus is increasingly on stations in the countryside. Our immediate action program is aimed at modernizing small and medium-sized stations across the board, and is supported by several federal state governments. The objectives: improve appearance and optimize the mobility chain. All activities are intended to significantly improve the quality of time spent at our stations. Ultimately, the appearance of these smaller stations in particular is immensely important.

For a site to be included in our immediate action program, the station structure must be largely intact. The measures can be implemented at short notice, without any major planning or approval effort. We have spruced up over 600 stations since the start of the program in June 2002. Our renovation approach (“RenoVier-Methode”) boosts attractiveness at low financial cost. Our new signposting system, a fresh coat of paint, optimized furnishings, and bright, friendly lighting all create a positive atmosphere.

We are optimizing the mobility chain with clear, uniform timetables and traveler information systems such as train destination display, information boards, and monitors – as well as building new (and renovating existing) lounge areas.



Rostock central station



Modernization (2003)

Hanover central station

Modernization (2000)

Leipzig/Halle airport station

New construction (2003)

Ludwigshafen Mitte

New construction (2003)

Oberstdorf central station

New construction (2001)

■ New construction
□ Modernization/renovation
● New airport station
○ Airport station

Station projects

The map is a schematic representation and shows a selection of completed and ongoing station projects of different sizes since 1994.

are to become modern passenger stations and service centers. They also represent the main link in the mobility chain. We have assigned particular priority to improving service and better integrating different modes of transport for a smoother journey. As we announced at the Biennial Architecture Forum in Venice in 1996, we initiated a renaissance of railroad stations and thus of the town centers as well.

Berlin Friedrichstraße (1990)

Berlin Friedrichstraße (2004)

Interlocking (1987)

Electronic interlocking (2004)

Modernizing the Rail Network While the Trains Keep Rolling

10 Years of Rail Reform – Integration of 2 German Rail Networks

When the networks of the West German Deutsche Bundesbahn and East German Deutsche Reichsbahn were merged in 1994, the foundation was laid for reorganizing the rail infrastructure in Germany. The objective declared at that time was to quickly restore performance capability of the infrastructure between east and west. This was a major challenge, as the networks differed widely in their density and technical quality. The first step was to rejoin the east-west rail links that had been cut off by the inner-German border. The “German Unity” transport projects (“Verkehrsprojekte

Facts & Figures

Completed Projects (Selection)	**Commissioning**
Eichenberg–Leinefelde expansion	1994
Helmstedt–Berlin expansion	1995
Hanover–Berlin new construction/expansion	1998
Uelzen–Stendal new construction/expansion	1999
Bebra–Erfurt expansion	2000
Cologne–Rhine/Main new construction	2002
Modernization of left-hand Rhine route (Cologne–Mainz)	2003
Rodgau S-Bahn (metro)	2003
RhineNeckar S-Bahn (metro)	2003
New Mainz Tunnel	2003
Cologne–Bonn airport link	2004

Ongoing Projects (Selection)
Hamburg–Berlin expansion
Nuremberg–Erfurt–Halle/Leipzig–Berlin new construction/expansion
Hubs at Berlin, Halle/Leipzig
Augsburg–Munich expansion
Dresden/Leipzig–Hof expansion
Berlin–Dresden expansion
Karlsruhe–Basel new construction/expansion
Nuremberg–Ingolstadt–Munich new construction/expansion
Paris–Eastern France–Southwestern Germany (PES) expansion
Cologne–Aachen expansion
Karlsruhe–Stuttgart–Nuremberg–Leipzig/Dresden expansion

Capital Expenditures in Existing Network, Expansions, and New Construction

A major focus of network capital expenditures is to improve the quality of the existing rail infrastructure. Our aim is to expand network capacity and reduce journey and shipping times. From the start of the German Rail Reform to the year 2003, some € 21 billion was spent on renovation and modernization of existing tracks and facilities. The epicenter of our efforts were and continue to be comprehensive maintenance and upkeep activities on tracks, ties, points, and the ballast bed throughout the country. In addition to numerous smaller measures that were conducted while trains were still rolling, major construction projects were also carried out, some of which required a total shutdown of the affected lines. An example from the recent past is our line construction site along the left-hand Rhine route: The entire line between Cologne and Mainz was renovated in just eight weeks in the fall of 2003.

We have also carried out targeted new construction and expansion measures in order to increase the availability of the existing network. One example of this is the fast Cologne-Rhine/Main route. Numerous S-Bahn (metro) projects were also completed, such as closing the main S-Bahn (metro) line ("Stadtbahn") in Berlin in early 2002, expanding the Hanover S-Bahn (metro) before the start of EXPO 2000, and the RhineNeckar S-Bahn (metro) commissioned in 2003.

Capital Expenditures in Command and Control Technology

We have also targeted significant funds at command and control technology since the start of the German Rail Reform. Some of Deutsche Bahn's interlockings still dated from the first half of the 20th century, which is why we invested in modern control and interlocking technology throughout the country. In the past ten years, we have already commissioned some 200 electronic interlockings. This new technology makes it possible to use the infrastructure more efficiently. In future, operations management for the entire rail network will be largely automated and monitored in seven regional operation centers.

Operations on the DB Group's entire rail network are coordinated from our central operation center in Frankfurt/Main, where 35 employees have state-of-the-art IT technology available to monitor all long-distance passenger and freight transports, as well as special trains, around the clock. The central operation center is also responsible for coordinating the regional operation centers, as well as maintaining contact with foreign railroads. We are also enhancing our radio network. We will begin successively commissioning a new generation of GSM-based radio technology in 2005, at first over 24,000 km of tracks. Deutsche Bahn was a major driver in innovating this extension of the international GSM standard for railroad requirements. Equipped with GSM-R, Deutsche Bahn will have the largest digital cellular network for railroad operations in the world, and at the same time will assume a leading role in harmonizing European systems technology.

Berlin hub

Various projects, among others the reopening of the S-Bahn (metro) circle line (2002)

Hanover–Berlin

New construction/expansion (1998)

Cologne–Rhine/Main

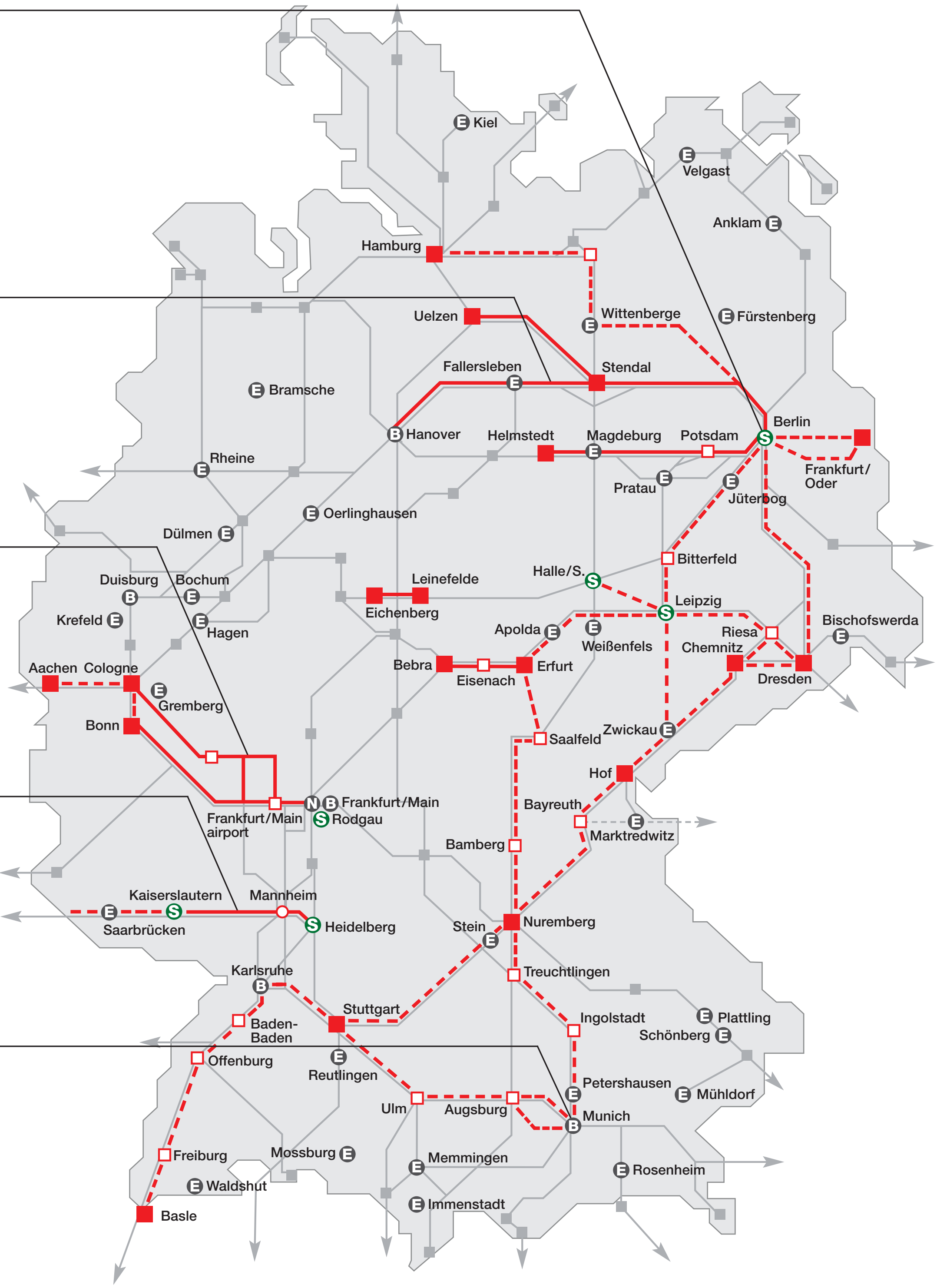
New construction (2002)

RhineNeckar S-Bahn (metro)

Commissioning (2003)

Munich operation center

Commissioning (2001)



- Ongoing projects
- Completed projects
- S S-Bahn (metro) line
- E Electronic interlocking
- N Central operation center
- B Operation center

Infrastructure projects

The map is a schematic representation and shows a selection of completed and ongoing track infrastructure projects since 1994.

Deutsche Einheit [VDE]") were dedicated to this goal. A majority of the lines has now been reconnected, forming the foundation for attractive services. We also commissioned many new and expansion lines in order to further increase the performance capability of the rails. Other focal areas were measures in the existing network and the modernization of our command and control technology. Our construction and refurbishment program will continue to be a focus in future – for high quality and on-time performance in the DB network.

S-Bahn (metro) train (1992)


S 7 nach

S-Bahn (metro) train (2004)

Car transporter (1991)


PORSCHE
Die Bahn
DB

Car transporter (2001)

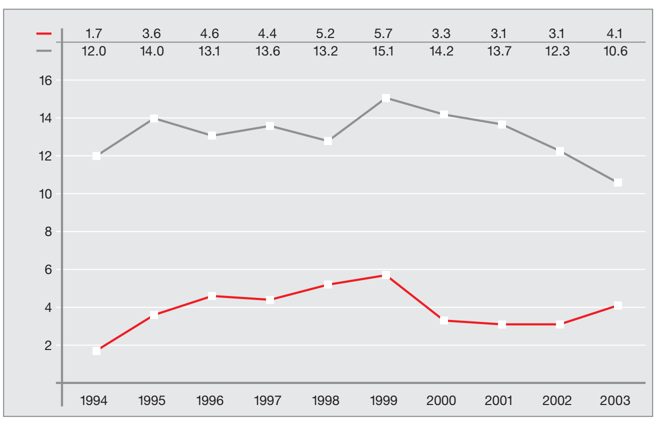
Modern Rolling Stock for Efficient Production

High Capital Expenditures for More Customer Focus and Economic Efficiency

Modern rolling stock is both a calling card and the foundation for rendering efficient services. Our goal: attractive services for our customers. Our appearance and performance capabilities have changed drastically in recent years. The changes in passenger transport are symbolized by the clear differentiation between our "white livery" for long-distance transport and our "red livery" for regional and urban transport.

Long-Distance Transport

Two generations of ICE trains at Cologne Central Station



Average age (years)

ICE fleet —
Passenger cars —

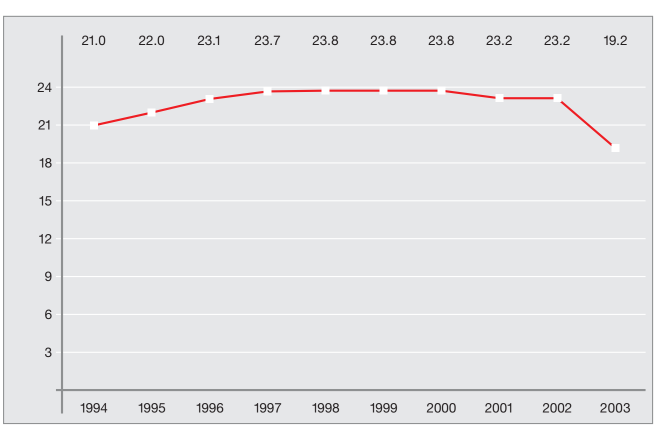
Expansion of Our High-Speed Fleet

Our capital expenditures and modernization programs in long-distance transport were focused on expanding our high-speed fleet and modernizing our passenger cars.

High-speed ICE trains, commissioned in 1991, showed the new face of Deutsche Bahn and heralded a new era. We premiered the ICE 2 in 1996 and have since procured 44 multiple units. The ICE T, deployed starting in 1999, is the first electrically-powered multiple unit with tilting technology and underfloor drive units, and set new standards in design and comfort. We procured a total of 43 multiple units. Starting in 2000, a total of 50 high-performance ICE 3 multiple units, with a certified maximum speed of 330 km/h, began to round out our current ICE fleet. The multisystem version of the ICE 3 can adapt effortlessly to international electrical systems, enabling its deployment in cross-border traffic to Belgium, France, and the Netherlands.

In addition, we have also aggressively pursued the modernization and rejuvenation of our passenger cars in the last ten years. Since 1994, more than 1,100 cars have been equipped with a new design, contemporary fittings and fixtures, and a passenger information system. These cars, which were renovated from the bottom up, offer passengers a high level of comfort combined with modern vehicle technology. The renovations are clearly visible thanks to a uniform paint scheme in ICE design.

Electric Locomotives



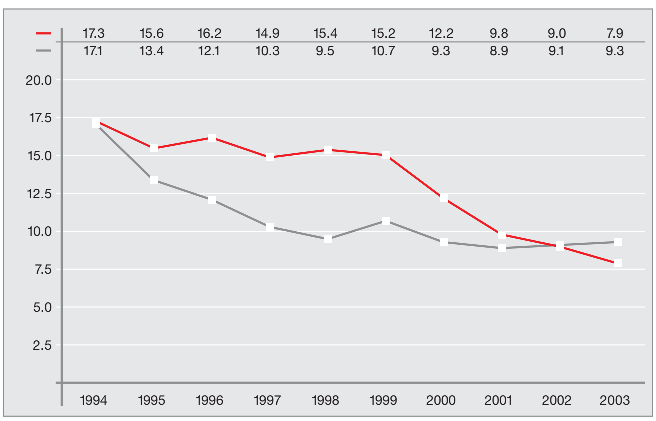
Average age (years)

The Modern Backbone of Rail Transport

Modern electric locomotives help us render transport services in a particularly environmentally-friendly manner. We use them primarily in long-distance passenger transport and freight transport, but also in regional transport, for example: The 145 BR 101 series electric locomotives that we deployed near the end of the nineties have become the workhorse in modern long-distance transport. In local transport, we had procured 39 model BR 146 series electric locomotives by the end of 2003. A special emphasis in freight transport are our nearly 200 new model BR 182, 185, and 189 series multisystem electric locomotives, which underscore our strategic focus on seamless cross-border transports.

Regional Transport

RhineNeckar S-Bahn (metro): BR 425 series multiple units



Average age (years)

Multiple units —
Passenger cars —

Attractive New Vehicles and Improved Economic Efficiency

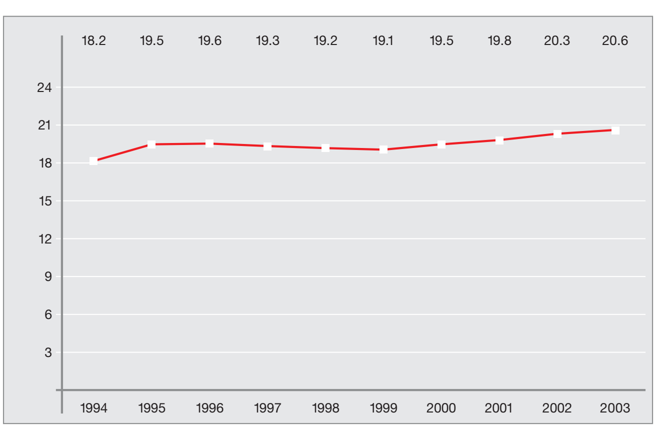
Our vehicle fleet, which had become largely obsolete by the start of the German Rail Reform, was rejuvenated and made competitive in two phases. Our two major decision-making criteria were customer friendliness and economic efficiency – the former with new and modernized rolling stock and the latter with new technology, especially an increased share of multiple units.

In the first phase, which lasted until the late 90s, major portions of our existing rolling stock were modernized through a redesign. The emphasis of this phase was on our obsolete passenger cars.

In the subsequent second phase, we concentrated on replacing old drive units (especially in S-Bahn (metro) systems) and locomotive-hauled trains with newly developed electric and diesel multiple units. Increasing the share of multiple units in our fleet has also boosted the economic efficiency of our fleet deployment.

The threefold focus of our procurement programs were double-deck cars (over 1,200 since the early nineties), electric multiple units for metro and regional transport (over 600 vehicles), and diesel multiple units (over 800 vehicles).

Freight Cars



Average age (years)

Customer-Friendly Fleet

In freight transport, we have got our fleet into shape through a combination of targeted purchases of new cars and numerous modernization programs. We have procured special freight cars targeted at our customers' needs in all market segments, as well as streamlined and modernized our existing vehicle fleet. This has enabled us to offer our customers attractive services for rail transport and leverage the inherent strengths of the rails in end-to-end supply chains – even in combination with other modes of transport.

We have invested some € 17 billion in the rejuvenation and modernization since 1994: in expanding our ICE fleet and modernizing passenger cars for long-distance transport, and primarily in modern multiple units for regional and urban transport. Our capital expenditures in freight transport include modern locomotives, the majority of which are multisystem, along with the acquisition and modernization of freight cars that meet our customers' specific needs.

Clearly Defined Relationships with Federal and State Governments

German Rail Reform Defines Financial Relationship with Federal and State Governments

The German Rail Reform set Deutsche Bahn AG on a strictly entrepreneurial course. Since then, organizational changes, technical innovations, and especially our consistent, strategic focus on market needs are responsible for our economic success.

At the same time, we were clearly divested of (transport-based) political responsibility, which was assumed by the federal states and the central government. The relationships are defined transparently: Since the start of the German Rail

Compensation for Special Burdens Inherited from Deutsche Reichsbahn

Railroad ties at the Retwisch concrete plant (GDR)

Discontinued According to Plan in 2002

Deutsche Bahn received federal compensation for the increased cost of materials and personnel expenses that were due to the inefficient structures inherited from the former Deutsche Reichsbahn. These compensatory payments were disbursed from 1994 – 2002 in defined, declining amounts each year.

One particularly extreme example of such special burdens was the need to swap out concrete ties in the Deutsche Reichsbahn network due to the onset of “tie rot” (poor-quality concrete). Fully one third of all the ties in Deutsche Reichsbahn’s rail network was affected.

Capital Expenditures in Infrastructure

Double-track electrified main line near Paderborn

Clear Areas of Responsibility Defined in Germany’s Basic Law

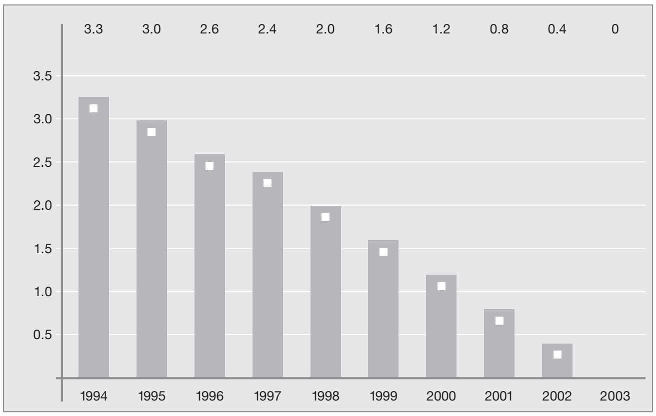
In accordance with Article 87e (4) of Germany’s Basic Law, the federal government ensures “that due account is taken of the interests and especially the transportation needs of the public [...] in developing and maintaining the federal railway system”. To meet this obligation to provide infrastructure, the federal government makes funds available for capital expenditures, within the legal framework of the Law Governing the Founding of Deutsche Bahn and the Law Governing the Extension of the German Rail Network. The funds are provided either as interest-free loans or non-repayable investment grants. We have also invested a significant amount of our own funds.

Funding under the Regional Restructuring Act

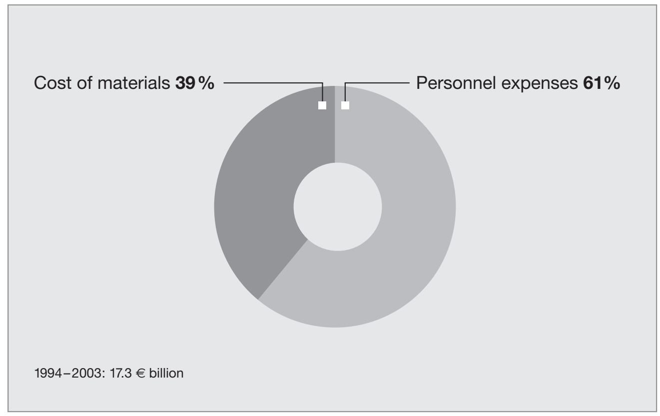
Rhine/Ruhr S-Bahn (metro)

Ordered-Service Contracts with the Federal States

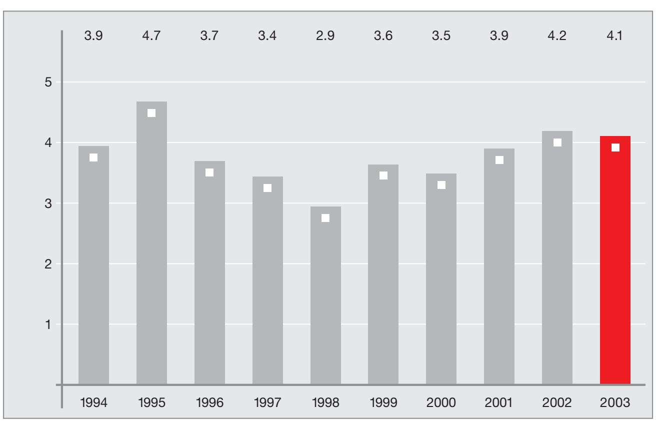
Based on the stipulations of the Regional Restructuring Act (RegG), the federal government has provided the federal states with funding to order local transport services since 1996. In turn, the states decide – under their own responsibility and in line with their statutory obligations – how much of this funding is devoted to rail transport and from which supplier they wish to order transport services. Deutsche Bahn vies for contracts with a variety of domestic and international competitors. The transportation providers that win the contracts to render local rail transport services are paid defined sums by the ordering organizations, the states.



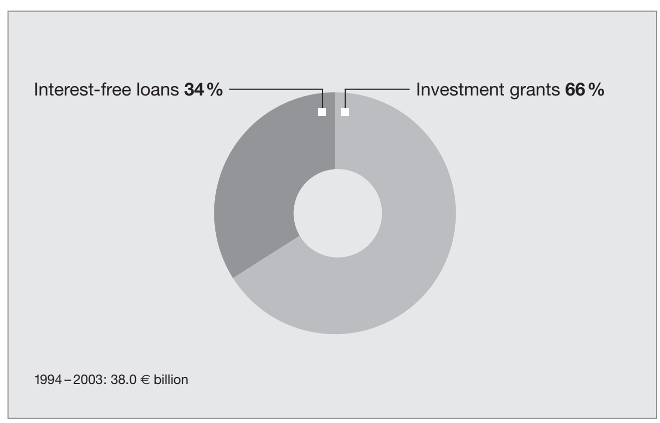
Special burden compensation (in € billion)



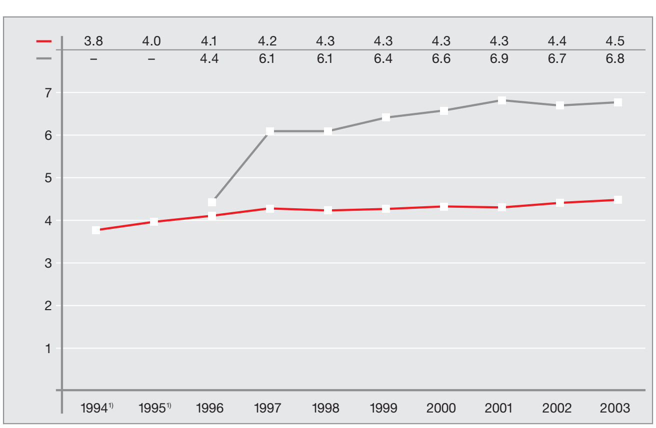
Structure of special burden compensation



Gross federal rail infrastructure funding (in € billion)



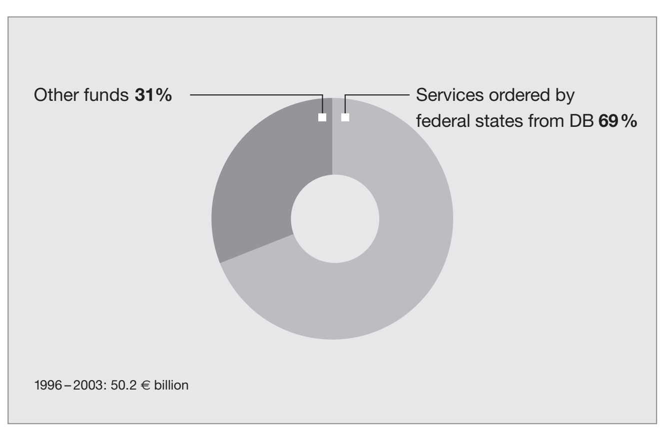
Structure of federal infrastructure funding



Regional restructuring funds (in € billion)

Services ordered by federal states from DB —
Regional restructuring funds total —

[1] 1994 – 1995: Compensation payments for local rail passenger transport in accordance with EWG-VO No. 1191/69



Structure of regional restructuring funds

Reform, Deutsche Bahn receives public funding through three channels, none of which are direct subsidies. The first channel, compensation payments for burdens resulting from German reunification, ceased in 2002. The second channel directs funding for infrastructure capital expenditures. We compete with other transport providers for the third channel, ordering-party contracts for rendering transport services in local rail passenger transport (LRPT).

“Today, ten years after the start of German Rail Reform, the achievements are clear. Customer focus, cost management, and economically sound investments are unambiguous signs of entrepreneurial management. Productivity growth also shows the progress and transformation from a bureaucratic state-run railroad to the stock corporation Deutsche Bahn AG.”

Gerhard Schröder

“German Rail Reform is a success. We have largely achieved our defined objectives. We have saved taxpayers’ money – even more than originally forecast. We have significantly boosted our transport performance in both passenger and freight transport. Cleanliness, safety, service, and the physical appearance of our trains and stations have been improved. Deutsche Bahn is one of the largest investors in Germany and a major driver of the economy.”

Hartmut Mehdorn

Gerhard Schröder, Chancellor of the Federal Republic of Germany, and Hartmut Mehdorn, Chairman and CEO of Deutsche Bahn AG, at the celebration commemorating “10 Years of Deutsche Bahn AG” in January 2004 in Berlin

1994

Our **founding as a stock company** effective January 1, 1994 lays the foundation for our strict future entrepreneurial focus.

The German Rail Reform program also establishes **non-discriminatory access** to the rail network.

Deutsche Bahn publishes its **first train-path pricing system**.

DB approves its **Energy Savings Program 2005**. The program's objective – reducing performance-specific primary energy consumption of drive vehicles and absolute primary energy consumption of stationary processes by 25 % compared to 1990 levels – was achieved as early as 2002.

1995

Our capital expenditures in infrastructure are concentrated on **German Unity transport projects** (VDE). Work on the Bebra–Erfurt (VDE 7) and Berlin–Magdeburg (VDE 5) routes is completed.

The **"Happy Weekend Ticket"** is offered for the first time.

1996

Local transport is "regionalized" – transfer of financial and organizational responsibility for local rail passenger transport from the central government to the federal states.

The **second generation of ICE trains** is deployed for the first time.

1997

An ICE train on the new **Berlin–Hamburg line** beats the time record set in the 1930s by the legendary "Hamburg Express".

The **Thalys** train goes into service on the Cologne–Brussels–Paris line.

The **first DB Lounge** opens at Frankfurt Central Station, the second at the renovated **Leipzig Central Station**.

1998

The tragic **catastrophe at Eschede** shakes the rail system to its foundations, and remains at the forefront of our awareness even today.

The opening of the **new and expanded Berlin–Hanover line** (VDE 4) and the **re-opening of the refurbished main S-Bahn (metro) line** (Stadtbahn) significantly reduce journey times to and from Berlin.

The newly opened **CustomerServiceCenter** in Duisburg heralds a leap in the quality of customer care in freight transport.

The new **two-tier train-path pricing system** is introduced in May.

1999

The **second phase of the German Rail Reform** spins out the existing five divisions into individual stock corporations. In future, these stock corporations will operate as a single brand as the management companies of the DB Group divisions.

The novel **ICE T** train with tilting technology sets new standards in design and comfort.

The opening of the **Frankfurt Airport Station** links the first German airport directly with the long-distance rail network.

In the run-up to **EXPO 2000** in Hanover, the Laatzen Fairground Station and more than 50 other metro stations are opened.

The **commissioning of the new and expanded Uelzen–Stendal** line completes VDE 3.

Our **"Surf&Rail"** offer, available exclusively on the Internet, lets our customers purchase tickets for selected routes online and print them out on their home PCs.

Our **"Netz 21" strategy** is launched, aimed at better segregating high-speed and slow-moving traffic.

2000

Our **"Fokus" restructuring program** is a major step on our way to completing the German Rail Reform.

The merger of the freight transport divisions of Deutsche Bahn and the Dutch NS Groep N.V. creates the **Railion joint venture**, the first platform for European freight transport.

The **third generation of ICE trains** becomes the flagship of our high-speed fleet.

2001

Our **"DB Campaign"** advances to become our main strategic program. It is linked with an intensive capital expenditures program.

The **"Future of Rail"** task force confirms that the DB Group's integrated structure is fully compatible with EU legal requirements.

A **trilateral agreement** between Deutsche Bahn, the Federal Ministry of Transport, Building and Housing, and the Federal Ministry of Finance guarantees federal funding for infrastructure financing through 2003.

The Danish State Railway (DSB) transfers its freight transport division to the Railion joint venture as **Railion Danmark**.

The **train-path pricing system** is converted to a single-tier model.

2002

We complete the **acquisition of Stinnes AG.**

Severe flooding in Germany causes grave damage to the rail infrastructure.

The **commissioning of the new Cologne–Rhine/Main line** cuts journey times noticeably on many long-distance routes.

All European railroads coordinate the introduction of their new timetables for the first time.

With **completion of the circle line**, the most important line in Berlin's S-Bahn (metro) network is once again open to through-traffic.

2003

See "Events in the Year 2003" on pages 238–239.

Report of the Management Board

Group Management Report

- Integration of Stinnes completed successfully
- "DB Campaign": Increased emphasis on service and quality
- Group revenues of € 28.2 billion: Operating and consolidation-related increase
- Turnaround achieved: Operating income after interest increased by € 282 million

Successful Financial Year 2003 an Important Milestone

Considering the challenging market conditions and competitive environment, the financial year 2003 was an important milestone in achieving our goal of getting the DB Group into shape for a future initial public offering. The foundations laid in previous years with the implementation of the “DB Campaign” strategy, combined with our “Fokus” restructuring program, our intense capital expenditures and modernization programs – along with the acquisition of Stinnes AG, an important complement to our portfolio – mapped out the key strategic developments in many areas of the DB Group in financial 2003. Our goals included the consistent continuation of our restructuring efforts and the integration of Stinnes activities with our former Group Freight Transport division to form the new Group Transport and Logistics division, while taking advantage of growth opportunities at the same time.

Major challenges in 2003 resulted from changes in the market situation and competitive conditions. While initial forecasts indicated significant economic recovery and the associated improved growth potential, it became evident at the beginning of the financial year 2003 that the projected market upswing would be delayed – if it even materialized at all. Competitive pressure increased considerably in the passenger transport segment, where our growth expectations were upset by significant changes in market conditions. In the year under review, the increasing spread of low-cost air carriers in the market and the response of conventional carriers in terms of offered fares and capacities resulted in predatory pricing trends in a market that declined overall. These factors, combined with the lagging market acceptance of our new pricing system introduced in December 2002 – despite the reduced fares in long-distance transport – were an early indication that a drop in revenues was to be expected, which required the introduction of systematic countermeasures throughout the organization.

Accordingly, we focused mainly on internal efforts to achieve our financial targets during the year under review, i.e. intensifying our restructuring programs and prioritizing our capital expenditures even more strictly. Our “Fokus” restructuring program, along with other restructuring experiences made within the DB Group, proved to be very helpful in this context.

At the same time, we also continued to pursue our strategic objectives of performance improvement and growth. Identified shortcomings such as late passenger trains (particularly in early 2003), recurring problems with newly commissioned vehicles, and the need for improved customer information were dealt with. Although some initial improvements have already been made, we will continue to address a number of critical issues in 2004 and the years to come. Key to improving the quality of our services was also the consistent realignment of our structures to meet future customer requirements and adjust to a changing competitive framework. This is reflected in the changes to our organizational structure – the establishment of the new Group Transport and Logistics division, reorganization of the Group Passenger Transport division, and promoting the former Group Service area to division status. Any questions that may arise in the context of consolidation-related effects or the changes in the segment breakdown are explained in the Group Management Report. For additional information, see also the Notes to the Consolidated Financial Statements. Where necessary to provide for better understanding, segment information contained in the Notes has been adjusted compared to the previous year to match the new organizational structures.

In addition to the improvements made in our core rail operations business in the 10 years since the start of the German Rail Reform, we implemented numerous individual measures and continued our strategic reorganization in response to market demands. Primary goals include achieving a higher level of internationalization, exploiting future market opportunities, benefiting from consolidation trends in urban transport, and fulfilling customer needs in the transport and logistics area. The successful integration of Stinnes logistics activities in the financial year 2003 was an important milestone in our strategic planning, which is aimed at positioning the DB Group as a leading international provider of mobility, transport, and logistics services. Apart from our focus on passengers and logistics/shipping customers, we anticipate increasing demand for utilization of our infrastructure by non-Group railroads. Accordingly, our infrastructure divisions also have to focus consistently on customer requirements. Across the board, the general rule remains unchanged: All our Group divisions and business units will have to focus their activities on their customers' present and future expectations if we are to achieve our goal of taking a leading competitive position in all our core businesses.

Successful Launch of the Group Transport and Logistics Division

Following the successful completion of negotiations with the previous majority owner, E.ON AG (65.4 %), we acquired Stinnes AG within the framework of a public takeover bid in 2002. By the end of the bidding phase in October 2002, we held a total of 99.71 % of the shares, which corresponded to a purchase price of € 2.5 billion. Based on this equity position, we 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 extraordinary general meeting of Stinnes AG on February 17, 2003. In accordance with the resolution passed by the shareholders, the transfer of the shares held by minority shareholders to the majority shareholder, our subsidiary DB Sechste Vermögensverwaltungsgesellschaft mbH, was entered in the Commercial Register in May 2003. Stinnes AG was delisted. The successful completion of the squeeze-out was an important milestone in the integration of Stinnes with the DB Group. In line with the design of our corporate structure as a contract-based group of affiliated companies, Stinnes AG has become a fully integrated Group company through a domination and profit transfer agreement.

According to the organizational structure of Stinnes AG at the time of its acquisition, major segments of its domestic business were operated by management companies having the legal forms of German stock corporations or limited liability companies. These management companies operated in their own names, but for the account of Stinnes AG, and did not have any operating assets of their own. Their assets and liabilities, as well as revenues, expenses and earnings, were consolidated directly in the annual financial statements of Stinnes AG. Effective January 1, 2003, this management model was terminated for the Schenker and Brenntag (chemicals) Groups and these businesses became legally independent. The carve-out of the Interfer Group (materials) became effective on April 1, 2003. A few remaining business activities have been continued in the form of management companies. Stinnes AG and Schenker AG entered into a domination and profit transfer agreement. Divestment initiatives are underway for most of the Stinnes activities that are not considered to be core DB Group businesses.

Within the framework of the reorganization process, Stinnes AG received from DB AG 92 % of the shares in Railion GmbH, which is the umbrella company of the Railion Group, effective September 1, 2003. As of December 31, 2003, another 6 % of the shares were acquired from the Dutch national railroad, NS Groep N.V., which exercised its put option to sell its shares. The only non-Group shareholder of Railion GmbH that remains is DSB, the Danish national railroad, which also holds a put option for its 2 % share.

Effective September 1, 2003, Stinnes AG and Railion Deutschland AG signed an agency agreement which provides that Stinnes AG will conduct business transactions in the name and for the account of Railion Deutschland AG. Revenues of the Freight Logistics and Intermodal business units, which are allocated directly to Stinnes AG, will continue to be reported for Railion Deutschland AG. The income statement of Stinnes AG will only show the agency commissions invoiced for procuring transport orders.

Based on the reorganization of the Stinnes businesses described above, we have been able to consolidate the business of the Stinnes Transportation division, which we intended to retain, with the activities of our existing Group Freight Transport division to form the new Group Transport and Logistics division. On September 1, 2003, this new Group division – with Stinnes AG as its management company – got off to an excellent start, presenting itself on the market with its business areas Schenker, Freight Logistics, Intermodal, and Railion. We have adjusted our Group structure in line with these new business areas. In the Schenker business unit, which continues to expand its existing network also through sector-specific M & A transactions, Joyau, the French logistics group acquired in late 2002, has been fully consolidated for the first time in the year under review. This acquisition greatly strengthened Schenker's own capacities in France and increased the size of its French customer base many times over, making the company one of the top logistics providers in this country as well. In the Railion business unit, the companies allocated here were renamed – Railion Deutschland AG (previously DB Cargo AG), Railion Nederland N.V. (previously Railion Benelux N.V.), and Railion Danmark A/S – and reorganized with the focus on their carrier function. So positioned, we can ensure that non-Group forwarders will have access to high-quality rail transport services in line with market demand.

In 2002, Stinnes was included in the DB Group financial statements only as of the 4th quarter. 2003 was the first full year in which Stinnes business activities were consolidated in the DB Group financial statements. This had a major impact in terms of changes in our income and cash flow statements. For a year-on-year comparison, the inclusion of Railog GmbH, Kriftel, and Hangartner AG, Aarau/Switzerland, as well as the sale of Transfracht Internationale Gesellschaft für kombinierten Güterverkehr mbH (TFG-I), Frankfurt/Main, also have to be taken into account.

Reorganization: Group Passenger Transport and Services Divisions

In July 2003, we decided to optimize the organizational structure of the Group Passenger Transport division with a view to further improving its internal processes, and with the primary objective of achieving a clear, strengthened market presence in the urban transport area. At the same time, the decision was made to establish the new Group Services division. In this context, DB AG transferred the shares in its wholly owned subsidiaries DB Fernverkehr AG and DB Regio AG to DB Personenverkehr GmbH. In accordance with our legal structure as a contract-based group of affiliated companies, the respective domination contracts and profit transfer agreements were signed or amended accordingly. Effective November 27, 2003, DB Reise & Touristik AG was renamed DB Fernverkehr AG, to reflect its core business in the company name. Together with its subsidiaries, this company represents our Long-Distance Transport unit. Local transport structures will be aligned with the structures of our customer base and our ordering parties, accordingly, and allocated to the new Urban Transport and Regional Transport business units.

The Group Services division evolved from the expansion of our former Service area. In addition, our heavy maintenance business currently allocated to DB AG will become an independent legal entity under the name of DB Fahrzeuginstandhaltung GmbH and will be integrated into our new Group Services division in the financial year 2004. In contrast, DB ProjektBau GmbH will remain a directly managed business unit. Various companies operating in the same area have been integrated into

DB ProjektBau as part of an initiative to optimize its structure. The changes in the organization of the Group Passenger Transport and Services divisions were implemented in the second half of 2003, while additional adjustments will be carried out in 2004. In anticipation of this reorganization, the new designation "Group Services division" is used in this Annual Report. The DB Group's reorganized structures will be described in detail in the 2004 Annual Report, when these two Group divisions have commenced their business operations.

Reorganization of Real Estate Activities Completed

Effective April 1, 2003, an agreement for the sale of an extensive Deutsche Bahn real estate portfolio to Aurelis Real Estate GmbH & Co. KG was signed. The portfolio of 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 were held by WestLB AG (39 %), Westdeutsche ImmobilienBank (10 %), and, initially, Westdeutsche Immobilienbeteiligungsgesellschaft (2 %). The latter sold its share to Westfälische Provinzial Lebensversicherung Aktiengesellschaft later in 2003. DB AG retains a 49 % share in the company and granted Aurelis Real Estate GmbH & Co. KG a shareholder loan. This was a decisive step in the strategic reorganization of our real estate activities and the necessary focus on our core business. Due to the structure of the agreement, which sets forth options as well as obligations for DB AG, this transaction did not result in any disposal of real estate concerned that would be reported under properties; consequently, no gains/losses from the disposal of properties were realized. Final disposal of such real estate and any gains/losses realized will be recognized successively as the real estate concerned is sold.

Other Changes in the Group Portfolio

We made other minor changes to the portfolio structure of the DB Group, to improve our competitive position and streamline our organization. These changes have only negligible effects on comparability to the previous year's figures. Apart from the new Group Transport and Logistics division mentioned above, the changes mainly involve the Group Passenger Transport division. In the Long-Distance Transport unit, the reallocation of the International Night Trains unit from DB Fernverkehr AG to DB Autozug GmbH with economic effect from January 1, 2003, marked the completion of the spin-out of our car carrier and night passenger transport activities in 2002. In the context of focusing our investment portfolio on our core business, Bodensee-Schiffsbetriebe GmbH, a fully owned subsidiary of DB Fernverkehr AG, was sold to Stadtwerke Konstanz.

DB Regio AG exercised a put option in the 4th quarter of 2003 and sold back its 50 % equity holding in Bayerische Oberlandbahn GmbH (BOB) acquired from Connex Regiobahn in 2002. We also continued our growth strategy in the bus area by expanding our equity holdings in small to medium-sized bus companies. Among other transactions, we purchased majority shareholdings in Strausberger Verkehrsgesellschaft mbH, Seelower Verkehrsgesellschaft mbH, and Regionalverkehr Dresden GmbH.

Modernization of Infrastructure Divisions Continued

After the “Trilateral Agreement” (with the Federal Ministry for Transport, Building and Housing, and the Federal Ministry of Finance) had provided a reliable basis for investment planning and available funding of infrastructure projects until 2003 and we had expanded our planning capacities in line with the increased funds, we were able to resolutely pursue our course of modernization in the financial year 2003. Both capital expenditures and cash-effective project spending remained at high levels. In the medium term, the benefit for our customers will be increased system speeds and the associated reduced journey times, along with the enhanced attractiveness of the stations.

However, it was inevitable that on-time transport performance would be affected temporarily by the large number of construction sites, where work had to be carried out while the trains kept rolling in many cases. The measures to improve on-time performance that were implemented in the year under review had already led to positive results by the second half of 2003. On-time performance in passenger transport, particularly our long-distance services, improved significantly following the introduction of the new 2004 timetable on December 14, 2003.

Overall Economic Situation

Due to the limited international diversification of our business activities, we were again highly dependent on the development of the German economy in the year under review. Growth in Germany lagged significantly behind the original forecasts for 2003, while other countries reported first indications of a recovery.

- **Global economic development:** The global economy rebounded during 2003. In addition to the expansionist economic policies in the U.S. and Asia, as well as improved corporate financing conditions, this was helped by the reduction in uncertainties in global politics following the conclusion of the Iraq war. At almost 2.5 %, overall global growth was better than in the previous year (+1.9 %). The U.S. was once again the engine of global economic growth, with an increase of some 3 % in its gross domestic product (GDP). The Asian economies showed relatively high levels of overall economic momentum, which resulted mainly from a sharp increase in exports. In Japan, the economy took a surprisingly positive turn, with its GDP growing 2.7 %, and the temporary decline in South-East Asia, which was due not least to an outbreak of severe acute respiratory syndrome (SARS), was quickly overcome.
- **Europe:** In the euro zone, GDP growth of 0.4 % was even weaker than the poor performance in the previous year (+0.9 %). The only positive stimulus was provided by domestic demand. The appreciation of the euro curbed exports noticeably. Due to above-average growth in Great Britain, overall E.U. GDP growth, at nearly 1 %, was slightly higher than in the euro zone. Developments in Central and Eastern European countries were more positive, and they managed higher GDP growth rates.
- **Germany:** Real GDP growth in Germany declined 0.1 % in 2003 compared to the previous year's figure (+0.2 %). The mild pick-up in final domestic expenditures (accounting for +0.1 percentage points) was more than offset by the decline in the real export surplus (accounting for –0.2 percentage points). German exports were hampered by the strong euro and the weak economy in the euro zone, which itself was partially attributable to the euro's appreciation. Ongoing uncertainty among investors and consumers affected both investment activities and consumer spending. Once again, investments failed to match the previous year's levels (equipment: –3 %; construction: –3.4 %). Weak employment and personal income growth resulted in a repeated year-on-year decline – although at a lower rate – in consumer spending. Similarly, real retail sales continued to decline (by about 1 %), once again lagging behind overall consumer spending.

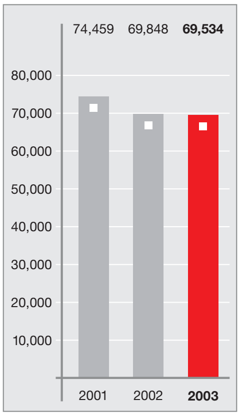
DB's Relevant Markets and Development of Transport Performance

While the German passenger transport market suffered a steepening decline due to the persistently weak overall economic environment in Germany, the relevant markets for the Group Transport and Logistics division, in particular in the upper range of the value-added logistics services sector, showed some growth. In light of the macroeconomic data and increasing competitive pressure, our market performance was satisfactory in both passenger transport and our Group Transport and Logistics division. In contrast to the clear overall decline, our passenger transport performance was only slightly below the previous year's level and we were able to gain market share. The positive performance of our Group Transport and Logistics division is a testament to our excellent strategic position. The performance of our infrastructure divisions benefited from growing competition on the rails and was affected by the weak rental market, which in turn was due to the unfavorable trends in the retail sector.

Increased Market Share in Declining Passenger Transport Sector

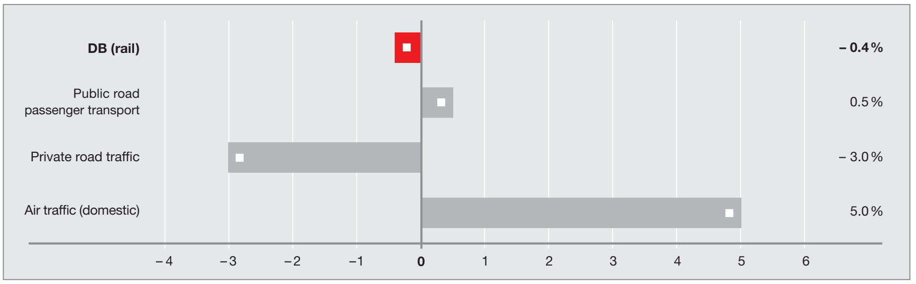
According to currently available data, transport performance in the German passenger transport market (sector breakdown: motorized private traffic, rail, public road passenger transport, domestic air traffic) fell by 2.4 % in the financial year 2003, an even sharper downturn than in the previous year (–1.2 %). This represented the fourth consecutive year of decline. A key factor was the significant drop in motorized private traffic (about –3 %, according to preliminary figures; previous year: –0.5 %). In addition to the overall weak economy, steady increases in fuel prices played a major role in this development.

Total rail passenger transport performance
in million pkm



2002 to 2003: **–0.4 %**

Growth rates in German passenger transport sector 2003
in %



Other railways: approximately +10.0 %
Overall transport demand: approximately – 2.4 % weighted average
Figures competitors: estimates by DB (rounded off to 0.5 %)

The development of our own passenger transport performance (rail and public road passenger transport) was affected by the weak economic environment. In total, our transport performance slightly declined by 0.4 %, which means we were able to win market share from motorized private traffic. Our performance in rail passenger transport nearly matched the previous year's level (– 0.4 % to 69.5 billion passenger kilometers [pkm]), although performance in long-distance rail passenger transport fell by 4.7 % to 31.6 billion pkm versus a 6.1 % decline in the previous year, which had resulted mainly from market-focused changes in our service range. In addition to overall trends, domestic and intra-European low-cost airfares, poor initial public acceptance of our new pricing system – which we introduced in December 2002 and successfully modified as of August 1, 2003 – as well as a shift in demand towards local rail passenger transport induced by our service optimization program all had negative impacts on our transport performance. In contrast, local rail passenger transport showed very favorable development, with an increase of 3.4 % to 37.9 billion pkm (previous year: – 6.2 %). The driving factors behind this development were quality improvements and an expansion of our service range.

Non-Group rail transport providers, mainly non-state-operated (NSO) railroads operating primarily in local rail passenger transport, were able to increase their transport performance through contracts awarded on a tender basis. According to our estimates, the NSOs achieved a growth rate of around 10 %.

Demand in public road passenger transport increased by more than 0.5 %, after a 1.9 % decline in 2002. The bus companies of the DB Group were able to benefit from this growth and gained 0.2 % (within public road passenger transport area: + 1.2 %). This is fully attributable to the improved performance in regular line operations, where new services offered, such as those for schoolchildren and students, attracted more riders. In contrast, non-scheduled services decreased.

Transport performance in domestic air traffic increased by just over 5 % in 2003 (previous year: – 3.5 %). This strong growth resulted mainly from the surge in demand during the first half of 2003, compared to relatively low figures from the same period of the previous year. Demand was fuelled by low-cost carriers entering the market, accompanied by price cuts among established airlines. However, this boost was not sufficient to reach the performance levels reported before September 11, 2001.

Overall, competition in the passenger transport segment continued to intensify in 2003. This applies equally to both intermodal competition and competition on the rails. In local rail passenger transport in particular, our competitors include municipal and state-operated railroads, mid-sized railroad companies, and international corporations. Non-Group railroads have achieved a market share of 2.4 % in terms of transport performance, or 9 % in terms of train kilometers.

Satisfactory Development of Transport and Logistics Market Segments

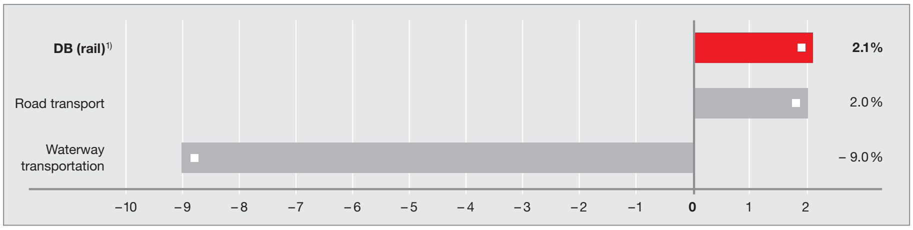
The development in the relevant markets for our Group Transport and Logistics division was satisfactory in the year under review. Here, market trends were slightly more positive than in the German passenger transport market. In light of the differing international economic performance, international growth was in many cases higher than that achieved in the German and pan-European freight transport markets.

European overland transport volumes continued to be affected by the halting recovery of the overall economy. This was true for both the Nordic countries and continental Europe. As a result, pricing pressure persisted throughout Europe and in Schenker's core markets in particular.

While volumes in the air freight sector in 2003 benefited from strong economic growth in Asia, they were negatively impacted by the Iraq war. Asian export volumes were significantly higher than in the previous year, in particular in trading with Europe. Export volumes from North America slightly declined in both the transatlantic and the transpacific relations. While European exports to Asia showed significantly increased volumes, there was only minor growth in export relations with North America due to the political situation and the weak U.S. dollar. Overall, base rates in the air freight sector remained relatively unchanged during 2003. Carriers increased their prices mainly on export routes from Asia. Freight rate surcharges for rising fuel costs and stepped-up security due to the critical situation in the Middle East were passed on to customers. War risk surcharges that some carriers had imposed were rescinded in the last few months of 2003.

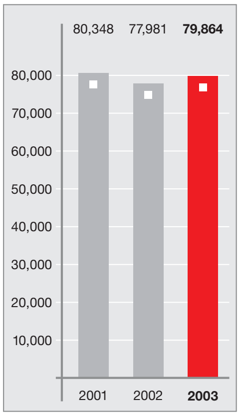
Growth in the sea freight sector in the past financial year was stronger than expected. Key drivers were exports from Asia to both Europe and North America and the sharp increase in shipping within Asia. This growth resulted mainly from the increasing trend in the consumer goods industry of offshoring production to Asia. Volume growth on export routes from Europe to Asia remained below expectations for 2003. Despite the weakening U.S. dollar, export freight levels from North America to both Europe and Asia were low, while volumes increased in transpacific shipping around the end of the previous year.

Growth rates in German freight transport sector 2003
in %



Other railways: approximately +60.0%
Overall transport demand: approximately +1.0% weighted average
Figures competitors: estimates by DB (rounded off to 0.5%)
Road = sum of regional and long-distance area, including foreign trucks
[1] Only Railion Deutschland AG

Total rail freight transport performance
in million tkm



2002 to 2003: **+2.4%**

Based on preliminary data, overall transport performance in the German freight transport market (rail: Railion Deutschland AG and NSO railroads; inland waterway transportation; road: German trucks, excluding local haulage, plus foreign trucks) increased by about 1% amid weak economic conditions (previous year: –0.2%). This increase was driven mainly by the accelerating recovery in the dominant sector, road freight transport.

After a poor start in early 2003, transport performance in road freight transport (German trucks, excluding local haulage, and foreign trucks) showed a significant increase in the second half of the year. In particular, demand for cross-border transport picked up, which was mainly to the benefit of foreign truckers. Growth was curbed by the weak economy, in particular sluggish business in the construction and retail sectors. These retarding effects were partially offset by an increase in manufacturing sector output, albeit a minor one. In addition, baseline effects from the previous year were felt in the segments of vehicles/machinery/finished and semi-finished goods, and special freight (containers, part loads/groupage freight). Shifts in modes of transport from inland waterway transportation to the rails also had a positive effect on road freight transport performance. For the full year 2003, transport performance increased by about 2% (previous year: +0.5%).

Transport performance of Railion Deutschland AG (formerly DB Cargo AG) suffered not only from the weak overall economy, but also from intensifying intermodal competition. Despite this negative trend of the last two years (previous year: –2.7%), the company was able to increase its transport performance by 2.1% to 74.0 billion ton kilometers (tkm) and stabilize its market share. A positive special effect from our point of view was the restricted navigability of inland waterways due to low water levels in 2003. Railion Deutschland benefited heavily from the resulting shifts in transport mode for imported coal. Some significant increases were also reported for transports of finished and semi-finished goods, foodstuffs, beverages, and fertilizers. The combined rail/road transport sector was a key driver, making a substantial contribution to overall performance with the extraordinary growth rates it achieved. In contrast, transport performance in some other product segments declined, particularly petroleum, forestry and chemical products, as well as the predominant iron and steel segment. While the increase in raw steel production provided a positive stimulus in the first half of 2003, contractions in this sector in the second half of the year under review resulted in significantly lower transport demand.

As in the previous year, the share of international transports continued to increase, accounting for more than 55% of Railion Deutschland AG's overall transport performance in the financial year 2003.

In our Railion business unit, including our international subsidiaries Railion Nederland N.V. and Railion Danmark A/S, we were able to boost our transport performance to a total of 79.9 billion tkm, an increase of 2.4% over the previous year.

Non-Group, NSO railroads recorded a significant increase in transport performance of some 60% – either as partners of Railion Deutschland or, ever more frequently, as its competitors. Overall, rail freight transport in Germany grew by just over 4.5%. This is the highest growth rate of all modes of transport and thus the biggest share gained in the growth of the overall transport sector. In terms of transport performance, the market share of non-Group railroads in the rail freight transport sector was just under 7% in the year under review.

After extremely positive development in the first half, transport performance in inland waterway transport suffered a severe setback in the second half of 2003 caused by low water levels due to drought. As a result of the extreme situation on the Rhine, Danube, and Elbe rivers, freighters had to reduce their payloads drastically, with shipping even completely interrupted at times. It was not until the end of 2003 that the situation stabilized somewhat. This decline of about 9 % (previous year: –1 %) also marked a record low in recent years.

Infrastructure Divisions Report Increasing Demand From Non-Group Railroads

Since non-discriminatory access to German rail infrastructure was granted to all customers in 1994, more and more non-Group railroads are entering and growing in this market. This is reflected in the development of station stops and train-path usage. For instance, the number of station stops made by non-Group railroads increased by 13.6 % to 9.3 million stops (total increase, including Group and non-Group customers: 0.4 % to 136.5 million stops); demand for train-path usage jumped by a heady 40.2 % to 70.4 million train-path kilometers (train-path km). In total, some 280 non-Group railroads utilized DB Group infrastructure in the financial year 2003.

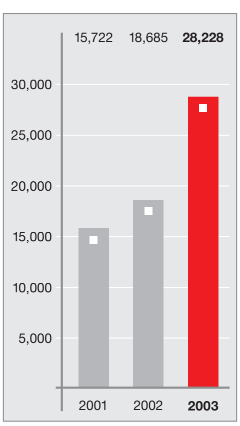
Business Performance

The first full-year consolidation of the Stinnes Group in the consolidated financial statements of DB Group in 2003 had a major impact in terms of comparability of the year under review with the previous year's figures. In accordance with the date of acquisition, the Stinnes businesses were included in our 2002 consolidated income statement, investing and financing activities, and cash flow statement only pro rata temporis at their 4th quarter financial data. In the business performance figures reported below, the related effects are explained where significant. For additional information, see also the Notes to the Consolidated Financial Statements. In the segment information, this applies primarily to our new Group Transport and Logistics division and the item "Other operating entities", where the Chemicals (Brenntag Group) and Materials (Stinnes-Interfer) divisions added through the acquisition of Stinnes are included. For strategic reasons, these business units, although profitable, have never been considered core businesses of the DB Group since the date of their acquisition.

Significant Revenue Increase Through Internal Growth and First-Time Full-Year Stinnes Consolidation

As a result of the first-time consolidation of the Stinnes businesses at their full-year data, DB Group revenues jumped significantly by 51.1 %, to € 28,228 million. Adjusted for changes in the scope of consolidation – primarily the first-time consolidation of the Stinnes businesses at their full-year data, the first-time consolidation of the Railog GmbH joint venture and Hangartner AG, as well as the deconsolidation of TFG-I – we achieved an increase in revenues of 2.0 % to € 15.9 billion.

Revenues
in € million



2002 to 2003: **+ 51.1 %**

Group revenues, actual and like-for-like in € million	**2003**	**2002**	**Change in %**
Group revenues, as reported	**28,228**	**18,685**	+ 51.1
Stinnes revenues, consolidated (incl. Brenntag/Stinnes-Interfer)	12,058	2,920[1]	–
Group revenues, excl. Stinnes businesses	**16,170**	**15,765**	+ 2.6
Share in revenues of companies deconsolidated in 2003[2]		190	
Share in revenues of companies consolidated for the first time in 2003[3]	280		
Group revenues, excl. Stinnes, like-for-like	**15,890**	**15,575**	+ 2.0

1) Consolidated only pro rata temporis at 4th quarter figures in financial 2002
2) TFG-I
3) Railog GmbH, Hangartner AG

External Group revenues by Group divisions in € million	2003	Share in %	2002	Change in %
Group Passenger Transport division	11,157	40	11,179	– 0.2
Group Transport and Logistics division[1]	10,804	38	5,321	+ 103
Group Passenger Stations division	249	1	226	+ 10.2
Group Track Infrastructure division	273	1	203	+ 34.5
Group Services division	259	1	219	+ 18.3
Other operating entities[1]	5,486	19	1,537	–
Group	**28,228**	100	**18,685**	+ 51.1

[1] In accordance with the date of acquisition, the Stinnes businesses were included in our 2002 consolidated financial statements only pro rata temporis at their 4th quarter financial data. In the year under review, these business have been allocated to the segments "Transport and Logistics" or "Other operating entities" in the segment information.

Despite the weak economy, we were able to increase revenues in nearly all Group divisions – also with revenues like-for-like adjusted for consolidation-related effects. The Group divisions Passenger Transport and Transport and Logistics made the largest contributions to revenues, accounting for nearly equal earnings shares of 40 % and 38 %, respectively. The Group Passenger Stations, Track Infrastructure, and Services divisions continue to make nearly negligible contributions to external revenues, as they render the vast majority of their services to intra-Group customers. Nonetheless, the significant increase compared to the previous year's figures indicates intensifying use of DB infrastructure by non-Group customers. The relatively high revenues ratio accounted for by "Other operating entities" results from the Brenntag and Stinnes-Interfer businesses included here.

- **Group Passenger Transport division:** With external revenues of € 11,157 million, this Group division fell just short of the previous year's record figure of € 11,179 million, a decline of slightly less than 0.2 %. The Long-Distance Transport unit had to endure a drop in revenues (resulting mainly from a decline in transport performance due to the weak economy and competitive pressure, in addition to price cuts) by € 385 million to € 2,993 million. However, this drop could be largely offset by the DB Regio unit and its Regional Transport and Urban Transport business segments. Their 4.7 % increase in revenues to € 8,164 million was driven mainly by significantly higher levels of transport performance and fees paid by ordering organizations compared to the previous year, as well as income from back payments for prior years. This increase reflects the positive developments in revenues from passenger fares and other revenues (+ 8.1 % to € 3,645 million), as well as an increase in payments under ordered-service contracts for local rail passenger transport with the federal states and the respective ordering organizations (+ 2.0 % to € 4,519 million).

- **Group Transport and Logistics division:** The increase in revenues of € 5,483 million to € 10,804 million reported for the new Group Transport and Logistics division is due largely to consolidation-related effects. € 5,243 million of revenues are accounted for by the first-time consolidation of the Stinnes/Schenker businesses, including the Joyau Group acquired in the year under review, at their full-year financial data. The results of all units of this Group division were very gratifying, also on the basis of full-year data. The Railion business unit achieved an increase in revenues of 0.4 % to € 2,987 million, with Railion Deutschland AG reporting a slight improvement of 0.2 % to € 2,764 million, Railion Nederland N.V. an increase of 5.0 % to € 148 million, while Railion Danmark A/S faced a minor decline of 1.3 % to € 74 million. A pro-forma comparison based on full-year figures shows that Schenker was also able to boost its revenues by € 631 million (+10.1 %) to € 6,856 million, which was helped by consolidation-related effects from the first-time consolidation of the Joyau Group. The newly established business units Freight Logistics – including Hangartner AG and Railog GmbH, which were consolidated for the first time – (with revenues of € 895 million; previous year: € 536 million) and Intermodal (with revenues of € 42 million; previous year: € 9 million) also showed a positive development.
- **Group Passenger Stations division:** External revenues in the financial year 2003 increased by 10.2 % to € 249 million. While the completion of several station modernization and rebuilding projects and the intensified use by non-Group railroads had positive effects, ongoing weak demand in the retail sector was a continued burden on our rental business.
- **Group Track Infrastructure division:** With growth of 34.5 % to € 273 million, the external revenues of this Group division reflect the increasing level of services provided by non-Group transport companies on the network of DB Netz AG.
- **Group Services division:** In the year under review, the Group Services division also managed to attract more non-Group customers. External revenue growth was attributable to the positive performance of the DB Services group, the DB Fleet Management group and DB Energie GmbH, while external revenues of DB Systems GmbH and DB Telematik GmbH remained flat compared to the previous year.

Improved Results, Despite Difficult Market Conditions

At € 30,438 million, overall performance of the DB Group increased by € 9,538 million over last year's figure. This development was the result of the external revenue growth described above (increase of € 9,543 million). Due to the fact that construction and capital expenditure activities remained largely unchanged compared to the previous year, the total amount of internally produced and capitalized assets (€ 2,303 million; previous year: € 2,362 million) and inventory changes (€ –93 million; previous year: € –147 million) almost matched the previous year's level. Other operating income increased slightly compared to the previous year (€ 3,138 million; previous year: € 2,830 million). Total operating income reached € 33,576 million (previous year: € 23,730 million) during the year under review, an increase of 41.5 % compared to 2002. Total operating expenses also increased by 39.6 % to € 33,123 million. Cost of materials rose by € 6,230 million (effect related to Stinnes consolidation: € 6,506 million) to € 15,776 million. Because the Stinnes business portfolio is far more reliant on the purchase of goods and services than the conventional rail transport business, cost of materials as a percentage of total performance increased to 51.8 % (previous year: 45.7 %). In contrast, the share of personnel expenses dropped to just 34.0 % (previous year: 40.1 %), although absolute personnel expenses increased by € 1,950 million to € 10,337 million. A year-on-year comparison shows that the development of personnel expenses in the various Group divisions, beside the effects from the first-time full consolidation of Stinnes, was influenced positively by our continued streamlining efforts, while wage and salary increases, additions to provisions for restructuring measures, and the termination in 2002 of government reimbursement for surplus personnel expenses in the area of the former Deutsche Reichsbahn (previous year: € 264 million) had negative effects.

In the financial years 1994 through 2002, the DB Group received grants from the federal government under an agreement of December 23, 1994, for the purpose of eliminating the technical and organizational shortcomings of the former Deutsche Reichsbahn. The grant amounts were reduced annually in accordance with a defined schedule, with the final payments made in the previous year. As a result of these declines, we had to achieve significant gains in efficiency merely to stabilize income. Therefore, the fact that federal grants affecting net income were reduced by € 443 million (the € 264 mentioned above relating to personnel expenses and € 179 million affecting cost of materials) has to be taken into account in the analysis of the above figures for cost of materials and personnel expenses.

Other operating expenses (effect related to Stinnes consolidation: € 1,054 million) of € 4,316 million significantly surpassed the previous year's amount (€ 3,358 million).

The ongoing modernization of the overall rail system, which is reflected in cash-effective spending as well as in our high capital expenditures ratio, once again resulted in increased depreciation charges and higher interest expenses – because we rely on capital markets to finance some of our investment spending – during the year under review. Together with the first-time consolidation of Stinnes at its full-year financial data, this led to an increase in depreciation of € 260 million to € 2,694 million. The expansion of debt financing resulted in a decline in net interest of € 148 million to € – 637 million. For a year-on-year comparison, the effect of the first-time consolidation of Stinnes at its full-year financial data and the resulting interest charges also have to be taken into account. Due to the significant increase in overall performance, the ratio of net interest to total operating result, at 2.1 % in the year under review, remained at the previous year's level. The total burden from increased depreciation and changes in net interest increased by € 408 million compared to the previous year.

Investment income of € 51 million (previous year: € 46 million) chiefly comprises net income from equity interests in associated companies or expenditure related to the transfer of losses and write-downs of investments. The write-down of our investment in Arcor AG & Co. KG was covered by the provisions we set aside as a precautionary measure in the previous year.

On balance, the Group recorded a loss before taxes of € 133 million (previous year: € – 438 million) and a net loss after taxes for the year of € 245 million (previous year: € – 468 million).

Planned Turnaround Achieved in Operating Income After Interest

To analyze the result of our operating activities, we adjust our revenues reported in accordance with the German Commercial Code as necessary to eliminate special factors that are not expected to recur. The management data so adjusted includes special items that are of an unusual nature and recur rarely or irregularly, and involve substantial amounts. Other than in the statutory accounts, operating income/loss after interest is defined to exclude investment income to avoid distorting the reported results.

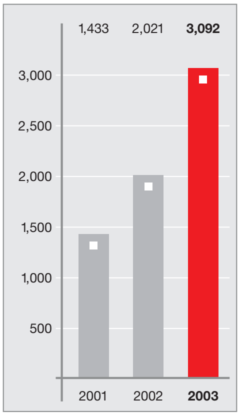
Reconciliation of operating income after interest from the statutory accounts in € million	**2003**	**2002**	**Change**
Income before taxes	– 133	– 438	+ 305
Exclusion of investment income	– 51	– 46	– 5
Adjustment for special effects unrelated to operating activities	12	30	– 18
Operating income after interest	**– 172**	**– 454**	+ 282

The above adjustments made in the year under review primarily involved the release of provisions for risks no longer to be expected, as well as setting aside reserves for contingencies, mainly in the capital expenditures area; in addition, some minor adjustments involved negative neutral items from Stinnes. The previous year's presentation of income trends had also been adjusted for special Stinnes items not related to operating activities and expenditures for the repurchase of five passenger stations included in the leasing package deal.

Because our long capital expenditures cycles and proportional capital market financing mean we incur higher depreciation charges and interest expenses long before we benefit accordingly from increased transport revenues and/or lower costs, and because our income trends have also been significantly affected by declining federal special burden compensation since 1994, we use the key measure of EBITDA before special burden compensation to track our gains in operating income over time. Accordingly, the DB Group was able to increase EBITDA before special burden compensation by € 1,071 million in the year under review, continuing a trend – even adjusted for the consolidation effects of the Stinnes acquisition – uninterrupted since the start of the German Rail Reform (overall EBITDA increase since 1994: € 5,106 million). In the financial year 2003, the improvements achieved in our operating activities were once again enough to not only compensate for the discontinuation of special burden compensation and an increase in depreciation charges, but also to increase EBIT by € 428 million and to boost operating income after interest significantly, by € 282 million, despite higher interest expenses.

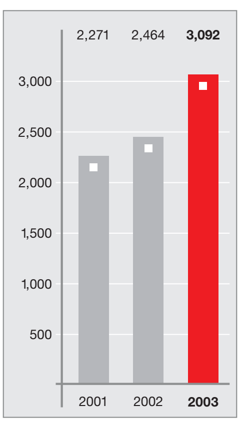
According to our business plan presented in the financial year 2001, we anticipated operating losses after interest for the financial years 2001 through 2003 as a result of our capital expenditure and modernization program. Under the same plan, we expect to return to profitability after interest in financial 2004. The success we achieved under difficult market conditions and increasing competitive pressure – mainly through targeted internal measures – demonstrates that the DB Group remained on track during the year under review.

EBITDA before special burden compensation
in € million



2002 to 2003:
€ +1,071 million

EBITDA
in € million



2002 to 2003:
€ +628 million

Key business management data[1] in € million	**2003**	**2002**	**Change**
EBITDA before special burden compensation	3,092	2,021	+ 1,071
Special burden compensation	–	443	– 443
EBITDA	3,092	2,464	+ 628
Depreciation	– 2,627[2]	– 2,427[2]	– 200
EBIT	465	37	+ 428
Net interest	– 637	– 491[2]	– 146
Operating income after interest	**– 172**	**– 454**	– 282

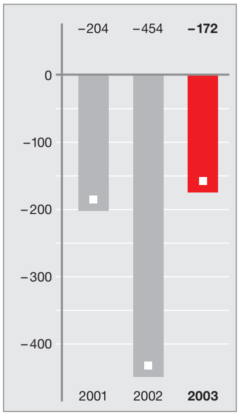
1) Any variances between business management data and reporting in accordance with the German Commercial Code in the consolidated income statement result from adjustments performed to facilitate the comparability of trends in operative business.
2) Value adjusted, as compared to the consolidated statement of income IAW the German Commercial Code.

The structure of the segment breakdown has changed since the previous year. This was largely due to restructured operating activities and consolidation-related effects. In total, the unexpected decline in revenues in our Group Passenger Transport division, which was caused mainly by a difficult market and increasingly competitive conditions for the DB Long-Distance Transport unit, was more than offset by the positive development in the Group divisions Transport and Logistics, Passenger Stations, and Track Infrastructure. This also underlines the favorable effects of the Stinnes acquisition on the Group portfolio, which is now more balanced and less exposed to extraordinary, temporary trends affecting individual Group divisions.

Operating income after interest by Group division in € million	**2003**	**2002**	**Change**
Group Passenger Transport division	– 34	225	– 259
Group Transport and Logistics division[1]	288	66	+ 222
Group Passenger Stations division	38	– 218	+ 256
Group Track Infrastructure division	– 307	– 529	+ 222
Group Services division	119	141	– 22
Other[1]/Consolidation effects	– 276	– 139	– 137
Group	**– 172**	**– 454**	**+ 282**

1) In accordance with the date of acquisition, the Stinnes businesses, which are allocated in this breakdown to the segments Transport and Logistics or Other, were included in our 2002 consolidated financial statements only pro rata temporis at their 4th quarter financial data.

Operating income after interest
in € million



2002 to 2003:
€ + 282 million

- **Group Passenger Transport division:** The drop in revenues in our Long-Distance Transport unit, which resulted from a decline in transport performance and lower fare levels, could be only partially offset by cost savings. This led to a significant downturn in operating income after interest of € 518 million to € – 461 million. Although the Regional and Urban Transport units were able to improve their earnings by € 259 million to € 427 million, driven by increased transport performance and revenues, this was not sufficient for the Group division to achieve a net profit as a whole.
- **Group Transport and Logistics division:** The increase in operating income actually generated by operating activities is mainly attributable to the Railion business unit (€ + 136 million to € 169 million), where the credit is due entirely to the positive development of Railion Deutschland AG. In contrast, Schenker's increased earnings contributions (€ 153 million; previous year: € 20 million) result primarily from its full-year consolidation. However, a year-on-year comparison based on pro-forma financial data for the full year shows that Schenker actually achieved a significant increase in its operating income after interest. Operating income after interest rose in its business units Freight Logistics (€ 16 million; previous year: € 13 million) and Intermodal (€ 2 million; previous year: € 1 million).
- **Group Passenger Stations division:** After its operating result declined in the previous year, not least due to special charges and provisions for risks, this division achieved a turnaround through comprehensive restructuring efforts and has returned to profit, posting an operating income after interest of € 38 million.
- **Group Track Infrastructure division:** Due to the success of our extensive efficiency improvement programs, we were able to offset some of the burden on profits resulting from our ongoing modernization programs. The reduction of the continued operating loss after interest by € 222 million to € – 307 million is in line with our forecasts.
- **Group Services division:** In contrast to the positive trend in overall divisional revenues, which were boosted primarily through DB ProjektBau commencing its business to the full extent, the drop in intra-Group revenues that resulted from rigorous cost-cutting and across-the-board streamlining efforts, in particular at DB Systems and the DB Services group, led to a decline in operating income after interest in the Group Services division.

Value Creation

As a result of the first full-year consolidation of Stinnes operations, combined with the sustained enhancement of our income structure, value creation increased significantly by € 2,398 million to € 10,790 million. The distribution side continued to show a negative outcome for shareholders. For the first time since the financial year 2000, the share distributed to our employees is clearly lower than the amount of the value added, which is a move towards general industrial practice.

Generation of added value in € million	2003	2002
Overall performance	30,438	20,900
Other operating income	3,138	2,830
Overall operating income	**33,576**	**23,730**
Cost of materials[1]	– 15,776	– 9,546
Other operating expenses	– 4,316	– 3,358
Depreciation (on properties and intangible assets)	– 2,694	– 2,434
Added value	**10,790**	**8,392**

Distribution of added value in € million	2003	2002
Employees[1]	10,337	8,387
Public authorities (taxes)	112	30
Creditors (interest)	637	489
Shareholders (incl. minority interests) and non-operating income/loss (from investments)	– 296	– 514
Added value	**10,790**	**8,392**

[1] 2002 figure including reimbursement of burdens inherited from the former Deutsche Reichsbahn

Balance Sheet Trends

The trend in the balance sheet total was influenced mainly by our operating activities, as Stinnes was fully consolidated in the figures as of December 31, 2002 and changes in the scope of consolidation in the current financial year had only minor effects. Clearly, most of the increase in the balance sheet total, at € 1,624 million (+ 3.5 %) to € 47,647, was due to capital expenditures, which continued to exceed depreciation charges in the year under review. Accordingly, fixed assets increased by € 1,587 million (+ 4.0 %) to € 41,362 million. The increase in financial assets to € 1,269 million reflects our share of Aurelis Real Estate GmbH & Co. KG and the shareholder loan extended to it; in contrast, the valuation of Arcor AG & Co. KG was written down. At € 6,126 million, current assets matched the previous year's level.

The ratio of fixed assets to current assets remained relatively unchanged in the structure of the assets side.

Balance sheet structure in %	**2003**	**2002**
Fixed assets	86.8	86.5
Current assets	12.9	13.3
Prepayments and accrued income	0.3	0.2
Balance sheet total	**100.0**	**100.0**

Balance sheet structure in %	**2003**	**2002**
Equity	10.7	12.4
Provisions	30.8	32.2
Liabilities	56.7	53.4
Interest-free federal loans associated with infrastructure financing	(15.8)	(16.8)
Interest-bearing liabilities	(26.7)	(24.0)
Accruals and deferred income	1.8	2.0
Balance sheet total	**100.0**	**100.0**
Balance sheet total in € million	**47,647**	**46,023**

On the shareholders' equity and liabilities side, equity dropped considerably, by 11.1 % to € 5,076 million, due to the net loss for the year. As a result of the decline in equity, accompanied by a further increase in the balance sheet total, the equity ratio fell from 12.4 % to 10.7 %. Provisions of € 14,691 million, or 30.8 % (previous year: 32.2 %), continued to be a major item on the liabilities side. Long-term provisions and liabilities accounted for 63.9 % (previous year: 60.4 %) of total capitalization, while short-term provisions and current liabilities made up 25.4 % (previous year: 27.2 %). In total, equity and long-term debt covered 85.9 % of fixed assets (previous year: 84.2 %).

The analysis of the capital structure needs to take into account the fact that at € 7,512 million (previous year: € 7,726 million), a significant proportion of our liabilities consisted of interest-free federal government loans provided for capital expenditures on infrastructure.

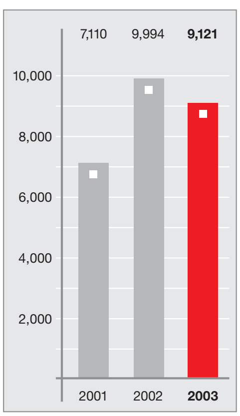
Interest-bearing liabilities increased from € 11,051 million to € 12,731 million, and accounted for 26.7 % (previous year: 24.0 %) of the balance sheet total.

Capital Expenditures

Capital Expenditures Program Continued at a Rapid Pace

The intensive capital expenditures program we approved in 2001, aimed at accelerating the modernization of Deutsche Bahn, continued at its rapid pace in the year under review. Its major objectives of improving the quality of our infrastructure and rejuvenating our rolling stock remained unchanged. During the year under review, gross capital expenditures amounted to € 9,121 million (previous year: € 9,994 million). For a year-on-year comparison, the fact that the restructuring of our telematics operations and the acquisition of telematics facilities from Arcor in 2002 involved gross capital expenditures of € 940 million also has to be taken into account. On a like-for-like basis, gross capital expenditures in the year under review exceeded the adjusted amount in 2002 by € 67 million (+0.7 %).

Gross capital expenditures
in € million



2002 to 2003: **–8.7 %**

Gross capital expenditures in € million	2003	Share in %	2002	Change in %
Gross capital expenditures by Group division				
Group Passenger Transport division	1,304	14	1,847	– 29.4
Group Transport and Logistics division[1]	537	6	406	+ 32.3
Group Passenger Stations division	630	7	591	+ 6.6
Group Track Infrastructure division	6,254	69	6,754	– 7.4
Group Services division	245	3	369	– 33.6
Other[1]/Consolidation effects	151	1	27	–
Group	**9,121**	100	**9,994**	– 8.7
Group – adjusted[2]	**9,121**		**9,054**	+ 0.7
Net capital expenditures	**4,013**	44	**5,355**	– 25.1
Financial assets[3]	**418**		**2,644**	– 84.2

[1] In accordance with the date of acquisition, the Stinnes businesses, which are allocated in this breakdown to the segments Transport and Logistics or Other, were included in our 2002 consolidated financial statements only pro rata temporis at their 4th quarter financial data.
[2] Previous year's value adjusted for the effect of telematics facilities acquisition
[3] See cash flow statement: payments for purchase of financial assets and (partial) acquisitions of consolidated companies

The Group Track Infrastructure division continues to dominate the structure of capital expenditures. Its share remained largely stable (69 %; previous year: 68 %). Once again, the major focus of capital expenditures in the Group Track Infrastructure division was on investments in the existing network; other important projects included the new Nuremberg–Ingolstadt–Munich line, our construction projects in Berlin, and expenditures related to the installation of the GSM-R network. For a year-on-year comparison, the one-time effect of the purchase of telematics assets amounting to € 940 million has to be taken into account. Adjusted for this effect, our gross capital expenditures in the year under review slightly exceeded the already high level in 2002. Capital expenditures in the Group Passenger Transport and Transport and Logistics divisions primarily involved the purchase of new rolling stock as part of our extensive, multi-year modernization programs. In the Group Passenger Stations division, capital expenditures involved station modernization measures and selected new building projects.

In accordance with the relevant legal regulations, our expenditures in infrastructure are generally financed by means of interest-free federal government loans, investment grants netted with properties, and – to a lesser extent – through funds obtained under the Local, Regional, and Municipal Traffic Financing Act (Gemeindeverkehrsfinanzierungsgesetz) and the Railroad Crossing Act (Eisenbahnkreuzungsgesetz), as well as internal funds. The Group's net capital expenditures after deduction of non-repayable investment grants amounted to € 4,013 million (previous year: € 5,355 million).

Investments in financial assets including (partial) acquisitions of consolidated companies amounted to € 418 million, a significant decline from the previous year's figure, which included the Stinnes acquisition. In the context of the Aurelis transaction, we acquired a € 125 million share in Aurelis Real Estate GmbH & Co. KG, and also extended a shareholder loan.

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. We conduct intra-Group financing transactions before we seek funding from outside sources. 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, as well as consolidate our expertise, capture synergy effects, and minimize refinancing costs. Stinnes AG was successfully integrated into the DB Group financing structures in the year under review.

Rating Agencies Reconfirm Outstanding Creditworthiness

In May 2003, the rating agencies Moody's and Standard & Poor's conducted their annual rating reviews. Based on their analyses, both agencies reconfirmed their ratings of the DB Group's credit standing, which were just as positive as in the past. S & P's rating with "AA / stable outlook" remains unchanged since the first review in 2000. Moody's once again maintained its "Aa1", also awarded for the first time in 2000, and at the same time reversed its outlook, which it had temporarily downgraded to "negative" in the fall of 2002 after receiving initial information about the acquisition of Stinnes AG, to "stable".

Sound Financing of Capital Expenditures Program

Capital requirements for the financing of capital expenditures – after deduction of the inflow of funds (net) from investment grants, interest-free federal loans, and the sale of assets – amounted to € 4.2 billion. In contrast, cash flow before taxes – a measure of our internal financing capability – was € 2.6 billion, an increase of € 548 million compared to the previous year. The ratio of cash flow before taxes to financing requirements for capital expenditures improved considerably in the year under review: The ratio of cash flow before taxes to gross capital expenditures increased from 20.5 % to 28.5 %, the ratio of cash flow before taxes to net financing requirements for investment activities from 28.2 % to 62.2 %. The decline in cash flow from business activities was mainly due to adjustments in provisions and the effect from the decline in net current assets reflected in the previous year's figure.

Consolidated cash flow summary in € million	2003	2002
Cash flow before taxes	2,600	2,052
Cash flow from business activities	980	4,086
Cash flow from investing activities	– 4,177	– 7,294
Cash flow from financing activities	3,191	3,116
Net increase (decrease) in cash	– 6	– 92
Cash and cash equivalents, end of year	**265**	**271**

As in prior years, we turned to the international capital markets to finance our capital expenditures. Our Debt Issuance Program, which we expanded to € 10 billion, and our superb creditworthiness enabled us to issue bonds in the global securities markets on a flexible, as-needed basis and at excellent terms. We were able to tailor our issues under this program specifically to the needs of our relevant investors, which in turn resulted in more favorable financing charges due to the specific demand. Our broad investor base also proved to be very conducive to these activities in the year under review, as the expansion of our investor base through additional road shows in Asia in 2002 resulted in significant demand among Asian investors in the financial year 2003.

Investor demand in 2003 for bonds with terms of more than 10 years was accommodating. Consequently, we focused our issuing activities on this sector and issued two bonds of € 500 million each, with terms of 15 years (due in 2018) and 12 years (due in 2015) respectively, through our international finance subsidiary Deutsche Bahn Finance B.V., Amsterdam/Netherlands. In response to the strong demand, we increased the initial volumes of the 15-year bond by € 500 million and the 12-year bond by € 200 million at even more favorable spreads. Total bond issues in the year 2003 amounted to € 1.7 billion. In April 2003, we redeemed a 1998 issue of DM-denominated bonds exchangeable for Lufthansa shares in the aggregate amount of about € 42 million. Moreover, DB Netz AG received two loans earmarked for specific projects from the European Investment Bank (EIB), Luxembourg, in the amount of € 200 million each, with maturities in 2016 and 2022.

Financial debt rose to a total of € 12,731 million (previous year: € 11,051 million). Cash and cash equivalents amounted to some € 265 million (previous year: € 271 million). As in the previous year, the DB Group had guaranteed credit facilities of approximately € 2.2 billion as well as the Multi-Currency Multi-Issuer Commercial Paper program of € 2 billion in the short-term sector.

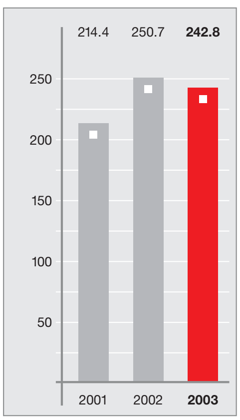
We did not conclude any major leasing transactions in the financial year 2003.

Employees

The number of employees at the DB Group declined by 7,931 (3.2 %), from 250,690 as of December 31, 2002 to 242,759 as of December 31, 2003. This reduction was the result of our continuing process optimization efforts aimed at increasing productivity. In particular, our Group Passenger Transport, Passenger Stations, and Track Infrastructure divisions reflect the progress we have made in our efficiency improvement programs. Consolidation in the Group Transport and Logistics division, however, resulted in increased staff numbers, offsetting our optimization effects. In a year-on-year comparison, increases resulted from the consolidation of the Joyau Group (3,073 employees), Railog GmbH (134 employees), and Hangartner AG (296 employees).

Notwithstanding our ongoing restructuring efforts, we continued our policy of intensive training. With 8,154 apprentices and trainees, DB Group remains one of the largest vocational educators in Germany.

Employees
in thousand



2002 to 2003: **–3.2 %**

Headcount by Group division as of December 31	**2003**	**Share in %**	**2002**	**Change in %**
Group Passenger Transport division	68,180	28	71,037	– 4.0
Group Transport and Logistics division	60,973	25	59,111	+ 3.2
Group Passenger Stations division	5,074	2	5,309	– 4.4
Group Track Infrastructure division	44,080	18	49,556	– 11.1
Group Services division	31,613	13	29,839	+ 5.9
Other	32,839	14	35,838	– 8.4
Group	**242,759**	100	**250,690**	– 3.2
Apprentices/Trainees	8,154		8,551	– 4.6

Technology

Our customers expect us to supply high-quality products and services. 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. As a result of our focus on end-to-end mobility and logistics services, these quality expectations apply to us, our suppliers, and our partners in service execution – such as in cross-border transports. From a technical perspective, our emphases remained largely stable compared to the previous year. A major new challenge was the need to enhance our logistics IT systems, due to the integration of the Stinnes businesses.

In light of the increasing competition we face, 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, continue to optimize the integrated wheel/rail system, and integrate it more comprehensively into our mobility and logistics services.

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

The intrinsic nature of the wheel/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 continue 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 significantly expanded our quality reporting during the year under review. In the quality assurance area, we made progress in further improving our integrated processes in our operational divisions. We augmented our Group-wide standards aimed at achieving a uniform quality level and optimized the coordinated quality assurance measures at the process interfaces. We also made further refinements to our quality management processes. The successive certification of our operational units is proof of our progress.

Our systematic process for commissioning new means of production has been completely reworked. Consistent quality monitoring now systematically accompanies the entire procurement process. We have defined “quality gates” together with our suppliers, to guarantee adherence to agreed quality goals at predefined times within the framework of implementation projects. These quality gates ensure the transparency of each development step for all parties and help detect any potential weaknesses.

Our quality improvement measures are based, among others, on the Six Sigma and CIP (Continuous Improvement Process) methods. We also make comprehensive use of the BahnStrategyCard (a balanced scorecard) as a control instrument. One example of our quality improvement measures is our “Rail Operations Quality” project, which we successfully implemented to fight problems with delays in early 2003. We intensified our efforts in this area with the establishment of our comprehensive “Service and Quality” work program, which we continue to pursue with high priority in the current financial year.

Incremental Implementation of Technology Strategy

We have systematically augmented our technology strategy, which we are implementing incrementally. Our main tools are modularization and standardization, which are increasingly characterizing our investment strategies for technical means of production. Our aim is to boost cost effectiveness over the entire useful life of the technology, and increase the efficiency of operational workflows and maintenance measures. Our vehicle strategy is aimed at achieving a major reduction in vehicle heterogeneity in the medium term. We have started the MOFAST (modularization of fleet assets and standardization) and BestVal (value analysis for selected drive unit vehicle models) projects in this context. We expect these measures to deliver significant cost savings in procurement and upkeep. 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 route-path standards dependent on the specific operating requirements.

The future “European Rail Traffic Management System” (ERTMS) will control trains through electronic transmission points in the track bed, which will initially enable the deployment of high-speed trains in cross-border rail traffic. The components of the ERTMS concept are the “European Train Control System” (ETCS), the standardized European command and control technology, and GSM-R, the digital cellular communication system for railroads.

In the year under review, our ETCS pilot project made major progress towards achieving interoperable train control. The maiden voyage on the test line Jüterbog–Halle/Leipzig on July 7, 2003 marked the start of the test trials for this ultramodern train control system. In fact, it was the very first high-speed journey under ETCS in Europe. Under our planning, the successful test trials will demonstrate ETCS’ feasibility and eligibility for certification under real technical and operational conditions. We began the first stage of operational trials on the test line in December 2003. The ETCS is scheduled to assume full responsibility for safety by mid-2004.

We had already equipped 44 % of all drive units with GSM-R, the new digital cellular technology, by the end of the year under review. The across-the-board fleet retrofit with GSM-R is scheduled for completion by January 1, 2005. GSM-R is not only the key factor in the ETCS, but will also replace the aging analog communication systems for rail operations.

We see significant potential in the medium to long term for cost savings in the optimization of our interlocking technology – with the introduction of a new generation of interlockings. We launched a project aimed at revising the rail-specific requirements of the interlockings. Open, standardized interfaces and a modular structure are intended to enlarge our sourcing base, promoting competition among our suppliers.

Our strategic considerations are based on the current and foreseeable short-term legal framework. The EU demands for the increased interoperability among national rail systems are an especially important factor. In the interests of optimizing international rail transport, we also strive to achieve increasing technical interoperability with our European neighbors through the optimized application planning of multi-system locomotives and rationalization effects from the joint development of the next generation of trains, among other measures.

Forward-Looking Collaboration Between Railroad Companies and Manufacturers

To achieve further increases in efficiency and further 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 wheel/rail system, combined with mature, reliable, and cost-effective technology, are the keys to attracting more traffic to the rails throughout Europe. Moreover, every mode of transport will have to play to its systemic strengths in order to cope with the accelerating traffic growth forecast for the coming years. 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 promoting the development of competitive, pan-European products for passenger and freight transport, all based on our customers' demands. We expect the manufacturing industry to supply rail technology that functions reliably and advances technical innovation for the optimization of the integrated wheel/rail system.

Purchasing

Our purchasing activities are characterized by proactive supplier management and ongoing improvements to the efficiency of our procurement processes, factors that make a lasting contribution to the positive economic development of the DB Group. At the same time, we are developing technical specifications and defining interfaces aimed at creating a broader range of supply sources, intensifying competition among our suppliers.

Excluding the purchasing effects of the integrated Stinnes activities, we placed orders worth € 12.5 billion in the year under review (previous year: € 13.0 billion). Our total order volume was spread among some 40,000 different suppliers.

Purchasing volume in € billion	2003[1)]	2002[1)]
Construction and engineering services	5.1	4.9
Industrial products	3.9	4.3
Other services	2.2	2.5
Utilities and fuel	1.3	1.3
Total	**12.5**	**13.0**

1) Excluding purchasing volumes from the Stinnes businesses acquired in the previous year (which mainly involve contracted transport services at Schenker and merchandise in the Brenntag/Stinnes-Interfer divisions)

The decline in overall volume is the result of our consistent definition of priorities. The increase in construction and engineering services was due in part to increased expenditures required to repair storm damage. We were able to once again reduce expenditures for consultants in the services area, thanks to progress of our restructuring projects. Major purchasing items included orders for powerful electric locomotives for the Railion business unit (with a volume of over € 650 million) and orders aimed at further modernizing our metro fleet (with a volume of over € 220 million).

Following the certification of our purchasing department according to DIN EN ISO 9001:2000 in the previous year, we further refined our purchasing and quality assurance processes. Intensified use of the Internet is helping us execute fast, global tenders, obtain new sources of supply, and capture process savings for us and our suppliers. All interested parties can access our electronic marketplace in the Internet under "www.bahn.de/einkaufsplattform". In the eProcurement area, we successfully launched our "ClickShop" online catalog for employee orders of office materials, tools, electrical equipment, and other small items.

We also awarded our new "Supplier of the Year" prize to vendors with outstanding performance for the first time in the year under review. The award is also intended as a signal in our ongoing fight against corruption, to demonstrate that we set great store by doing business with supply partners committed to high ethical standards.

Supplemental Information

Competition Officer's Report Confirms Non-Discriminatory Network Access

The DB AG Competition Officer published his third Competition Report in March 2004. It states that non-Group railroads are increasingly utilizing the non-discriminatory access to our infrastructure, as the continuously intensifying competition on the rails shows. Transport performance of non-Group railroads on the network of DB Netz AG also continued to increase in the year under review. All in all, some 8.5 % of rail transport services was provided by non-Group companies. The number of market entrants demonstrates that rail transport is getting ever more popular. The overall trend in freight transport performance, including non-Group railroads, was extremely positive, making 2003 a record year despite the difficult economic environment. The rail transport sector as a whole was able to make a slight gain in market share versus road and inland waterway transport.

Pricing Systems for Traction Current and Third-Party-Access to Electricity Grids: Non-Discriminatory Access for all Users

Our subsidiary DB Energie GmbH introduced a new, transparent traction current pricing system (TCPS) effective January 1, 2003. The TCPS fully conforms to all statutory requirements and guarantees all railroads 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.

In addition, DB Energie introduced a third-party-access pricing system (TPAPS), effective January 1, 2004, making this company the first 16.7-hertz traction current distributor to give its customers the option to buy their power from any supplier they want and have the electricity transmitted through DB Energie's facility network to their locomotives. Early in 2002, DB Energie had already deployed the necessary infrastructure for third-party-access to transmission grids, through the introduction of power meters with remote reading capability for locomotives.

The TPAPS is also designed as a single-tier pricing system, with consumption-specific prices in cents per kilowatt hour. This ensures equal conditions in third-party-access to the transmission grid for all customers, irrespective of the amount of power consumed. At the same time, DB Energie enhanced its system for comprehensive power supply. In the TCPS, which distinguishes between three prices depending on the time of day, the difference between high and low rates was reduced, because the same grid usage charge has to be billed in each of the three time zones. The low rate was increased and the high rate lowered.

Adoption of the EC Infrastructure Package into German Law

The "Allgemeines Eisenbahngesetz" (AEG – General Railways Act) and the "Eisenbahninfrastruktur-Benutzungsverordnung" (EIBS – Ordinance on the Use of Rail

Infrastructure) are being amended in the process of adopting the “EC Infrastructure Package” into the German body of legislation. At the same time, the German legal framework is being revised to implement the recommendations of the “Future Rail” task force made in September 2001.

Initial drafts have recently been submitted. We, like other member railroads of the “Verband Deutscher Verkehrsunternehmen” (VDV – Association of German Transport Companies), are participating in the ongoing debate by making suggestions in order to ensure that the overall result is conducive to the strategic objectives of all railroad companies.

Successful 2003 Pay Negotiations and Wage Policy Milestone for DB Systems

The creation of competitive and attractive employment terms is an important business objective. During the 2003 pay negotiations with the Transnet, GBDA, and GDL unions, Deutsche Bahn was represented by the Employers’ Association of Mobility and Transport Service Providers (AgvMoVe) for the first time. Following intensive negotiations, a wage agreement was concluded in March 2003. It has a term of 24 months, ending in February 2005. Key elements that were successfully agreed upon included the equalization of wages between Western and Eastern Germany in three steps by September 2006 and a linear increase in standard wages by 3.2 % effective May 1, 2004, preceded by two one-time payments of € 200 each in the period from March 1, 2003 until April 30, 2004. The agreement also provides for an adjustment of apprentice pay in line with the wage increase. Following the wage negotiations, an agreement was made with the trade unions involved to set up a road map for negotiating amendments to the collective agreement that are required for structural reasons: a competitive, performance-related pay system and more flexible rules on working hours.

In September 2003, following lengthy negotiations, a collective bargaining agreement was signed for DB Systems GmbH, which took effect on January 1, 2004. This was an important milestone that will set the trend for the DB Group’s future collective wage policy. The agreement was designed along the lines of standard employment conditions in the IT sector, providing for wage elements linked to individual performance and operating results as well as flexible working hours within the framework of annual flextime accounts.

Successful Launch of 2004 Timetable

Once again, following its premiere in the previous year, all European railroads implemented their new, coordinated timetables simultaneously last December. The new 2004 European timetable was launched seamlessly on December 14, 2003. Additional improvements in service were also introduced together with the new timetable.

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. Stinnes AG had its own risk management system for the Stinnes Group and all its subsidiaries in 2002, the basics of which corresponded to the system established at the DB Group. In the year under review, Stinnes was integrated into the risk management system of the DB Group.

Active Risk Management in the DB Group

The risks inherent to the DB Group include:

- **Market risks** such as overall economic development and cyclical demand for services. The major factors influencing passenger transport – consumer spending and number of gainfully employed persons – showed a downturn in the year under review, but are forecasted to stabilize in the current financial year. Also, the market has been building up momentum due to competitive pressure and aggressive pricing strategies in air traffic, where growth was negative in the year under review and is expected to be only slightly positive in the current financial year.

  The most important factor in rail freight transport is the transportation demand for consumer products, steel and mining products, petroleum products, chemicals products, and building materials – some of which are subject to cyclical and structural fluctuations. Market risks for Stinnes AG and our Group Transport and Logistics division are increasing with growing levels of globalization and intensifying intermodal competition. The dynamic consolidation process in the logistics sector, increasing liberalization in the European transport markets, and motorway toll charges in Germany and Austria are also presenting new challenges. We are responding to these developments with extensive measures aimed at improving efficiency and reducing costs, in addition to optimizing our service offerings.

  Due to the special nature of its business, the Schenker business unit of the Stinnes group 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. Over the past several years, Stinnes has continually revised and improved its rules for granting customs guaranties. Stinnes purchased insurance 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 the claims settled so far, we assume that future claims for damages will also be covered by existing insurance policies.

We are responding to risks resulting from changes in customer demand – including the ordering organizations – and from shifts in traffic patterns with intensified market monitoring and adjustments of our service spectrum. To deal with market risks due to changes to the legal framework conditions at both the European and the domestic level, we actively represent our position in the ongoing consultations and debates.

- **Operating risks:** In its rail transport operations, the DB Group runs a networked production system of high technological complexity. We combat the risk of interruptions in service through systematic maintenance, the deployment of qualified staff, and ongoing quality assurance and process improvement measures.

In addition, the quality of our service offerings depends on the reliability of the means of production we use. Sustained quality improvements resulting from our modernization programs are clearly visible in all DB Group divisions. In response to several instances in which newly commissioned rolling stock did not meet our expectations, we established quality round table meetings with manufacturers for in-depth and constructive discussions to achieve sustained quality improvements.

- **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, and modifications that become necessary over the course of the project life cycles – which can extend over 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 such as the Berlin hub (including the Berlin Central Station), the new Nuremberg–Ingolstadt–Munich line, and the deployment of GSM-R. An incremental commissioning concept has been developed for the Berlin hub/Berlin Central Station. Analyses aimed at identifying potential risks for the new Nuremberg–Ingolstadt–Munich line and the deployment of GSM-R were completed in the year under review. Based on the findings of these analyses, we initiated measures to offset potential risks.

In general, all new projects must pass a full plan approval procedure before implementation can begin. We also improved the quality of our planning and processes through a targeted expansion of capacity among our in-house planning engineers and the separation of contractor and builder functions. As a general rule, identified risks were compensated for by introducing offsetting measures in our operating business and by setting up adequate reserves.

- **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.
- **Federal government grants for infrastructure investments:** A large portion of our infrastructure investments is financed by federal government grants. These grants are provided in accordance with Article 87e of the Basic Law of the Federal Republic of Germany, which imposes an obligation on the federal government to provide funding for such projects. The amounts of the funds to be provided in the financial years 2001 through 2003 were specified in the "Trilateral Agreement" signed by the Federal Ministry of Finance, the Federal Ministry of Transport, Building and Housing, and Deutsche Bahn AG. In March 2004, the federal government announced a reduction in funds to be provided for 2004 and the coming years. We are currently involved in intensive discussions with the federal and state governments regarding the effects of this reduction on projects under construction or planned for the future. In light of the specified amounts of government grants, we are continuing our approach of prioritizing our capital expenditures strictly on the basis of available funds. In addition, we set up reserves to compensate for declines in profit to be expected from the cancellation of ongoing projects.
- **Funding under the Regional Restructuring Act for 2004:** Pursuant to the bills on reduced subsidies passed on December 19, 2003, federal funding provided under the Regional Restructuring Act in 2004 will be cut by 2% as a non-recurring measure. This means that the states are faced with a loss of some € 140 million in funds otherwise allocated to them by the federal government in 2004. However, the majority of the states does not intend to reduce the fees payable for transport services ordered to the disadvantage of our Group companies. Negotiations with the other states concerning adjustments to or cancellations of transport service orders are underway.
- **General 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. Furthermore, we took out insurance policies to secure unavoidable risks in order to limit the financial exposure to potential damages and liability risks for the DB Group.

Effective Risk Management System

The principles underlying our 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. Any 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 central Group 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. Our Group 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).

Risk Portfolio Free of Existence-Threatening Risks

The risk management systems of the DB 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 omitted on the initiative or in the interest of the federal government or of any company associated with it."

Events After the Balance Sheet Date

Customer Charter for Passenger Transport Presented

Under the customer charter for passenger transport presented in February 2004, DB AG undertakes to introduce new rules with legal claims for compensation, effective October 1, 2004. These rules will apply on top of our current practice of goodwill payments, and may consist of tickets, overnight accommodation, taxi fares, and similar compensation.

Update on Bid Tenders and Transport Contracts

In January 2004, we were able to win the Schwarzwaldbahn (Karlsruhe–Konstanz) tender with a service volume of 3.1 million train-path km for our Regional Transport business unit. Passenger transport on the Seehas line (Engen–Konstanz) with a volume of 1.1 million train-path km offered under the same tender bid was awarded to one of our competitors. Service on the line will begin in December 2006.

Vehicle Maintenance Restructured

In 2004, heavy vehicle maintenance, a service function previously allocated to DB AG, is performed by DB Fahrzeuginstandhaltung GmbH as an independent legal entity. With a total of 6 product segments distributed among 13 facilities and works facilities, DB Fahrzeuginstandhaltung GmbH specializes in the heavy maintenance, upgrading, and repair of rail vehicles and their components. Its business is allocated to the Group Services division and accounted for in its segment breakdown as of the financial year 2004. This restructuring measure laid the foundation for positioning this business more favorably for the non-Group market. DB Fahrzeuginstandhaltung GmbH will offer its services not only to DB Group companies, but increasingly to the external rail industry and non-Group railroads as well.

Successful Divestments of Non-Core Businesses

We had already announced at the time of the Stinnes acquisition that we would divest operations which we did not consider to be core businesses of the DB Group. We already managed to sell some non-core operations of Stinnes-Interfer in the year under review. In addition, a comprehensive deal was closed in the first quarter of 2004 regarding the divestiture of the Brenntag and Interfer Steel businesses to a financial investor (Bain Capital), which had been approved by the Supervisory Board in December 2003. The proceeds from this divestiture amounted to approximately € 1.4 billion.

Reduced Level of Federal Funding for Infrastructure Investments

In March 2004, the federal government specified its budgetary position for rail infrastructure investments and communicated the projected amounts of federal government grants for the current year and the subsequent period to 2008. According to information received, federal government grants for rail infrastructure investments in the current year will amount to approximately € 3.5 billion, a decline of € 0.6 billion compared to the previous year. The funds provided by the federal government in subsequent years will also be less than anticipated. Against this backdrop, we have revised and further prioritized our capital expenditure planning.

The DB Group supports the federal government's objective of facilitating the highest possible level of rail infrastructure investments in fiscal 2004 despite the financial squeeze. Through the early repayment of interest-free loans (at net present value) granted by the federal government, the DB Group plans to make financial resources of approximately € 1 billion available to the federal government in 2004. The federal government will in turn grant these funds to Deutsche Bahn for capital expenditures in rail infrastructure. Negotiations regarding the details of this agreement were still ongoing at the time this Report went to press.

At press time, specific DB project plans were still being negotiated with the federal government. We will not be able to determine which rail infrastructure projects can actually be carried out until these negotiations have been concluded.

Strategy

Advancement of the DB Group Based on Successful “DB Campaign” Program

Since the start of the German Rail Reform in 1994, we have implemented far-reaching changes and realigned the strategic focus of the DB Group. It has always been our objective to satisfy our present and potential customers with top-quality, competitive products and to get the DB Group into shape for a future initial public offering. Our value management system implemented in 1999 is based on ROCE (Return on Capital Employed). To promote the process of change in this final phase of the German Rail Reform as well, we initiated our strategic “DB Campaign” work program. Apart from the large number of measures under our “Fokus” program, which are designed to ensure the consistent continuation of the restructuring process, the “DB Campaign” program involves a whole range of initiatives to improve performance – such as our Service and Quality program – as well as new business development efforts. Having knowingly accepted a temporary operating loss in the financial years 2001 through 2003 as a consequence of our accelerated restructuring and modernization programs, aimed in particular at our infrastructure, we expect the DB Group to get closer to its ROCE target of 10 % in the current financial year and the near future.

Our strategic focus for the future builds on the success achieved with our modernization and restructuring programs since the start of the German Rail Reform. In addition to the improved performance in our core rail business unit, the acquisition and successful integration of Stinnes enabled us to tap further growth potential and participate in the growing transport markets of road, air, and sea freight, as well as in the logistics sector. Moreover, the rail freight transport sector in general clearly benefits from Schenker’s high-performance European distribution network. With our Group Passenger Transport and Transport and Logistics divisions, we already play a leading role in the European transport market and have an excellent starting position for future advancement.

Market focus and competitiveness will remain the guidelines in developing our strategy, which has always taken the drastic changes in the transport markets since the start of the German Rail Reform into account. These continuing trends pose major challenges, but also offer excellent opportunities to advance the DB Group.

On Track to Becoming an International Mobility and Logistics Service Provider

The increasing globalization of the economy and in modern society, as well as ongoing restructuring processes in production structures and flows of materials across national borders, are resulting in increasing demand for international mobility and logistics services. This trend is also reinforced by the ongoing integration of European economies and the pending enlargement of the European Union. It is not least for this reason that positive growth rates are forecasted for the relevant mobility, transport, and logistics markets in the years to come.

At the same time, our market conditions are characterized by deregulation, intensifying competition and more extensive customer requirements. This applies particularly to the transport and logistics area, where customers increasingly expect end-to-end solutions with cross-border and intermodal services from a single source. In passenger transport, the challenge of ensuring mobility lies in the need to network various modes of transport in an intelligent manner, in order to offer integrated services to customers.

With this goal in mind, we are setting the course for the DB Group to become a leading provider of international mobility and logistics services. To this extent, we will continue to enhance performance in our core businesses, offer integrated solutions that intelligently combine the inherent strengths of various modes of transport, and establish customer-friendly interfaces with upstream and downstream value creation levels. We are also preparing ourselves for the long-term integration of rail traffic in a European transport area, where the challenge will be to leverage and maintain our strengths in Germany, our home market.

We are positioned as an integrated Group of companies and consider it a critical success factor to focus our Group portfolio on closely related business areas. The structure of our portfolio is characterized by the vertical integration of our rail transport divisions, which is an essential prerequisite for high performance, quality, and productivity. This ensures that the market pressure to which the DB Group's transport divisions are continuously exposed is shared with our infrastructure and service divisions, making them aware of the constant need to stay up-to-date. Due to the open and non-discriminatory access to the German rail infrastructure, the efficiency improvements achieved by the DB Group are equally beneficial to all railroads operating on the German rail network.

We have formulated specific strategies for our Group divisions and business units that take the particular features of the respective markets and competitive conditions into account.

Group Transport and Logistics Division: A Worldwide Leading Transport and Logistics Service Provider Through Global Networks and Logistics Competence

The international freight transport and logistics markets are clear growth markets. The road, sea, and air freight transport markets have been liberalized to a large extent and are geared to international business. In contrast, deregulation in European rail freight transport lags behind, aside from a few exceptions such as Germany. In addition, international rail transports are obstructed by historically different track gauges, power supplies, and command and control systems, in addition to statutory provisions. However, customers also demand reliability and consistent high quality across national borders in rail transport. Furthermore, they not only expect a broad range of intermodal services, but also logistics services in increasing scope.

Our new Group Transport and Logistics division offers integrated solutions that permit one-stop shopping for logistics, forwarding, and transport services on the roads, the rails, at sea, and in the air. Accordingly, rail transports are being ever more closely integrated into Stinnes' end-to-end value chains. We are striving to further extend our globally integrated transport networks in overland (road and rail), sea, and air transport, as well as to strategically enhance our logistics competencies in order to maintain and strengthen our leading market position.

The Schenker business unit already has high-quality international networks with significant growth and earnings potential in place. Once integrated into the global networks, the targeted extension of these networks and the focused enhancement of its logistics know-how in attractive markets will strengthen Schenker's position even more. All current forecasts for combined rail/road transport by our Intermodal business unit also point to steady growth. Efficient network design for combined rail/road transport, reduced production costs, and continued quality improvements will make us even more attractive to customers in this market, where we already have a strong position. We have focused our Railion business unit specifically on its carrier function. Enhancing our competitiveness in rail freight transport is an elementary strategic task. To achieve it, we will not only have to improve efficiency, but also increase our presence in European markets, either through the Railion joint venture or by entering into partnerships. To achieve our goal of becoming a major player in the European bulk product transport market, we have merged Railion's and Schenker's bulk product operations in our new Freight Logistics business unit. This move will facilitate the enhancement of our logistics competence in specific industrial sectors, helping us to become a truly European logistics service provider for bulk products.

Group Passenger Transport Division: Integrated Mobility Within Germany and Extending into the Rest of Europe — Positioning DB in the European Market

Forecasts for the European passenger transport markets point to stable growth. Deregulation of these markets is underway, but the pace of progress varies widely from country to country. In long-distance passenger transport, Germany is a clear forerunner in Europe in terms of providing free market access to the German rail infrastructure. In contrast, the number of tender offers for local rail passenger transport has been increasing throughout Europe. The traditionally closed markets for local transport services are becoming increasingly exposed to pan-European competition.

In light of this trend, strengthening and expanding DB's position as the leading mobility provider in Germany will remain a top priority for the near future. We intend to meet modern-day mobility requirements and increase customer satisfaction by improving translocal, networked transport services. In this context, DB's electronic travel information platform covering train connections throughout Europe and almost all connections in public regional and urban transport within Germany – already available at "www.bahn.de" – will be further enhanced to create a mobility information system. In addition, we will improve the harmonization of interfaces between our services in long-distance, regional, and urban transport, as well as with other modes of transport used before or after rail journeys. With the introduction of city tickets, the extended coverage of the BahnCard to become a mobility card, and our DB Car-Sharing and Call-a-Bike programs, we will offer attractive mobility services that go beyond conventional rail and bus transport. Furthermore, we will continue to extend cross-border traffic and look for opportunities to make inroads into foreign markets.

Our goal in the Long-Distance Transport unit is to ensure competitive services for fast links between German conurbations and to other European countries. To reach this goal, we will leverage the inherent advantages typical of rail transport: fast, relaxed traveling and comfortable city-to-city connections, with a lot of extra time to spend on something useful. Despite increasing competition, we are confident that we will be able to defend our market position and even grow in this DB core business. Improving our information and service quality, along with our on-time performance, will be top priorities. In addition, we will continue to enhance and extend our service and pricing concepts, along with our tools to increase customer loyalty. In international traffic, we will continue to intensify our cooperation with railroads in neighboring countries.

An important task for our Regional and Urban Transport units will be to offer affordable services, ensuring seamless mobility in cities and beyond. Deutsche Bahn is in a unique position to leverage integration of the various transport systems. We will also continue to focus on measures to further reduce our cost base and improve service and quality. We may elect to pursue growth opportunities in European local transport markets in the medium term.

At present, the German urban transport market is still highly fragmented, served primarily by municipal transport operators. However, this market is beginning to open up. With acceptable access conditions and a proper focus on profitability in urban transport, including efficiency improvements and exploitation of synergies, this market holds significant potential for the DB Group.

Group Track Infrastructure, Passenger Stations, and Services Divisions: Building on Reliable, Affordable Infrastructure and Cost-Efficient Services

Although our Group Passenger Transport and Transport and Logistics divisions generate the vast majority of our consolidated external revenues, our infrastructure divisions and service providers (managing both internal and external customers) also have a major impact on the long-term competitiveness of the DB Group. The most important means for enhancing our cost-effectiveness and the competitiveness of rail transport in general are continued cost reductions and performance improvements. All our services and pricing systems in rail transport – in particular the train-path pricing system, the facility pricing system, the station pricing system, and the traction current pricing system in conjunction with the third-party-access pricing system – are designed to be non-discriminatory.

The Group Passenger Stations division manages some 5,400 train stations, which – beyond their functions as traffic stations and calling cards of Deutsche Bahn – serve as gateways to the cities where they are located. Accordingly, we have to continue to pursue our course of station modernization as required and in keeping with the intended usage – in cooperation with the federal government and municipal authorities – and in addition our safety, cleanliness, and service programs. Based on extensive analyses, we have outlined differentiated development concepts for various types of passenger stations, which we will implement according to uniform, successively improved standards. We can also capture dormant potential by increasing rental income from commercial floor space of passenger stations at highly frequented locations. In contrast, we will continue to sell off unprofitable concourse buildings that are no longer in demand, without shutting down the stations themselves.

The competitiveness of rail transport is determined by the quality and cost of its infrastructure. Accordingly, increasing its capacities through cost-efficient modernization and eliminating bottlenecks in the existing network continue to be the primary challenges for our Group Track Infrastructure division. The pace and scope of future expansion projects will remain dependent on transport policy regulations and the level of infrastructure funding provided by the federal government.

Our Group Services division adds significant value for our customers and the integrated rail system. This division primarily shall provide rail-specific services at prices and a level of competence that non-Group competitors simply cannot achieve. The positive acceptance we have received also from non-Group customers to date proves that further growth potential exists.

Extensive Capital Expenditures to Support Further Strategic Development

The implementation of the strategic focus outlined above is reflected in our corporate planning and a multitude of specific measures. We will continue to build on our strong starting position and vigorously pursue our goals of becoming a leading provider of international mobility and logistics services in the coming years, enhancing our market success, and continuing to improve our profitability. Consequently, capital expenditures will remain at a high level in the years to come. We anticipate an ongoing focus of our capital expenditures on our Passenger Transport, Transport and Logistics, and Track Infrastructure divisions. In particular, we will continue to modernize our rolling stock, defend our market position in passenger transport, improve our transport and logistics capacities, and increase the availability of our rail network.

Outlook and Expectations for the Financial Year 2004

Economic Outlook: Only a Mild Recovery in 2004

According to recent forecasts by economic research institutes, overall economic conditions will improve in the financial year 2004. Overall, indicators continue to be more favorable at an international level than for the German economy. Compared to the same time in the previous year, forecasting uncertainty has declined thanks to the more stable geopolitical situation. The following forward-looking statements are based on the assumption that this overall trend will not be disrupted by unforeseen destabilizing effects.

- **Global economy:** After the debilitating effects of global terrorism, fears of war, and SARS made their mark in the last few years, the global economy may now be expected to continue picking up in 2004. The economic recovery in the U.S. will continue. The ongoing expansionary economic policy will boost consumer spending, disposable income, and investments. However, the increasing current account and federal government deficits could weigh on the U.S. economy. Economic momentum in Japan will diminish slightly in 2004, due to the expected appreciation of the yen and as-yet unsolved structural problems. The economies in South-East Asia should show above-average growth rates in the current year, with China increasingly becoming the growth engine.
- **Europe:** In the euro zone, the hoped-for sweeping economic recovery remains out of reach. While low interest rates and demand for exports will have positive effects, the restrictive fiscal policy resulting from consolidating government budgets will surely have restraining effects. The favorable impact of increased demand for exports will be curbed by the euro's continuing strength. Therefore, we anticipate only a slight GDP increase for the full year 2004. Growth rates in the aggregate economic output of the countries joining the EU are expected to be higher than EU average.
- **Germany:** The majority of recent forecasts point to only minor growth in 2004. Due to the – albeit moderate – global economic recovery, exports may grow more quickly than in the previous year, but will continue to suffer from the strong euro. Because of continuing weak development of improvements in employment figures and household income growth, consumer spending will remain flat, at best. Real retail sales will likely fall just short of the previous year's level.

Faced with these divergent forecasts, we feel it prudent to rely on moderate or conservative estimates in our decision making processes.

Trends in the Political and Legal Framework

Current debates on the political and legal framework and pending modifications to basic conditions are unlikely to generate any considerable momentum in the financial year 2004. In the political arena, particularly at the European level, discussions on transport market liberalization will remain on the agenda, with a focus on the differing pace of progress in providing unrestricted access to the individual national rail transport markets. Germany boasts a leading role in this context. Any progress made towards pan-European harmonization, along the lines of the open rail infrastructure access already accomplished in Germany, will be welcome. However, our hopes for quick solutions are low. Another transport policy issue is the creation of equal competitive conditions for the different modes of transport. Unfortunately, we do not expect any significant change for the better in 2004 with regard to comparable tax legislation or the charging of costs for infrastructure usage. We will continue to advocate the interests of the rail transport sector in policy debates on key transport issues.

Challenging Market Prospects for the Group Divisions

In essence, forecasts for the performance of our individual Group divisions are as follows:

- **Group Passenger Transport division:** In light of the economic outlook, our primary market of German passenger transport is expected to show some moderate growth in 2004 in total, which will be mainly due to the slightly positive trend in motorized private traffic. This trend will be supported by stable fuel prices and a slight rise in new car registrations. Germany's domestic air traffic sector will continue to grow, although at significantly lower growth rates than in 2003, due to diminishing catch-up effects. The positive impact on demand by customers of low-cost carriers is expected to continue. Public road passenger transport performance will also grow slightly, driven mainly by increases in scheduled services.

  In rail transport, declines resulting from unfavorable overall trends should ease slightly, in light of the slowing decline in employment figures and the end of falling real incomes. However, the positive impact of rising fuel prices in the year under review will not be repeated in 2004, when fuel prices should remain relatively flat. Intramodal competition is expected to intensify further in both long-distance and regional and urban transport. It seems doubtful that the heavily fragmented structures of the urban transport markets (including bus and rail) can be overcome so as to allow more alliances, tender offers, or consolidation opportunities as soon as 2004.

- **Group Transport and Logistics division:** Braced by the minor recovery in the global economy, international transport and logistics markets will continue to grow. In particular, Asia and North America will remain the regions with the highest growth rates. More than many other industries, the logistics sector will once again be the prime beneficiary of the upturn in the global economy. In particular, providers of higher-value services will experience a surge in demand. Apart from these effects, the fragmented market structure is expected to lead to continued consolidation. Although competitive pressures will not ease, transport performance growth rates are also projected to rise slightly in the German freight transport market. The earnings situation may be supported by increased output in the manufacturing sector, stable consumer spending, and export growth.

  In road freight transport (excluding local haulage), transport performance will rise once again in 2004. In 2004, as in past years, the major beneficiaries will be foreign trucks, thanks in particular to their dominating position in international transports, which have the highest growth potential, along with their more favorable cost base. In addition, the EU's enlargement towards the east in the spring of 2004 should boost road transport volumes. The curbing effect expected from road tolls for heavy trucks is unlikely to materialize in 2004.

  Inland waterway transport may be expected to experience a significant volume surge in 2004. Fresh impetus from the overall economic situation will be moderate, but the mere baseline effect after the slump in 2003 due to low water levels should be enough to drive growth. Although the inland waterway transport sector will report the highest growth rates in the current year, it will remain significantly below the performance levels reached in 2002.

  Rail freight transport will experience some minor growth in 2004 due to increases in exports and manufacturing output. In addition, the drag resulting from the continued weakness in the construction industry is projected to ease. The one-time effect from previous year's slump in inland waterway transport will produce a clearly negative baseline effect in the second half of 2004. This could be aggravated by increasing competition in both intermodal and intramodal transport. Total growth in rail freight transport in 2004 is expected to remain below the previous year's rate. Apart from focusing on internal growth and specialization, the competitive strategies pursued by the various transport providers will likely be characterized by increasing numbers of alliances and acquisitions.
- **Group Passenger Stations division:** The outlook in the rental business remains overshadowed by the repeatedly gloomy forecasts for the retail sector. Due to rising demand from non-Group railroads, a slight increase in the number of station stops is expected.

- **Group Track Infrastructure division:** Train-path usage from non-Group customers is forecasted to grow once again in the financial year 2004.

DB Group Business Performance Forecast

In the current financial year, we will vigorously pursue the course we embarked on in 2001, when we began our strategic program "DB Campaign – Restructuring, Performance, Growth". In addition to our continued restructuring efforts, business operations will be focused more sharply on improving the quality of our services and exploiting growth opportunities. We expect that the measures and programs that we have completed or are still implementing will enable us to participate in market growth in the financial year 2004. A critical milestone in reaching our goal of getting the DB Group into shape for a future initial public offering is to achieve a turnaround and be able to report an operating profit after interest in 2004, with the expectation of further gains in operating results in the years to come. In light of the forecasts and expectations regarding market, competitive, and framework conditions described above, we have set high hopes also in the financial year 2004 on the effectiveness of our internal improvement efforts.

The divestiture of the chemicals (Brenntag Group) and materials (Stinnes-Interfer) businesses, which were part of the Stinnes acquisition, will have a noticeable impact on our revenues and headcount figures. The positive earnings contributions formerly made by the divested businesses will be more than offset by the overall improvement in the DB Group's profitability.

Key financial data in € million	2003	Forecast 2004
Revenues	28,228	↓ Decline exclusively due to divestiture of non-core operations; core business growth
EBITDA, EBIT, and ROCE		↗ Further improvements
Operating income after interest	– 172	↗ Positive operating income after interest
Group Passenger Transport division	– 34	↗ Turnaround to positive segment result
Group Transport and Logistics division	288	→ Operating result stabilized
Group Passenger Stations division	38	→ Operating result stabilized
Group Track Infrastructure division	– 307	↗ Operating loss significantly reduced
Group Services division	119	→ Operating result stabilized
Gross capital expenditures	9,121	↘ Decline
Cash flow before taxes	2,600	↗ Further improvement
Interest-bearing liabilities	12,731	→ Relatively unchanged

- **Revenues:** Based on recent estimates, our core business will continue to grow in the current financial year. Because this positive trend will be partially offset by divestments of non-core businesses (Brenntag and Stinnes-Interfer), we expect revenues of more than € 23 billion in the current financial year.
- **Results:** As regards EBITDA, we will continue the trend of the previous year. This implies improvements in EBIT and the resulting ROCE. Our forecast for operating income after interest is a turnaround, with a clearly positive result. Based on the assumption that contributions from the Group divisions Transport and Logistics, Passenger Stations, and Services will remain stable, this positive trend in operating income will be driven to a large extent by a turnaround in our Group Passenger Transport division and the continued reduction in the operating loss of our Group Track Infrastructure division.
- **Employees:** As of December 31, 2004, the number of employees at the DB Group will be less than at the same date in the previous year, including adjustments for divestments of non-core businesses. This is based on the goals of our ongoing optimization plans, which are expected to more than offset the creation of new jobs through our growth program.
- **Capital expenditures and financing:** In light of low market expectations and the reduced amount of federal infrastructure funding, we will continue to maintain our strict capital expenditure discipline in the financial year 2004.
- **Procurement:** We do not expect any procurement bottlenecks in the financial year 2004. Similarly, we do not anticipate any major price fluctuations or sustained price increases or decreases in our relevant procurement markets. However, significant structural changes are underway or pending in several key supply and service sectors. This applies in particular to suppliers of rolling stock, command and control technology, and construction work. In the medium term, structural changes in some industrial sectors may lead to less favorable supply conditions, particularly price levels. Our estimates of energy cost trends are based on an assumption of stable market conditions. If the petroleum supply tightens, however, a spike in energy costs must be expected. This would not only raise DB Group's spending on energy consumption, but also be a sustained drag on the economy and, consequently, on revenues projections.

- **Environmental protection:** We will continue our dedicated environmental protection efforts in the financial year 2004. Our focus will continue to lie on reductions in greenhouse gas emissions – through lowering our energy consumption – water protection, and reducing noise emission/improving noise abatement.

As usual, our outlook is subject to the reservations set forth below:

Statements Relating to the Future
This Annual 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, its 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.

Deutsche Bahn Group does not intend or assume any obligation to update these forward-looking statements.

Employees

- Active employment policy implemented with efficient transfer processes for intra-Group employee pool
- Continued management development and qualification to improve management quality
- Systematic employee qualification policy expanded as linchpin to service quality

Attractive Personnel Policy

We operate in an intensely competitive market environment in which we have to render effective, high-quality services for our customers day in and day out. Our goal of becoming a leading international provider of mobility and logistics services places numerous demands on our employees, including technical competence, flexibility, and willingness to serve and cope with changes. Our employees' competencies – and in particular their day-to-day commitment to our customers – are major success factors for the DB Group.

Accordingly, we consider our modern, competition-focused human resources (HR) strategy and policies to be a major driver for the success of the German Rail Reform, our "DB Campaign", and the future of our Group and our employees. During the year under review, we continued to refine our HR programs and measures and implemented them throughout the Group. A special challenge was supporting the successful integration of Stinnes and launching the Group Transport and Logistics division.

Active Employment Policy through Intra-Group Employee Pool

In line with ongoing reorganization needs and increasing competitive pressure in the transport markets, we are adjusting staff levels in the framework of the Rail Employment Alliance, which we agreed upon in 1996 and have extended until the end of 2004. These adjustments were once again made in a socially acceptable manner in the year under review. Employees affected by job cuts can utilize the tools of our intra-Group employment pool, to enable transfers to available positions – and thus new career perspectives – both within and outside the Group. The terminating and the hiring Group companies, as well as the affected employees themselves, can utilize the services of the Group employment service companies. In the year under review, the activities of our three Group employment service companies were refocused and more closely intermeshed.

- **JobService:** JobService becomes especially active at the start of a rationalization measure. This cross-company platform steers the personnel transfer processes that result from rationalization measures. At regular coordination meetings at both the regional and Group level, the involved personnel managers organize the placement of surplus staff. JobService becomes active as soon as redundancies are announced. This method proved to be extremely effective in the year under review: The success rate was 71%. JobService supported a total of 3,077 employees during the year under review.

- **DB Vermittlung GmbH, qualification and outplacement:** Should JobService be unable to find new jobs for termination-protected employees whose positions have been eliminated, these employees have the option of signing an employment contract for an indefinite period with DB Vermittlung GmbH. In addition to the ultimate goal of direct job placement, DB Vermittlung GmbH helps employees find a new career focus, with targeted qualification measures intensified during the year under review. DB Vermittlung GmbH began initiating employment and integration projects in mid-2003 with which employees can qualify themselves for new responsibilities within and outside the DB Group. Some 3,600 employees had employment contracts with DB Vermittlung GmbH in the year under review, and new Group jobs could be found for 867 of them. Including the socially acceptable separation of 850 employees, DB Vermittlung's success rate was 48 %.
- **DB Zeitarbeit GmbH, personnel leasing:** DB Zeitarbeit GmbH was founded in 2001 and had contracts with around 500 employees in the year under review. The company specializes in providing temporary staff for the transportation and logistics markets, both within and outside the DB Group, with a pleasant side-effect: Some 20 % of DB Zeitarbeit employees were able to turn their temporary jobs into permanent ones. We also launched the JobStarterService, an in-house instrument for placing apprentices at the DB Group who have completed their vocational education.

Management Quality Improved Through Systematic Management Development and Qualification

In anticipation of future market challenges, we have optimized our management development program. We have coordinated and intermeshed the staffing and management planning processes in order to systematically and consistently improve staffing quality in our management functions, and therefore management quality in the Group as well. We have established Group-wide standards for filling management positions.

In the year under review, the further development and consistent implementation of this management planning process made a major contribution to revealing internal potential of middle and junior management. During Group-wide management conferences, we first discussed the skills and aptitudes of management in the divisions and then defined and implemented qualification and development measures, along with successor planning.

The opening of DB Akademie GmbH, DB's own management academy, in Potsdam in April 2003, laid the foundation for comprehensive management education. The curricula at DB Akademie are designed to impart a common understanding of leadership qualities and models, and to train managers in Group-wide leadership tools such as employee appraisal interviews and supervisor feedback. In addition to the self-assessment of leadership skills, leadership behavior plays a major role in times of change. Our participants especially welcome the ability to build networks across departmental and divisional boundaries and exchange experiences and knowledge with like-minded colleagues.

Activities and Cooperation with Schools and Universities to Attract Next Management Generation

Recruiting the best employees in order to become the best railroad for our customers is the objective of our personnel marketing function. We intensified our attempts to recruit high-potential graduates in the year under review. Targeted activities and collaborations with universities enabled us to present post-university careers at around 90 events – including excursions, technical presentations, rail-specific seminars, and job fairs. We also held "Full Steam Career", our first Group-wide recruiting event for graduates of all engineering fields, which was followed in the fall of 2003 by our "Meet Logistics" recruiting event. In total, we hired some 400 university graduates in the year under review; of these, around 130 attended a 12-month trainee program.

In light of the increasing importance of the Internet, we started eRecruiting in the year under review. The use of the Internet/Intranet lets applicants find the right jobs in the DB Group quickly, and simplifies process flows. Our online job market gives both existing employees and external applicants an overview of all vacancies, and lets them apply for one or more jobs online. Our Web site "www.bahn.de" lists all available positions – for apprenticeships, internships, junior management, or post-university – at the click of the mouse. A "profile finder" helps potential applicants find the right job.

We also began a central, Group-wide internship program in the year under review, with defined support modules during and after the internship, which will be implemented starting in 2004.

Due to our sustained demand for command and control technology engineers, we signed a cooperative agreement with Brandenburg University of Technology Cottbus. A new Bachelor's degree program in Electrical Engineering with a focus on "Command and Control Technology (CCT) for Rail Systems" started in the winter semester 2003/2004. Deutsche Bahn cooperated in developing the curriculum. As an in-service training measure, employees can also take a correspondence course in command and control technology. DB's own Academy for International Mobility offers this correspondence course in cooperation with the Private Distance-Learning College (PDLC) Darmstadt, in addition to nine other qualification courses.

Increase in Number of Apprenticeships and Further Development of Innovative Learning Methods

Our largest target group for recruiting new staff are recent secondary school graduates looking to start their primary vocational training. Because the staff we recruit from this pool will hold jobs that involve direct customer interaction and are essential for our future success, vocational training is a high priority. After reorganizing our personnel marketing concept for job training in the year 2003, we have intensified our personal contacts with our young candidates. Information about and guidance through the more than 25 careers available at Deutsche Bahn are essential for future career prospects. In addition to conventional marketing activities, we provide these critical factors through cooperation with schools and promotions such as "Today's Apprentices Recruit Tomorrow's Apprentices".

With some 8,500 apprentices in more than 25 careers, the DB Group is one of the largest vocational educators in Germany. Despite a difficult market and our restructuring goals, we significantly increased the number of apprentice positions in the year under review, by 16 % to 2,419. We also increased the number of cross-company apprenticeships from 500 to a total of 1,300. These cross-company apprenticeships give small and medium-sized companies the opportunity to send their apprentices to one of our education and training centers throughout Germany – from attending a single seminar to full career training.

Our more than 43 sites give young people modern, high-quality vocational education in business/service-oriented jobs, commercial/technical careers, rail-specific fields, and IT professions. Our vocational education is characterized by innovative training modules that promote autonomous thinking, personal responsibility, and team spirit along with a customer focus and entrepreneurial thinking. In addition to our "Junior Stations", which are run by our apprentices and supervised by their instructors, all of our apprentices participate in a five-day outdoor program in their first year aimed at reinforcing "soft skills" and methodology, to qualify our apprentices to work in teams. Our apprentices also participate in a competitive project "Bahn Apprentices Against Hate and Violence", to promote interpersonal tolerance and respect of fellow individuals.

We are exploring new learning methods in training our office communication experts: They undergo part of their in-house training online on the Internet. Our "online fitter" education platform provides a virtual classroom and direct access to self-study modules, which students can pursue on their own when and where they have time. A teletutor helps with preparation and offers guidance.

Vocational education has to provide a proper foundation for the rapidly growing demands of the modern economy. The DB Group is active in a reclassification of careers on behalf of the Federal Ministry of Education. In the process, we ensure that apprentices learn the proper skills for careers at Deutsche Bahn and make an important contribution to society as a whole in modernizing vocational training at a high market standard.

Responsibility in vocational training also means providing perspectives for the young individuals who have completed their apprenticeships at Deutsche Bahn. We owe up to this responsibility, and were able to offer positions to all high-performance apprentices who were willing to relocate and who completed their vocational training in the year under review. In this context, our new JobStarterService provided for maximum dependability for our apprentices with planning flexibility for our companies: DB Zeitarbeit GmbH matches applicants with open positions – first regionally, then pan-regionally – and is able to place a majority of our former apprentices in Group companies immediately. DB Zeitarbeit GmbH then offers permanent employment to those who cannot be placed right away, with a prospect of personnel leasing. Through these measures, some 70 % of our graduating apprentice class found jobs.

Employee Qualification: Focus on Life-Long Learning

Following the successful pilot phase of the “Engine Driver’s Competence Model” in the previous year, the implementation of our “Rail Competence Model” in various areas of the DB Group in the year under review is helping us focus more on changing demands of markets and customers. In this new model, qualification measures for a given area of responsibility are no longer defined independently of an employee’s skills. Instead, individual further education and training are focused on teaching the competencies required to carry out a specific task.

The Rail Competence Model encourages staff development based on practical requirements. To determine individual qualification and training needs, the defined target skill profile for a given area is compared with the employee’s existing abilities. Qualification measures and development potential are derived from a joint analysis of the results by employee and supervisor, ensuring the greatest possible transparency.

The Rail Competence Model systematically expands our range of measures aimed at staff qualification and development, with a primary focus on life-long, on-the-job learning. For a locomotive engineer, for example, this means a mix of learning methods consisting of classroom courses, practical training, self-study, Internet and PC-based training, and training on the simulator. As a result, traditional classroom learning will be more heavily supplemented by one-the-job and “near-the-job” measures in all occupational groups. When deciding on suitable qualification and development measures, the competence model supports supervisors with a “competency box”, which recommends specific qualification measures.

The Education Service Center (ESC), our intra-Group educational service provider, operates around 100 training sites in Germany and employs more than 600 full-time instructors to ensure competent, professional employee training. The ESC proves its performance on the market, as well: It holds more than 1,500 courses in the areas of transport economics and technology, service, entrepreneurial activity, and quality management for over 500 external customers.

Life-long learning – for employees of the DB Group, this can mean further education resulting in technical qualifications and even degree programs. Some 1,000 employees are studying various professions and academic subjects at our Group Academy for International Mobility, in cooperation with institutes of higher learning and the chambers of commerce and industry. The careers range from “certified technician” to the new Master’s in Electrical Engineering program introduced in 2003. We were also able to gain the Europäische Fernhochschule Hamburg (Euro FH) as another university partner in the year under review, expanding our range of available remote-learning courses.

Improved Options for Balancing Family and Career

We are proud of our active corporate social policies. We continued to optimize our social benefits in the year under review, based on the results of our "Employee Social Benefit Survey 2002". For example, we formed a commission in the financial year 2003 to review company social benefits, with equal numbers of representatives from the employee and employer sides, to support and promote projects by charitable institutions. We also continued to improve possibilities for balancing family and career. Our collaboration with Familienservice GmbH since the year 2002 helps our employees locate suitable child care, as well as assistance for other family members in need of care. To deal with emergencies, child care facilities were established in eight locations in the year under review. We also refined our reentry concept for job reintegration after parental leave, which we will begin implementing in 2004.

We used the European Year of People with Disabilities as an opportunity to modify our own Group guidelines for integrating the differently-abled. In the process, we optimized all internal process flows to faster and better integrate our differently-abled employees, who comprise some 3.8 % of our workforce, in our workflows.

Environmental Protection

- New “Climate Protection 2020” program aims at long-term reduction in specific CO_2 emissions by at least 15 %
- Comprehensive noise reduction measures implemented
- “Destination Nature” program expanded

New "Climate Protection 2020" Program Approved

In light of growing demand for mobility and transportation, a primary objective must be to minimize the burden on the environment caused by carbon dioxide (CO_2), a greenhouse gas, from the transportation sector. The rails offer significant advantages in this area compared to other modes of transport.

Following the early achievement of our "Energy Savings Program 2005" (ESP) – a 25 % reduction in specific CO_2 emissions by 2005 (compared to 1990 levels), which we already met in 2002 – we approved our "Climate Protection 2020" program in October 2003. This program aims to reduce CO_2 emissions by another 15 % by 2020 (compared to 2002 levels) with regard to transport performance. Under a favorable political framework, our reductions could be even higher.

In addition to optimizing our technology, we will also improve interfaces between the modes of transport, achieving even better-coordinated mobility and supply chains.

Continued Focus on Energy Efficiency

One objective of our new Climate Protection Program involves a 25 % reduction of transport performance-specific energy consumption by 2005, a goal already declared in our ESP 2005.

We are sensitizing our locomotive engineers to driving in an energy-saving manner in both passenger and freight transport. In the year under review, we continued our "SaveEnergy" program in the Group Passenger Transport division and started a similar project in freight transport. Our locomotive engineers undergo an intensive training program. In parallel, to enable the necessary energy management and controlling activities, all ICE trains and passenger transport locomotives were equipped with power meters; the retrofit of drive units in freight transport is currently underway. Compared to the previous year, we reduced specific energy consumption in long-distance passenger transport by two percent per train kilometer.

The unusually low precipitation levels in 2003 reduced the amount of traction current that could be generated from hydropower, which in turn had a negative impact on rail transport's CO_2 and primary energy balance. Nonetheless, our energy saving target for 2005 is still within reach.

Increased Consideration of Environmental Aspects in Supply Chains

The new structure of our Group Transport and Logistics division enables us to shift goods to the best possible mode of transport, including increased consideration of environmental aspects. Our task is to design transportation chains that are optimized from an environmental standpoint as well, and execute them on behalf of our customers. A major step in this direction is to clearly portray the environmental impact of various activities – not only because our customers make the major decisions, but also because customers with their own environment management systems are increasingly demanding information about the environmental impact of their shipments, as well as potential transportation alternatives.

Our “EcoTransIT” Internet tool (available at “http://www.ecotransit.org”) is our response to customer demand for a simple, yet effective instrument to measure and optimize shipments under environmental aspects. This joint project by five European railroads makes it possible to compare the environmental impact of a freight transport on the roads and on the rails for nearly any pair of cities in 17 European countries.

Comprehensive Noise Reduction Measures

We aim to reduce the noise caused by rail traffic by 50 % nationwide by 2020. Modules in our overall “quiet train” concept include noise reducing technology for our rolling stock, consistent implementation of noise prevention measures on new line constructions and expansions, and acoustic protection measures on our existing network.

The legal framework for noise abatement, which requires noise protection measures on all new line construction, expansion, and major renovation of rail lines, has been in force since 1974. In this context, we erected some 30 km of noise protection walls and implemented passive noise abatement measures in around 2,500 residential units in 2003, at a cost of nearly € 23 million.

Because there is no legal requirement for noise abatement on existing lines, the federal government approved the voluntary “Rail Noise Abatement Program” in 1998. In this framework, 31 km of noise protection walls were erected, and sound-absorbing windows (along with extra sound-proofing in attic spaces in some cases) were installed in some 7,000 residential units in the year under review. We are currently building or planning activities on 360 urban thoroughfares.

As part of our noise abatement program, Deutsche Bahn identified the most frequented urban thoroughfares, which the Federal Ministry for Transport, Building and Housing then arranged in a priority list. The second update of this list has been available since August 2002, with measures being implemented successively on a total of 934 identified sections. In the end, total requirements for noise abatement measures will likely include some 3,000 identified sections with a total length of around 3,400 km in 1,375 cities and municipalities in Germany.

A special focus in our Group Passenger Transport and Transport and Logistics divisions is on reducing noise directly at the source. In addition to the optimized noise levels of our new rolling stock in local and long-distance passenger transport, the deployment of composite brake shoes is enabling a major reduction in acoustic emissions from our freight cars as well. These new composite brake shoes, also called “C shoes”, prevent roughening of the wheel treads, which helps preserve smooth wheel surfaces and reduces rolling noise by about 9 dB. In this regard, the unrestricted, pan-European approval of C shoes is a decisive step on the way to quieter rail freight transport. All of our new freight cars purchased since 2001 are equipped with C shoes, and around 1,800 quiet freight cars are currently in use. These programs will be continued in the coming years.

Sustainability Management Established

At the start of the year under review, we commissioned a review of our sustainability performance by SAM Research AG, Zurich/Switzerland, a company specialized in analyzing the sustainability of enterprises. Based on the methodology of the Dow Jones Sustainability Index, SAM compared the DB Group with 30 other companies in the transportation sector. SAM certified our excellent competency in climate protection and energy reduction, as well as above average potential for process optimization through ecological efficiency and trust-building through principled, transparent management. We see this analysis as a stimulus to continue our targeted programs in the coming years and further expand our sustainability management.

"Destination Nature" Cooperation with Environmentalist Organizations Expanded

Our "Destination Nature" project has offered travel services and information for the discriminating ecotourist since 2001. During the year under review, the program – which was developed together with the four largest environmentalist organizations, BUND, NABU, VCD, and WWF – was expanded and extended to the year 2004. We offered 945 trains to the 15 major nature areas daily, including 109 long-distance trains and 9 night trains, and served 173 stations and stops in or around the protection areas. More information on the program is available at "www.fahrtziel-natur.de".

We report on major programs and progress in our Environmental Report, last published in 2003 (with ongoing reports on the Internet under "www.bahn.de/umwelt").

Group Divisions

Passenger Transport

- Transport performance of 69.5 billion pkm nearly matched the previous year's level despite the difficult economy
- Revised pricing system and attractive services boost customer acceptance
- Modernization programs continued in the year under review
- Operating income after interest significantly below the previous year's level

in € million		2003	2002	Change in %
Transport performance	million pkm	69,534	69,848	– 0.4
External revenues				
Long-Distance Transport		2,993	3,378	– 11.4
Regional and Urban Transport		8,164	7,801	+ 4.7
Total		**11,157**	**11,179**	– 0.2
Intra-Group revenues		542	911	– 40.5
Divisional revenues		**11,699**	**12,090**	– 3.2
Operating income after interest				
Long-Distance Transport		– 461	57	–
Regional and Urban Transport		427	168	+ 154
Total		**– 34**	**225**	–
Operating cash flow				
Long-Distance Transport		– 123	404	–
Regional and Urban Transport		976	661	+ 47.7
Total		**853**	**1,065**	– 19.9
Gross capital expenditures				
Long-Distance Transport		339	489	– 30.7
Regional and Urban Transport		965	1,358	– 28.9
Total		**1,304**	**1,847**	– 29.4
Employees as of Dec 31				
Long-Distance Transport		25,577	27,013	– 5.3
Regional and Urban Transport		42,603	44,024	– 3.2
Total		**68,180**	**71,037**	– 4.0

Passenger Transport Performance Remained Steady Despite Tough Economic Environment

The additional achievements made with our modernization programs in the financial year 2003, particularly our successful performance in regional and urban transport, were overshadowed by the difficult market environment in the long-distance transport segment. The overall transport performance of this Group division remained steady, however, despite weak demand. Rail transport performance of 69.5 billion pkm fell short of the previous year's level by a mere 0.4 %. In light of declines in the overall passenger transport market of 2.4 %, however, our rail activities actually made a slight gain in market share. Notwithstanding the improvements in regional and urban transport, the unfavorable trend in long-distance transport is reflected in a decline in revenues to € 11,157 million and an operating loss after interest of € 34 million. The price cuts we implemented in December 2002, along with the deeper discounts we introduced with our revised pricing system on August 1, 2003 resulted in decreasing specific revenues that we were not able to offset by stronger volume growth.

Despite our extensive cost-saving efforts, the revenue trend also affected operating income after interest. DB Regio, in contrast, showed positive development and was able to report increases in its transport performance, revenues, and operating income despite intensifying competition. Several important, long-term transport contracts were finalized. This success was supported by the positive business performance of DB Regio's subsidiaries, in particular in the bus transport segment, and several contracts awarded under tender bids. A special highlight was the commissioning of the new RhineNeckar S-Bahn (metro) on December 14, 2003.

Apart from continuing our capital expenditure and modernization programs, efforts to improve our competitiveness also focused heavily on rigorous cost saving measures. Having focused our transport services on market demand in prior years, we moved on to improving our process flows and cost structures.

A major issue in the year under review was the fact that trends in the on-time performance of our scheduled transport services were failing to meet customers' expectations. This situation was particularly acute at the start of the year. Analyses indicated the need to improve our process flows, as well as the operational reliability of our rolling stock. In response, we initiated a series of internal measures and significantly intensified communications with our suppliers.

We launched our new "Traveler Information System" (RIS) with the aim of informing our customers more quickly than in the past about available connections or other travel options, especially in the event of delays or service interruptions. This new system will be rolled out nationwide in the coming years. Some 1,700 head conductors aboard ICE and InterCity trains, as well as 5,000 customer care staff in local transport, will be equipped with mobile data terminals (communicators) enabling them to provide up-to-date information to passengers.

The Group Passenger Transport division employed a staff of 68,180 as of December 31, 2003. The decline of 4.0 % compared to the previous year's figure was the result of continued productivity improvements and adjustments in service.

Strategic Reorganization of the Group Passenger Transport Division

With the objective of improving our market focus, we will continue to realign and reorganize our Group Passenger Transport division, which is to be led by the holding company DB Personenverkehr GmbH. A lean divisional management will run the independent business units Long-Distance Transport, Regional Transport, and Urban Transport. The former DB Reise & Touristik AG, which is allocated to the Long-Distance Transport unit, was renamed DB Fernverkehr AG in November 2003. The activities of DB Regio AG and our rail companies operating at a regional level will be consolidated in the Regional Transport unit, while the Urban Transport unit under the newly established DB Stadtverkehr GmbH will manage our bus transport operations, as well as the activities of metro operators S-Bahn Berlin GmbH and

S-Bahn Hamburg GmbH. These repositioning measures are aimed specifically at capturing the opportunities in urban transport that are expected to arise from the nascent opening of municipal transport markets.

The Long-Distance Transport (DB Fernverkehr) and Regional and Urban Transport (DB Regio) units in detail:

Long-Distance Transport Unit (DB Fernverkehr)

Rail transport performance in the long-distance segment dropped to 31.6 billion pkm, a 4.7 % decline compared to the previous year's figure. The decline was due to a number of factors. Aside from structural effects, such as intentional shifts of commuter traffic to regional transport operations and the impact of the shorter travel route along the new Cologne–Rhine/Main line, the main factor in the decline in transport performance was soft market demand resulting from the weak overall economy and the poor employment situation. This was aggravated by the aggressive entry of low-cost airlines into the market, which also put pressure on the airfares of established carriers. Nonetheless, other decisive factors were our own shortcomings in on-time performance of scheduled services early in the year and a lack of customer acceptance for the new pricing system introduced in December 2002. In response to these problems, we implemented extensive measures to improve on-time performance and revised several controversial issues of the new pricing system to meet customer expectations. The revised structure implemented August 1, 2003 includes the "Sparpreis" (cheaper fares due to early booking and linked to specific trains) and the "BahnCard" (offering general discount), which helped us to recoup past losses. In the core business of DB Fernverkehr AG – scheduled daytime services with our major train product segments ICE and EC/IC – we expanded ICE services significantly. The reallocation of the International Night Trains unit to DB AutoZug GmbH with economic effect from January 1, 2003 marked the completion of the spin-out of our car carrier and night train operations.

As a result of the trends in demand and the fare reductions described above, external revenues of the Long-Distance Transport unit dropped to € 2,993 million, an 11.4 % decline from the previous year's level. This was mainly due to the business performance of DB Fernverkehr AG, which reported a 12.3 % drop in external revenues to € 2,390 million. The ICE product segment was able to increase its contribution to revenues by 7 % to € 1,483 million compared to the previous year's figure, accounting for 62 % of external revenues. Due to adjustments in service, the external revenues generated by the EC/IC and IR/D train product segments decreased by 34 % to € 812 million. External revenues of affiliated companies also declined significantly compared to the previous year, by 7.4 % to € 604 million, mainly due to the weak economy and increased competition from low-cost airlines. The decrease in the external revenues of MITROPA AG by € 44 million to € 119 million in the year under review reflects primarily the transfer of the "On-Train Service" business unit to DB Fernverkehr AG, effective July 1, 2002. As a result of the completed transfer of the international night passenger transport business to DB AutoZug GmbH, this company was able to increase its external revenues by 5.8 % over last year's level, to € 220 million.

With an operating loss after interest of € 461 million (previous year: € + 57 million), the Long-Distance Transport unit suffered a drastic decline. The key factor for this development was the significant drop in revenues. Operating cash flow of the Long-Distance Transport unit amounted to € –123 million (previous year: € + 404 million).

Focus of Capital Expenditures Remains on Rolling Stock

At € 339 million, gross capital expenditures of the Long-Distance Transport unit were 30.7 % below the previous year's value. The major focus of our capital expenditures was the rejuvenation of the vehicle fleet of DB Fernverkehr AG, in which we invested € 309 million. Apart from the procurement of additional ICE trains, we continued our comprehensive modernization programs for locomotive-hauled passenger trains. As in previous years, additions to and the new construction of maintenance facilities were another major focus of capital expenditures.

Demand-Driven Adjustments of Scheduled Services and Fares

With the new timetable for 2004, which was synchronized with other railroads at a pan-European level and took effect on December 14, 2003, we optimized our long-distance transport network and further adjusted our services to meet customer demand even better. We also integrated additional cities into the ICE network at high service frequencies, such as hourly service between Frankfurt/Main and Dresden and through services to North Rhine-Westphalia along the new Cologne–Rhine/Main line. The "Saxony–Franconia" main transport line, which had been closed since the severe flooding in August 2002, reopened to traffic in mid-December 2003 following major reconstruction work. The Dresden–Chemnitz–Nuremberg (Munich) line runs again on this route on a 2-hour basic interval timetable.

Increased Customer Focus Through Modern Service

Giving our customers easy access to our passenger transport services remains a key objective. Available options include the DB ReiseZentren (travel centers), independent travel agencies or agencies with a DB license, automatic ticketing machines, the Internet, our call centers, our DB Abo-Centers (subscriber centers), and tickets sold on trains. Customers can purchase their tickets from their homes, at a station, a travel agency, or on the train. Our major focus is on expanding ticket sales via the Internet, which has met with very positive customer response. With an average of 800,000 visitors each day, DB's website at "www.bahn.de" is the most frequently accessed travel portal in Europe. It is used to obtain timetable information, buy tickets online, and increasingly to book hotel accommodation, rental cars, and last-minute offers.

The introduction of the CityTicket function was also well received. It lets BahnCard holders buy tickets at reduced fares and includes the free use of local public transport in over 40 cities. Similarly popular proved the launch of the Bahn-Tix system, in which customers can order tickets at a travel agency and print them out at our long-distance ticketing machines.

Under our bahn.comfort program, which we introduced already in 2002, we offer exclusive services to frequent travelers. For instance, we have established separate counters at 25 DB travel centers and a special service hotline for our bahn.comfort customers. Furthermore, they have free access to all DB lounges and are entitled to use any of the seats reserved for bahn.comfort customers on long-distance trains.

By introducing our bahn.corporate program for corporate clients, we have made advantages available to small and medium-sized enterprises that were previously only available to our key accounts. With our new corporate client program, tickets can be booked online and printed out on the clients' own PCs.

Regional and Urban Transport Units (DB Regio)

Despite the weak economic environment and generally negative market trends, DB Regio was able to increase its rail transport performance by 3.4 % compared to the previous year's level, to 37.9 billion pkm. At 9.2 billion pkm, our bus companies achieved 1.2 % growth.

Positive Revenue and Income Trends

External revenues increased by 4.7 % compared to the previous year, to € 8,164 million. Service orders from the federal states rose by € 90 million to € 4,519 million by December 31, 2003, a 2.0 % increase over the previous year. This was achieved through growing service volumes, new service contracts signed, and non-periodic payments received. The primary beneficiary was our Regional Transport unit, which, in addition to this positive development, was able to boost its ticketing revenues to € 2,118 million, surpassing the previous year's figure by € 181 million. This rise in ticketing revenues is mainly due to improvements in combined transport operations, as well as non-periodic effects, which accounted for over half the increase. The Urban Transport unit accounted for € 1,737 million of external revenues. Service orders from the states amounted to € 291 million and metro ticketing revenues totaled € 363 million. Bus company revenues showed remarkably favorable development, increasing by 4.5 % to € 1,122 million. We also continued to pursue our growth strategy in the bus transport segment through investments in small and medium-sized bus companies. For instance, we acquired majority shareholdings in Strausberger Verkehrsgesellschaft mbH, Seelower Verkehrsgesellschaft mbH, and Regionalverkehr Dresden GmbH.

Driven by the positive trend in external revenues and the successful implementation of our cost-saving programs, operating income after interest increased to € 427 million. At € 976 million, operating cash flow was 47.7 % above the previous year's figure.

Modernization of the Vehicle Fleet Continued

Gross capital expenditures decreased by 28.9 % in comparison to the previous year to € 965 million – of which € 733 million was spent on new rolling stock. Our capital expenditures on rolling stock were focused on procuring modern rail cars and double-deck coaches. Within our program for modernizing the S-Bahn (metro) fleets, we commissioned a total of 151 new S-Bahn multiple units in the Berlin, Munich, Rhineland, and Rhine-Main metropolitan areas. The procurement of 40 electric rail cars (to launch the 1st stage of the metro network in the Rhine-Neckar region), 38 rail cars with tilting technology, 65 lightweight-construction rail cars, and 54 double-deck coaches were further steps forward in the necessary modernization of our fleet. Other capital expenditures included the purchase of new busses, the modernization of our light maintenance facilities, and the expansion of our vending technology.

Intensifying Competition in Local Transport

Competitive pressure in regional transport continued to increase in 2003. The volume of tender offers increased again, totaling 18.3 million train-path km in the year under review. This shows that Germany, together with Great Britain and Sweden, holds a leading position in the ongoing liberalization of transport markets.

The ratio of transport contracts awarded to DB under tender offers was about 22 %, which represented a continued decline. One of the contracts we failed to win was the Hamburg – Westerland tender. However, we came out successful in the Northern Black Forest and the Eastern Saxony tenders.

Overall, we have won 51 % of all transport volumes tendered since 1996 (81.0 million train-path km).

Successful Conclusion of Transport Contracts

In the year under review, we succeeded in concluding long-term transport contracts with a total volume equivalent to about 60 % of our current annual transport capacity. The contracts entered into relate to services provided in Schleswig-Holstein, Hamburg, Mecklenburg-Western Pomerania, Baden-Wuerttemberg, Saxony-Anhalt, Brandenburg, large regions of Lower Saxony and Hesse, Rhineland-Palatinate, and parts of Saxony.

Services Made Even More Customer-Friendly — First Fare Adjustment Since 2001

Introduced together with the new 2004 timetable in December 2003, the "State-Wide Single-Traveler Ticket" in Lower Saxony and Bavaria, as well the extension of its validity to weekends in Bavaria, was in the best interests of our customers. An additional discount on "Happy Weekend Tickets" purchased from ticketing machines was introduced to further promote this attractive vending method.

With the introduction of the new timetable, we adjusted our fares for the first time since 2001, raising them by 4.1%.

Our Focus for 2004: Continued Restructuring Program, Regaining Customers, and Capturing Growth Opportunities

The reorganization of our Group Passenger Transport division that will take effect in 2004 will result in an even closer focus of its business units on the respective market demands. Our strength as a provider of integrated mobility solutions throughout the country is reinforced by the comprehensive market presence of our Group Passenger Transport division. This gives us significant leverage to defend our strong competitive position in long-distance and regional transport and increase our market share in urban transport.

After a difficult financial year 2003 for our long-distance operations, we expect the adjustments made to our pricing system and the quality improvements in our transport services to result in a continued upward trend in revenues, as was already apparent in the 2nd half of 2003. In order to achieve further growth, we will develop differentiated service and pricing concepts tailored specifically to the demands of different customer groups.

Our Regional Transport unit will continue its efforts to win additional transport contracts. Ongoing improvements in our service performance and cost-saving programs are critical factors that will enable us to submit bids with attractive quality and price levels to the Federal states, as well as increase ridership.

Our Urban Transport unit is focused on both internal and external growth, which we intend to achieve by winning tendered contracts, acquiring companies matching our portfolio, and cooperating with municipal transport authorities.

In light of the expected slight economic upturn projected for 2004, combined with the successful implementation of our initiated measures, we expect our operating income after interest to improve despite increasing competitive pressures.

Transport and Logistics

- New organizational approach well received by the market
- Significant increase in revenues driven by operating activities and first-time, full-year Stinnes consolidation
- Rail freight transport performance boosted, market share stabilized
- Operating income after interest surged to € 288 million

in € million		2003	2002	Change in %
Rail transport performance	million tkm	79,864	77,981	+ 2.4
External revenues				
Schenker		6,856	1,613[1]	–
Railion[2]		2,987	2,974	+ 0.4
Freight Logistics[2]		895	536	+ 67.0
Intermodal[2]		42	9	–
Other		24	189	– 87.3
Total		**10,804**	**5,321**	+ 103
Intra-Group revenues		682	571	+ 19.4
Divisional revenues		**11,486**	**5,892**	+ 94.9
Operating income after interest				
Schenker		153	20[1]	–
Railion[2]		169	33	–
Freight Logistics[2]		16	13	+ 23.1
Intermodal[2]		2	1	+ 100
Other		– 52	– 1	–
Total		**288**	**66**	–
Operating cash flow				
Schenker		289	52[1]	–
Railion[2]		371	193	+ 92.2
Freight Logistics[2]		23	16	+ 43.8
Intermodal[2]		3	2	+ 50.0
Other		– 49	1	–
Total		**637**	**264**	+ 141
Gross capital expenditures				
Schenker		126	35[1]	–
Railion[2]		381	360	+ 5.8
Freight Logistics[2]		27	7	–
Intermodal[2]		3	4	– 25.0
Other		0	0	–
Total		**537**	**406**	+ 32.3
Employees as of Dec 31		60,973	59,111	+ 3.2

[1] Only 4th quarter 2002 included
[2] Freight Logistics and Intermodal include only the data of the relevant holdings. All other data are reported under Railion.

New Group Division off to a Good Start

In the year under review, we focused strongly on the integration of Stinnes and the successful launch of our new Group Transport and Logistics division, which was formed through the merger of our previous Group Freight Transport division with the Stinnes/Schenker businesses.

Revenues, earnings, and capital expenditures all increased significantly compared to the previous year. In essence, this was due to the fact that Stinnes, especially the business activities of the Schenker group, had only been included in the DB Group's 2002 consolidated financial statements on a pro-rata basis, with its 4th quarter figures.

Nonetheless, despite the weak economy, all business units – including Schenker – were able to increase their revenues and earnings adjusted like-for-like on a full-year basis. Both the successful implementation of our operational programs and positive first-time consolidation effects contributed to these improvements.

The new organizational structure of the Group division is designed with a clear focus on customers. Stinnes AG is the lead company for all of the DB Group's freight transport and logistics services. The Group division is organized in 4 business units. The Schenker unit continues to operate as an international logistics provider, primarily in the field of packaged goods, while the Freight Logistics unit is focused on the European bulk products segment. We have consolidated the combined rail/road transport segment for operators and forwarders in the Intermodal business unit. The Railion business unit operates as our European rail carrier.

The former DB Cargo AG was renamed Railion Deutschland AG as part of this restructuring process. Together with Railion Danmark A/S and Railion Nederland N.V., it offers its services to all customers at comparable terms as a non-discriminatory rail carrier. The sales activities previously handled by DB Cargo were reallocated to Stinnes AG as its Freight Logistics and Intermodal units. Their contributions to revenues and earnings are still reported under the Railion business unit. Accordingly, the data reported under Freight Logistics and Intermodal merely reflect that of the respective affiliated companies.

Schenker Business Unit

Despite an economy fraught with uncertainty and a weak economic environment in the year under review, Schenker was able to increase its revenues. A comparison with the results of the 4th quarter 2002, which were included in the 2002 consolidated financial statements, shows an increase of € 5,243 million to € 6,856 million. On a pro-forma basis for the full year 2002, the increase amounted to € 631 million (+10.1 %). However, a pro-forma year-on-year comparison also has to take into account that the French Joyau Group, which was acquired in late 2002, was consolidated for the first time in the year under review. Adjusted for this acquisition, the increase in revenues still amounted to 5.6 %, despite unfavorable exchange rate movements of the U.S. dollar and other currencies pegged to it.

At € 153 million, operating income after interest clearly beat the 4th quarter amount of € 20 included in the 2002 consolidated financial statements, as well as a pro-forma comparison year-on-year (2002: € 106 million). After adjusting for the effects of the Stinnes stock option program on the previous year's operating income and the first-time inclusion of Joyau, the resulting increase is still approx. 8.0 %.

Gross capital expenditures of € 126 million were clearly higher than the 4th quarter amount included in the previous year, but come out as slightly less in a pro-forma comparison year-on-year.

The following segment breakdown of the Schenker business unit is based on pro-forma, full-year data.

Positive Revenue Trend in European Overland Transport Segment

Volumes in European overland transports remained depressed in the year under review, due to the halting recovery of the overall economy in both the Nordic countries and continental Europe. As a result, downward pressure on prices and margins persisted throughout Europe, particularly in Schenker's core markets. Overall, Schenker managed to hold its ground despite these adverse market conditions. Segment revenues increased by 12 % to € 3,969 million in 2003, or by 3.9 % adjusted for the Joyau acquisition.

Schenker's international subsidiaries further cemented their already strong market positions in continental Europe and Scandinavia, which were particularly affected by the halting economic recovery. Total revenue growth in the central region (Germany, Belgium, the Netherlands, Switzerland) amounted to 5.3 %. To a large extent, this favorable trend was driven by the acquisition of Anterist and Schneider, effective July 1, 2002. In the Nordic region (Sweden, Denmark, Norway, Great Britain, Ireland), revenues increased by 3.5 %. The western region (France, Spain, Portugal, Italy) was able to improve its market position significantly as a result of the Joyau acquisition. Revenues more than doubled in this region compared to the previous year; adjusted for the Joyau acquisition, the increase still amounted to 6.7 %.

In Eastern Europe, Schenker benefited from its presence in all the important countries there, as well as from the constant expansion of its network over the past few years. Revenues in the eastern region (Finland, Poland, the Baltic states, Russia) increased 3.2 %. The south-eastern region (Austria, the Czech Republic, Greece, Hungary, Turkey, Slovakia) also contributed to the overall positive trend, with revenue growth of 5.1 %.

At € 99 million, operating income after interest in the European overland transport segment surpassed the previous year's figure (€ 71 million) by far. Adjusted for the effects of the Stinnes stock option program (as reflected in the previous year's figure) and the Joyau acquisition, operating income after interest still showed an increase of € 12 million (+17.1 %) over the previous year. Disciplined cost management led to improved earnings, in particular in the eastern and central regions. While the western region received a major boost from the Joyau acquisition, the increased revenues from operating activities were partially offset by non-recurrent acquisition charges. The earnings trend in the northern region was depressed by the reorganization of Schenker's subsidiaries in the United Kingdom.

Due to increased volumes in bicycle, automotive, and electrical accessories, the Intertec group, which is allocated to the European overland transport segment, achieved a 4.3 % rise in revenues over the previous year, boosting operating income after interest significantly above the 2002 level as well.

Air and Sea Freight Segment Revenues and Income Relatively Unchanged Despite Difficult Economy

Volumes in the air freight market benefited in the financial year 2003 from the positive economic trends in Asia on one hand, while they suffered from the war in Iraq on the other hand. Export volumes from Asia increased significantly compared to the previous year, especially exports to Europe. In export relations with North America, volumes declined slightly on both the transatlantic and the transpacific routes. By contrast, exports from Europe to Asia showed strong volume growth. In light of the political situation and the weak U.S. dollar, only minor increases were achieved in export relations with North America.

In the sea freight market, we were able to participate in the positive market trend. The key drivers of market growth were Asian exports to both Europe and North America, as well as a surge in transports within Asia. This growth is mainly attributable to the increasing trend in the consumer goods industry of offshoring production to Asia.

At € 2,891 million, revenues in the air and sea freight segment were slightly higher than the previous year's level. Total operating income after interest improved by 13.3 % to € 73 million. Adjusted for the effects of the Stinnes stock option program reflected in the previous year's figure, operating income after interest remained relatively unchanged compared to 2002. In total, business performance was positive in the year under review, especially in our sea freight operations. This development was partially offset by a decline in industrial fair business, caused primarily by SARS, as well as the weak U.S. dollar and other currencies directly linked to it.

In Europe, the positive business performance of several of our smaller international subsidiaries could not compensate for the negative trends in Germany, which resulted mainly from the downturn in industrial fair transports.

We achieved marked improvement in income in the North American region. In addition to expanding its air and sea freight business, our U.S. subsidiary was able to fortify its position in the North American logistics market significantly through the acquisition of CCW Inc., Greensboro, North Carolina. The positive trends in the region were also boosted by increasing volumes at our Canadian subsidiary.

In the Asia-Pacific region, the strong overall economic uptrend gave a major boost to the income situation of our regional subsidiaries. However, due to the depreciation of U.S. dollar-pegged currencies against the euro, this trend is not fully reflected in our consolidated financial statements, which are denominated in euros. In addition, figures reported for the previous year included non-recurring income from the FIFA World Cup in South Korea and Japan.

Railion Business Unit

The significant increases in transport performance, revenues, and operating income achieved despite the weak economic environment demonstrate that the Railion business unit is on track towards improving its competitiveness. Despite intensifying intramodal competition, external revenues grew from € 2,974 million to € 2,987 million (+0.4 %), borne by improvements at Railion Deutschland (+0.2 % to € 2,764 million) and Railion Nederland (+5.0 % to € 148 million), while Railion Danmark reported a decline (–1.3 % to € 74 million) due to changes in traffic patterns. In contrast, all Railion companies made a positive contribution to the increase in transport performance, by 2.4 % to 79,864 million tkm: Railion Deutschland: +2.1 % to 73,950 million tkm; Railion Nederland: +9.1 % to 4,026 million tkm; and Railion Danmark: +1.1 % to 1,888 million tkm. While conventional rail transport performance showed only a minor increase, the positive trend in combined rail/road transport of the last few years continued, increasing by 7.9 %. Once again, we were able to significantly improve one of our key measures, the ratio of transport performance to train kilometers, by +5.9 % to 391.4 tons per train in the year under review. This improvement resulted from more closely integrated production processes among the Railion companies, as well as the first positive results from Railion Intermodal Traction GmbH (RIT), Mainz, which was founded on April 1, 2003. This company concentrates on optimizing production of block trains in combined rail/road transport. The improvement in our performance measures was given a boost by last summer's long heat wave and the resulting period of low river water levels, which resulted in a temporary shift of transports from barges to the rails. Another positive influence was the rebound in raw steel production in the fourth quarter of 2003, which rose to 44.84 million t for the full year, nearly reaching the previous year's level of 45.01 million t (–0.4 %).

Continued Improvements in Operating Income After Interest and Cash Flow

Operating income after interest increased from € 33 million to € 169 million. This was due to improvements in operations and supported by the fact that we had set up provisions covering part of the implementation of the rationalization and restructuring programs of Railion Deutschland AG without affecting operating income. In addition, we were able to release provisions that were no longer required in their full amounts, following the streamlining of our operating processes and achievement of further rationalization effects. In contrast, restructuring charges lead to a drop in operating income after interest at Railion Nederland and Railion Danmark.

Operating cash flow increased from € 193 million to € 371 million.

Implementation of Modernization and Capital Expenditure Programs Continued

Gross capital expenditures amounted to € 381 million, a 5.8 % increase over the previous year. Efforts aimed at modernizing our vehicle fleet primarily involved the acquisition of modern, efficient electric locomotives that can be deployed in different European countries, along with freight cars tailored to specific customer needs.

Freight Logistics (Subsidiaries)

Despite tough conditions in many markets, our subsidiaries in the Freight Logistics unit were able to increase their revenues by 67.0 % to € 895 million. Adjusted for the companies of the Railog and the Hangartner groups, which were consolidated for the first time, revenue growth amounted to 14.6 %.

The trend in operating income after interest, which increased by € 3 million to € 16 million, was in keeping with the upward trend in revenues.

Intermodal (Subsidiaries)

Combined rail/road transport continues to be a growth market, particularly in international traffic. However, due to the delayed introduction of road tolls for heavy trucks in Germany, projected growth rates, especially for domestic transports, could not be fully achieved.

The sharp increase in revenues of our subsidiaries in the Intermodal business unit, from € 9 million to € 42 million, was mainly driven by positive revenue trends at BTS Kombiwaggon GmbH – which was newly formed from the merger of BTS Buss-Trans Container Service GmbH with Kombiwaggon GmbH – and Container Transport Services B.V. (Conliner), Rotterdam/Netherlands, a captive transport provider serving the western seaports, which was newly founded in the previous year.

In addition, we intensified our cooperation with Kombiverkehr GmbH & Co. KG and made further progress in refocusing Transfracht Internationale Gesellschaft für kombinierten Güterverkehr mbH.

Operating income after interest was € 2 million, slightly higher than in the previous year.

Outlook for the Financial Year 2004:
Further Earnings Improvements Expected as Economy Rebounds

In our opinion, the year 2004 will be characterized by slightly improved expectations of economic growth and the successful implementation of our ongoing operational initiatives.

Schenker's operating business should benefit from the economic upswing, which is projected to be more pronounced outside of Germany than within. We will focus on the continued expansion of our global logistics activities. Key growth areas are expected to be Schenker Industrial Logistics GmbH, a joint venture we formed with Siemens AG, where integration initiatives are underway, and the area of logistics services for the automotive industry, which was reallocated to the Schenker business unit from the former DB Cargo. In addition, Schenker expects double-digit increases in volumes, primarily in the fast-growing markets of Asia and Eastern Europe. In international business, the elimination of customs transactions in the context of the EU's eastward enlargement, as well as potential further declines of the U.S. dollar, may have negative impacts on income.

The Railion business unit already piloted and implemented its Production Redesign Project (PRP) in 2003, paving the way for a lean, two-tier production system featuring increased empowerment at the local tier. The primary challenge in the current year will be to implement the redesigned production flows without interrupting ongoing operations. Another focus will be on stabilizing our business performance at the high levels achieved in the year under review. In light of the forecasts for improved capacity utilization, combined with the initiatives described above, operating income after interest is expected to stabilize. Increased electricity rates may have a negative impact on the Railion business unit, while continued uncertainties regarding the delayed introduction of road tolls for heavy trucks could affect the Schenker business unit.

On the whole, we believe that our Group Transport and Logistics division is well positioned for 2004 and expect upward trends in revenues and a stable profit margin.

Passenger Stations

- External revenues increased by 10.2 % to € 249 million
- Modernization programs continued in year under review; gross capital expenditures expanded to the record value of € 630 million
- Restructuring programs continued with further improvements in productivity
- Return to profitability with operating income after interest of € 38 million

in € million	2003	2002	Change in %
External revenues	249	226	+ 10.2
Intra-Group revenues	603	584	+ 3.3
Divisional revenues	**852**	**810**	+ 5.2
Operating income after interest	38	– 218	–
Operating cash flow	140	– 120	–
Gross capital expenditures	630	591	+ 6.6
Employees as of Dec 31	5,074	5,309	– 4.4

Increased Station Appeal and Return to Profitability

In addition to their role as entry portals to Deutsche Bahn's trains, our stations are also hubs that link the different modes of transport, marketplaces, and calling cards for the cities and regions they serve. 4.1 billion people pass through our stations each year – 1.7 billion travelers and 2.4 billion other visitors. Accordingly, our objective is to create stations that are both pleasing to the eye and – especially at highly frequented locations – which offer a wide range of services. Our modernization program is aimed at turning more and more stations into calling cards for Deutsche Bahn and the cities where they are located. We consider travel-related services and shopping variety to be equally important criteria as appearance, quality of time spent, facilities upkeep, and perception of personal safety at our stations.

Our Traffic Station and Rental business units control our more than 5,400 stations and around 2,400 concourse buildings. The Traffic Station business unit is responsible for technical operations, making sure that traffic and traveler streams flow smoothly. The Rental business unit manages all commercial space at our stations and concourse buildings and, as such, serves all our station visitors, not just travelers.

In the year under review, we increased our gross capital expenditures for further modernization of our stations by another 6.6 % compared to the previous year's value, to € 630 million, a new record value for this Group division.

Significant Jump in Profits

Divisional revenues of the Group Passenger Stations division grew by 5.2 % to € 852 million in the year under review. Of this sum, € 603 million, or some 71% of revenues, was earned in transactions with other DB Group companies. The Traffic Station unit contributed around € 592 million (previous year: € 564 million) to this total – primarily station fees paid by the Group Passenger Transport division. Additional revenues resulted from travel-related services, such as luggage lockers and station parking.

Revenues in the Rental business unit amounted to € 259 million, an increase of 4.9 % over the previous year's figure. We were also able to increase the external rental of commercially viable space: Some 762,000 square meters of commercial space were rented out to external customers, with a focus on optimization in terms of business and tenant type in our real estate holdings, which further improved profitability per unit area.

External revenues generated from non-Group railroads, tenants, and leaseholders rose by 10.2 % to € 249 million.

Our profitability trend was positive in the year under review, despite the stagnating economy – the result of our rigorous restructuring efforts and consistent execution of a new, decentralized management structure that helped us implement numerous initiatives quickly and effectively. These measures enabled us to return to profit after a loss in the previous year, which had also been impacted by one-time effects. Our operating income after interest of € 38 million is an improvement of € 256 million over the previous year.

This positive trend also turned around operating cash flow, from € –120 million to € 140 million.

Thanks to additional rationalization measures and productivity increases, headcount as of December 31, 2003 was 5,074, 4.4 % below the previous year's figure.

First Traffic Center Commissioned

Service, safety, and cleanliness are decisive factors in making our stations more enjoyable. We continued to improve all three factors in the year under review with our "3-S" concept, with a special emphasis on service. In the last six months of 2003, we deployed over 500 additional staff to the 30 largest stations in Germany. They provide timetable information and support our Service Teams. In total, over 3,300 service employees look after travelers and station visitors at our 3-S Centers, Service Points, and on the platforms. The 3-S Centers play the central role: They coordinate the activities of service staff and cleaning and security personnel.

As a further development of our 25 technical 3-S Centers throughout Germany, we commissioned a prototype of our "Station Traffic Center" in 2003 at the Aachen Central Station. The prototype center combines our previously separate IT systems from the 3-S program, our Traveler Information System ("RIS"), and technical facility management in a new technical platform. 23 stations are connected to this Traffic Center. Emergency call boxes and intercom-equipped information points give our customers instant contact to staff at the Station Transportation Center.

We have also intensified our activities in the safety area: We continued to roll out our "Safe Station" project, in cooperation with our trusted partners in municipal government, police, and the Federal Border Guard.

As surveys show, our customers welcome our efforts at improving station cleanliness. We will launch a comprehensive promotion campaign against vandalism and intentional littering in 2004, and plan to combat both resolutely, in cooperation with our security services and the local authorities.

Our "Smoke-Free Station" project, which we initially introduced at 63 stations throughout Germany, was well received by our customers, and also cut down on cleaning requirements as a pleasant side-effect. As a result, we are continuing to expand the project's scope, and hope to have some 150 smoke-free stations by the end of 2004.

We also increased the number of station managers from 79 to 93 in the year under review, in order to strengthen our presence across the region.

Intensified Activities to Capture Leasing Potential

We have developed new concepts for our Rental business unit. We plan to build glass pavilions at larger stations to serve as additional retail space, and testing of a prototype in Halle (Saxony-Anhalt) began in the year under review. We have also deployed some 100 mobile vending stands to various stations throughout Germany.

Many smaller stations also harbor dormant rental revenue potential, due to their central locations in their urban environments. We are opening DB ServiceStores on a franchise basis at these stations, as another contribution to more customer friendliness. With ticket sales and a wide range of products aimed at traveler needs, passengers can get the products and services that are standard at larger stations. We opened ten additional DB ServiceStores in the year under review, bringing the grand total to more than 60 by the end of the year.

At the same time, however, we no longer need all our existing concourse buildings for customer care, which is why we are putting smaller buildings up for sale. Our preferred partners in such transactions are the municipalities. In North Rhine-Westphalia, for example, we concluded an outline agreement with the state government in 2003. Under this agreement, we transferred a package of 75 concourse buildings to “Forum Bahnflächen” (Station Space Forum), a municipal association that will sell the buildings preferentially to the municipalities, with the backing of the State of North-Rhine Westphalia.

More Progress in Executing Construction Projects

Our construction projects are dispersed throughout Germany. Several major projects are currently underway in Berlin (Central Station and other stations affected by future transport structures). Numerous construction projects – such as the central stations in Mainz, Halle, and Rostock (the latter was a joint project with local streetcar operator Rostocker Straßenbahn AG), the airport station Leipzig/Halle, and the stations of the RhineNeckar metro (S-Bahn) – were completed successfully in the year under review. In addition, we also remodeled the stations in Wiesbaden and Lübeck and renovated the hall roofs of the central stations in Dresden, Kiel, and Frankfurt/Main. In the current financial year 2004, our new Cologne/Bonn airport station will link the ninth German airport directly to our rail network.

Our construction projects also pursue architectural and technical innovations. Our Frankfurt/Main long-distance airport station, for example, won the “Special Station Prize” for excellence in transportation architecture by the Renault Traffic Design Award organization.

Immediate Action Program with Further Success in Year Under Review

In the year under review, we made more progress with the immediate action program we launched in 2002. In the framework of this program, we are modernizing small and mid-sized stations across the board. We upgraded an additional 300 stations in the year under review, increasing the number of modernized stations to 600 in total. Our renovation approach ("Reno-Vier-Methode") boosts attractiveness at low costs. A new, uniform signposting system helps people find their way around the stations.

Station Development Concept – An Invitation to Talks with the Public Sector

We count on cooperation with the states and municipalities in our station modernization program, as characterized by our shared interest in attractive stations due to their special importance for the overall townscape. In 2003, we presented a station development concept with the objective of upgrading as many stations as possible in the long term. We have already signed outline agreements with several states in this context, including Brandenburg and Lower Saxony.

Outlook for the Financial Year 2004: Further Improvements to Station Attractiveness

We will continue to implement our programs for station modernization and expansion in the current financial year, a goal that will once again be associated with large capital expenditures. In light of the numerous overlapping interests described above, we hold station conferences – with participants from the federal government, the states, cities, and municipalities – to discuss appropriate future development, including appropriate financing options, and develop sustainable concepts together. Our goal remains to modernize the large stations, while refurbishing the small and medium-sized stations. In addition to these modernization programs, we will intensify our efforts aimed at improving profitability in the current financial year.

Track Infrastructure

- Repeated significant growth in train path usage by non-Group railroads
- Renovation of existing network and modernization measures continued on schedule in the year under review
- Adjusted gross capital expenditures increased again
- Operating income after interest improved significantly as expected, to € –307 million

in € million		2003	2002	Change in %
Operating performance – rail	million train-path km	988.2	967.4	+ 2.2
of which non-Group	million train-path km	70.4	50.2	+ 40.2
External revenues		273	203	+ 34.5
Intra-Group revenues		3,501	3,754	– 6.7
Divisional revenues		**3,774**	**3,957**	– 4.6
Operating income after interest		– 307	– 529	+ 42.0
Operating cash flow		585	326	+ 79.4
Gross capital expenditures		6,254	6,754	– 7.4
Employees as of Dec 31		44,080	49,556	– 11.1

Track Infrastructure – Modernization Process Continued

The essential foundation to well-oiled rail operations is a powerful infrastructure. Our Group company DB Netz AG is responsible for safe, reliable operations on a rail network of more than 35,000 km in length, which is used by up to 36,000 trains each day. In addition to offering customer-focused train-path usage services and drawing up the timetables, maintenance and upkeep are among the primary tasks of this Group division. DB Netz AG is also responsible for the strategic development of the rail infrastructure through capital expenditures in the existing network, new construction, and expansion.

Our rail network is available to all railroads on a non-discriminatory basis – as specified in EU Directive 91/440. Some 300 railroad companies – including over 280 non-Group companies – now use our products and services, and these figures are on the rise. Our services are billed based on a transparent, single-tier train-path pricing system.

We continued the renovation and modernization of our rail network in the year under review. Our main objective remains upgrading its quality and – where the market demands it – its capacity. We continued at our record construction pace. We also made major gains in the upgrade of our command and control technology.

Result Far Above Previous Year

At € 273 million, external revenues were 34.5 % higher than in the previous year, in line with increased demand for services by non-Group railroads. The major factor was a jump in train path revenues of € 91 million to a total of € 245 million, which is also reflected in the increase in non-Group train-path kilometers (train-path km) of 20.2 million train-path km (+ 40.2 %) to 70.4 million train-path km.

Divisional revenues declined by 4.6 % compared to the previous year, to € 3,774 million. This resulted mainly from the elimination of DB Verkehrsbau Logistik GmbH revenues from the reported DB Netz AG results, due to its integration into DB Netz AG. Train-path revenues, in contrast, increased by € 280 million due to the introduction of regional factors and stronger demand for services. Operating income after interest improved by € 222 million compared to the previous year, to € – 307 million. We also had to make up for the elimination of special burden compensation (€ 230 million), which was reported in the previous year's figures. Adjusted for the special burden compensation we were able to improve operating income after interest by € 451 million compared to the previous year. This emphasizes the restructuring progress and efficiency improvements achieved by the Group Track Infrastructure division in financial 2003. Due to the above factors, operating cash flow improved by € 259 million to € 585 million.

In addition to productivity increases, the reduction in headcount by 5,476 employees to 44,080 was due in part to the transfer of personnel to DB ProjektBau on January 1, 2003.

Capital Expenditures Remain at Record Level

The year 2003 was once again characterized by exhaustive capital expenditure activities. Thanks to an expansion in our planning capacities in the previous years, we were able to maintain a high pace of capital expenditures. This was made possible in particular through funds provided by the federal government, which we drew upon fully in the year under review.

Our capital expenditure and modernization activities are creating the foundation for winning a large portion of forecasted traffic growth for the rails.

Gross capital expenditures amounted to € 6,254 million in 2003. Adjusting the previous year's value for the effect of the acquisition of rail telecommunications facilities from Arcor (in the amount of € 940 million), this represents an increase of over 7.6 %. The emphasis of our capital expenditures remained on improving the quality of the existing rail infrastructure: Some 65 % of the total were invested in the existing network. Some 35 % of our capital expenditures were directed at new and expansion projects, in accordance with the federal government's rail requirements planning ("Bedarfsplan Schiene"). Like in the previous year, the largest project by far was the Nuremberg – Ingolstadt – Munich line, with expenditures of € 640 million. The second-largest construction project was the expansion of the Hamburg – Berlin line, with expenditures of € 248 million.

With an average of up to 800 construction sites each day, we maintained last year's high level. In some cases, the lines to be renovated even had to be shut down completely during construction work, with a clear benefit: a reduction in construction time and costs. We implemented a major line construction site on the left-hand Rhine route between Cologne and Mainz. In record time, after just eight weeks in

October and November, the rail infrastructure along this route was completely renovated over a length of 177 km. The renovation significantly increased the availability of this high-traffic line. The total costs of this project amounted to some € 80 million.

Hamburg–Berlin Line Expanded over 90 Kilometers

During a total shutdown of the Hamburg–Berlin line between Wittenberge and Nauen, we upgraded the tracks on this section for higher speeds. Between July 14 and September 27, 2003, we shifted some 425,000 cubic meters of earth and 59,000 cubic meters of gravel along the 90 km section of track. We also renovated switches, power supply, and control technology. The work between Hamburg and Berlin is continuing: By the end of 2004, the entire line will be built for speeds of 230 km/h, to reduce travel times between Berlin and Hamburg to an estimated 93 minutes. ICE trains currently take two hours and eight minutes. We are investing some € 650 million in the expansion, to adjust rails and track bed, eliminate 54 rail crossings, and modify the platforms at 21 stations.

One Section of the Paris–Eastern France–Southwestern Germany Line Completed

The 9 km section between Neustadt/Weinstraße and Limburgerhof opened in the fall of the year under review is part of the 128 km rail link from Saarbrücken to Ludwigshafen. It represents the northern branch of the future fast rail link between Paris, Eastern France, and Southwestern Germany (PES). PES North runs from Paris via Lorraine and Saarbrücken to Mannheim; with its continuation to Berlin via Frankfurt, it will be an important East-West corridor. Completion of construction work on the "Schifferstadt Curve" was an important milestone in the year under review. Capital expenditures for this project totaled around € 140 million.

New Tunnel Eliminates Bottleneck at Mainz Central Station

The completion of the new Mainz tunnel is another step towards modernizing the Mainz rail hub. The structure was opened in early October 2003, after five years of construction. With a length of 1,297 meters, the structure now connects the Mainz Central Station with Mainz South. Over 400 trains travel through the tunnel in each direction every workday. With the new tunnel, four tracks are now available for train traffic, a doubling of capacity.

Groundbreaking for Major Project “Neu-Ulm 21”

We held the symbolic groundbreaking for our major project “Neu-Ulm 21” in September of the year under review. This major project, which we are carrying out jointly with government agencies at the federal, state, and city levels, is aimed at completely redesigning the Neu-Ulm station premises – implementing a noteworthy, forward-looking concept in both transportation policy and urban architecture.

The project encompasses some 4 km of tracks that connect a Danube bridge to the Pfuhl district of Neu-Ulm to the east, some 2.2 km of track towards Kempten, and a total area of around 18 hectares to the south of the city center. Total capital expenditures for the “Neu-Ulm 21” project are slated at around € 159 million, and completion is scheduled for early 2008.

New Construction Section Opened Between Paderborn and Kassel

In mid-December 2003, the new “Egge crossing” line between Neuenheerse and Willebadessen, on the main Paderborn–Kassel line and some 13 km in length, was commissioned. We invested some € 180 million in the Egge crossing, including the 2,880-meter Egge tunnel. The new line, construction of which began in August 1997, bypasses an area exposed to landslides from Paderborn Hill. The track commissioning included the reopening of the Willebadessen Station.

Lines for Improved Local Transport Services Completed

The commissioning of the RhineNeckar S-Bahn (metro), which was part of the new timetable introduced on December 14, 2003, has significantly expanded transport services in the region. A multiple-track expansion between Mannheim and Ludwigshafen and a second Rhine bridge grew the rail network capacity, the essential prerequisite for this local transport project. Total capital expenditure amounted to around € 450 million.

We also completed the Rodgau S-Bahn (metro) during the year under review. We spent a total of € 310 million on building and fully electrifying two new lines with a total length of 29.9 km. The southwestern area of the Rhine-Main region is now integrated in the Rhine-Main metro system.

Investments in infrastructure totaling some € 250 million have improved metro services in North Rhine-Westphalia: Starting December 14, 2003, metro trains can now travel between Bottrop and Wuppertal every twenty minutes, thanks to additional electrification over 33 km of tracks.

A Year After the Floods – All Major Lines Recommissioned

Following massive destruction of our tracks and facilities in Saxony and Saxony-Anhalt caused by flooding in the summer of 2002, the most important lines have now been recommissioned, thanks to a tremendous effort by all those involved. The tracks from Dresden to Leipzig and to Prague were reopened after just a few weeks – some of which were based on temporary measures that are gradually being replaced by more permanent solutions. The Saxony–Franconia line, which connects the Saxon capital of Dresden with Chemnitz and Nuremberg, was much harder hit: The Weißeritz river destroyed major parts of the rail facilities between Tharandt and Dresden. They have now been reconstructed over 15 km in length, at a cost of some € 100 million, and were equipped to handle speeds of up to 160 km/h at the same time. As a result, the line between Dresden-Old City and Klingenberg-Colmnitz has been fully available again since the introduction of the new timetable in December 2003. In recent months, we have continued work on bridges, overhead lines, and track superstructure.

Modernization of Command and Control Technology – Electronic Interlockings

The modernization of our interlocking technology is creating the foundation for concentrating all the monitoring and control needs of rail operations in just a few major facilities. The electronic interlockings are one of the prerequisites for efficient, cost-effective operations management, as this modern technology makes it possible to set points and signals over much larger areas. Their servicing is much less staff-intensive than the technology they are replacing. Another major benefit of modern interlocking technology is that their maintenance is much less error-prone and cost-intensive. In 2003, DB Netz AG continued to roll out our multiyear investment program for electronic interlockings. We commissioned 34 modern interlockings with total capital expenditures of some € 500 million – more than in any other year in the past.

GSM-R Rollout Continues on Schedule

The Global System for Mobile Communications-Rail (GSM-R) currently being implemented is one of the largest digital cellular networks for rail operations in the world. In the first phase starting in 2005, this innovative technology will begin replacing the traditional functions of rail operation broadcasting, starting with ground-train radio links. This will be followed by other applications, such as radio links for marshalling yards and general voice services.

As a single pan-European standard for mobile voice and data radio communications, GSM-R is promoting technological integration among European rail networks. The capital expenditures for our GSM-R network of initially some 24,500 km are exemplary in Europe and will enable a wide range of applications for operations control, diagnostics, and service systems.

The installation of the GSM-R network continued largely on schedule during the year 2003. The new Cologne–Rhine/Main line already has used this new technology exclusively for over a year now, and the new line of the Rodgau metro was commissioned with GSM-R on schedule in December.

RailNetEurope – Europe's Rail Networks Continue to Integrate

In the fall of 2002, 19 rail infrastructure operators from 17 European countries signed the RailNetEurope (RNE) cooperation agreement. Three new members – Eurotunnel, Scandlines AG, and the Greek national railroad – joined during the year under review.

The infrastructure operators organized in RailNetEurope now offer "freight freeway" links from all major European sea ports to inland terminals – ranging from Narvik north of the Arctic Circle to just before Sicily in the far South.

The partners' declared objective is to both simplify and stimulate cross-border rail traffic in Europe. In addition to reducing operational and administrative barriers, the partners are also establishing shared marketing and sales structures. Ultimately, RailNetEurope aims to represent a single European rail infrastructure provider vis-à-vis the railroads, making a decisive contribution towards improving the competitiveness of the rail sector in general.

Transshipping Stations Gain in Importance as Interface Between Rails and Roads

Combined rail/road transport is becoming increasingly important. In this context, we implemented numerous capital expenditure projects at DB Netz AG's 33 transshipping stations. Expansion work on the Frankfurt East transshipping station began in the summer of 2003. The facilities will be expanded to include a craneway with four train-length tracks of 670 meters each by the fall of 2004. Two new cranes are also planned. The total costs of this construction project will amount to some € 26 million.

We also commissioned the first expansion phase of the terminal at the Basle/Weil am Rhein transshipping station. Starting in October 2002, we extended the terminal's six existing loading tracks by 200 meters each and installed a third crane. A total of € 4 million was spent on getting the transshipping station in shape for the future.

Outlook for the Financial Year 2004: Consistent Continuation of Our Modernization Course and Further Increase in Income

The Group Track Infrastructure division's restructuring process continued in the year under review, still based on our "Netz 21" strategy, which is aimed at increasing the capacity and performance of our network in order to cope with growing volumes in passenger and freight traffic. "Netz 21" segregates faster-moving from slower services, improving overall traffic flow.

In the medium term, our foremost target is modernizing our existing network: Our comprehensive capital expenditure programs are aimed at releasing its dormant potential. In a second package, DB Netz AG is investing in modern command and control technology, which will increase network flexibility and availability. The modernization of our interlocking technology, for example, continues to play a major role. Lastly, our third capital expenditures package is aimed at supplementing the infrastructure where it will have the greatest effects on the network: eliminating bottlenecks and reducing journey times further.

Our overreaching goal is to maintain, operate, and enhance a high-value rail network that is focused on the needs of our customers. Our development in the financial year 2004 will be characterized by the continuation of our capital expenditures and modernization programs. In light of the federal government's announcement in March 2004 that infrastructure funding would be reduced in the current financial year, we are currently engaged in intensive talks with the federal and state governments with regard to the effects on projects under construction or in planning. As a result, total capital expenditures for the current financial year will be below the previous year's level.

We expect further growth in external revenues, as well as an improvement in our operating income after interest, following the implementation of our programs to boost efficiency.

Services

- Further structural optimization of Group service functions
- External revenues significantly increased by 18.3 % to € 259 million
- Decline in operating income after interest

in € million	2003	2002	Change in %
External revenues	259	219	+ 18.3
Intra-Group revenues	4,077	3,727	+ 9.4
Divisional revenues	**4,336**	**3,946**	+ 9.9
Operating income after interest	119	141	– 15.6
Operating cash flow	373	412	– 9.5
Gross capital expenditures	245	369	– 33.6
Employees as of Dec 31	31,613	29,839	+ 5.9

Service Functions Reorganized

The continued reorganization of the service area within our corporate structure, which resulted in the establishment of our new Group Services division in early July 2003, was designed to further enhance our service quality and improve our cost structures. Based on the sound, efficient organization of services, this new Group division will make a key contribution to the DB Group's objective of becoming a leading provider of mobility and logistics services. The new division is responsible for a wide range of services – including station security, cleanliness, and services; telecommunications and telematics; fleet management; real estate management; energy management; IT management; and vehicle maintenance – all of which are tailored specifically to market demands. The Group Services division encompasses the existing business units DB Energie (energy), DB Fuhrpark (fleet management), DB Services, DB Systems (IT), DB Telematik (telematics), and the Heavy Vehicle Maintenance unit. The latter was spun out as of January 2004 to form DB Fahrzeuginstandhaltung GmbH and remained a legally dependent profit center of DB AG until the end of the year under review. Accordingly, vehicle maintenance operations are not included in the following key financial data reported for the year under review, whereas the key figures of DB Projektbau (building projects), a directly managed Group business unit, were included for the final time to facilitate comparability with the previous year's data.

Due to the supporting nature of its functions, the Group Services division deals primarily with intra-Group customers.

Clear Business Unit Structure

- **DB Energy:** DB Energie GmbH, where we have consolidated all our energy management functions, is a prime example of the capabilities of our business units. The DB Energy unit is a single-source provider of energy management solutions along the entire energy supply chain for both intra-Group and non-Group customers. It handles every process involved, from energy purchasing to energy distribution logistics – through its own infrastructure – along with expert consulting services by qualified energy specialists. In addition to rail operators, its customers include more than 13,000 commercial customers doing business at passenger stations, as well as industrial companies and public authorities.

- **DB Fleet Management group:** The DB Fleet Management group is responsible for the DB Group's fleet of some 20,000 motor vehicles, and also operates Germany's third-largest car rental service. The business unit's activities also encompass the innovative "Call-a-Bike" program, custom-tailored fleet management consulting services, lease financing for both short-term and long-term transactions, and a first-class chauffeur service.
- **DB Services group:** The following companies are allocated to the DB Services group: DB Services Immobilien (real estate), DB Services Technische Dienste (engineering), and our six regional DB Services companies. Their operations cover a wide range of real estate and transport-related services. Key responsibilities of the DB Services group are ensuring security, cleanliness, and services at passenger stations and on trains. In day-to-day transport operations, DB Services is also responsible for staging the required rolling stock, providing individual logistics services, ensuring safety and cleanliness of the track infrastructure, and providing shunting services. Apart from rendering services to intra-Group customers, the DB Services group has also proven successful in marketing its activities to non-Group customers.
- **DB Systems:** With its consulting and VAR functions, DB Systems is an efficient, full-service IT company. Its activities include the development and operation of leading-edge information technology systems with end-to-end solutions for the entire supply and mobility chains, making it a one-stop IT provider. The company currently supports more than 250 live IT systems and, in the desktop services area, over 50,000 office workstations.
- **DB Telematics:** The DB Telematics unit develops high-quality telecommunications solutions for both Group and non-Group companies in the transport and logistics sectors. Its core business includes the management and marketing of transmission lines; the planning, installation, and operation of telecommunications systems; and operation and marketing of fixed-network and cellular radio services. DB Telematics also provides a wide range of telecommunication-related services. In the mobile communication area, the unit plans, installs, and operates the DB Group's GSM-R network, the platform to unify the previous stand-alone systems and improve European interoperability at the same time.
- **DB Vehicle Maintenance:** The Heavy Vehicle Maintenance unit ensures that DB's rolling stock continues to operate smoothly and reliably. The unit's cross-plant organizational structures and capacity consolidation benefit both intra-Group and

non-Group customers. Our maintenance facilities have certified quality management and EH & S systems in place, and have been awarded all necessary permits for handling the specific rail vehicles. Efficient workflows ensure short vehicle turnaround times for maintenance processes. As a result, these facilities are a major factor in supporting their customers' economic effectiveness.

- **DB ProjektBau GmbH:** Since January 1, 2003, all our capacities for infrastructure planning, project management, and construction supervision have been consolidated within the DB ProjektBau (project construction) unit. As a specialized service provider, the DB ProjektBau unit assumes the planning, project management, and construction supervision responsibilities of our rail infrastructure companies, enabling them to focus on their contractor functions.

Revenues Surpass Previous Year's Figures

In the year under review, divisional revenues of the Group Service division increased by 9.9 % to € 4,336 million (previous year: € 3,946 million). We achieved positive growth in our activities with both Group and non-Group customers. Nonetheless, our customer structure continues to be dominated by intra-Group customers, which accounted for € 4,077 million or 94 % of revenues. DB Energie GmbH made the biggest contribution to overall divisional revenues, with revenues of € 1,456 million (previous year: € 1,328 million; +9.6 %), followed by the DB Services group with € 765 million (previous year: € 835 million; – 8.4 %) and DB Systems GmbH with € 691 million (previous year: € 723 million; – 4.4 %). The increase of € 390 million compared to the previous year is primarily attributable to the DB ProjektBau unit.

Overall external revenues of € 259 million (previous year: € 219 million) were generated mainly by DB Energie GmbH (€ 85 million), the DB Services group (€ 55 million), the DB ProjektBau group (€ 51 million), and DB Telematik GmbH (€ 38 million). The € 40 million increase compared to the previous year is largely due to DB Energie GmbH, which was able to further expand its external business through higher revenues from non-Group railroads, optimization of its electricity portfolio (which is bound by long-term contracts) through selling excess energy on the market, and increasing its range of energy services provided. At € 28 million, the DB Fleet Management unit was able to more than double its external revenues.

Operating income after interest amounted to € 119 million, € 22 million below the previous year's figure. While the DB ProjektBau unit managed to improve its profit by € 40 million to € 33 million (previous year: € – 7 million, due to start-up costs), the € 3 million reported by the DB Services group represented a major drop (previous year: € 58 million). This was due primarily to lags in capacity cutbacks made necessary by the decline in sales volumes with intra-Group customers.

Operating cash flow decreased by 9.5 % to € 373 million (previous year: € 412 million), due in part to decreased depreciation charges. Gross capital expenditures amounted to € 245 million during the year under review (previous year: € 369 million).

Headcount as of December 31, 2003 was 31,613, a significant increase over the previous year's figure (as of December 31, 2002: 29,839). This was mainly due to the transfer of DB Netz AG and DB Station & Service staff to DB ProjektBau, effective January 1, 2003.

Outlook: Continued Restructuring Efforts in the Financial Year 2004

In the current financial year, we will continue to implement comprehensive measures to enhance our competencies in the service sector and our competitiveness. A major focus will be the continued optimization of our regional structures throughout Germany. We intend to improve coordination and optimize processes in order to boost capacity utilization and efficiency, which in turn will lead to a more stable contribution margin. As the technology spheres of DB Telematik and DB Systems increasingly overlap, we aim to further consolidate the expertise and capacities of these two companies, which will remain legally independent entities for the time being but operate under a shared, superordinate management structure as of January 1, 2004.

Rolling Stock


Großbothen
DB
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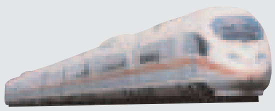
Long-Distance Passenger Transport

ICE 3 (EMU)



The ICE 3 is an eight-segment high-speed multiple unit. The under-floor, individual axle drive powers 50 % of the wheelsets, thus enabling high acceleration. The 13 trains of the multi-current version have no problems adapting to the power systems in other countries and can therefore be employed in cross-border services to the Netherlands, Belgium, and (in future) France.

Manufacturer	Consortium leaders: Siemens, Bombardier Transportation
Commissioning	from 2000
Output	8,000 kW
Max. speed	330 km/h
Seats	441 (BR 403)/431 (BR 406)
Stock as of Dec. 31, 2003	50 (37/13)

ICE 2 (EMU)

The ICE 2 is an eight-segment high-speed multiple unit consisting of 6 intermediate cars, a power car, and a driving trailer (half-set). Within minutes, two half-sets can be coupled together or split up by means of an automatic coupler. Seat demand can be adapted to passenger volumes thanks to the possibility of forming the multiple units into short-length trainsets. Air-sprung bogies provide for extremely smooth running.

Manufacturer	Consortium leaders: Siemens, Adtranz
Commissioning	1996
Output	4,800 kW
Max. speed	280 km/h
Seats	368
Stock as of Dec. 31, 2003	44

ICE 1 (EMU)

The ICE 1 – progenitor of the ICE family – first ran in service on June 2, 1991. The ICE 1 set standards not only in respect of the technical components – such as drive, braking, control and diagnostics technology – but also for a particularly high level of travel comfort. This high-speed train consists of two power cars and up to 14 intermediate cars. Some of the ICE 1 power trains also run on SBB (to Zurich and Interlaken, for example) and ÖBB (to Vienna and Innsbruck, for example) routes.

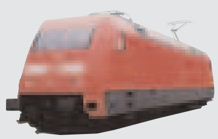
Manufacturer	Consortium: ABB, AEG, Siemens, Thyssen-Henschel, Krupp, Kraus Maffei
Commissioning	1991
Output	9,600 kW
Max. speed	280 km/h
Seats	649 (with 12 intermediate cars)
Stock as of Dec. 31, 2003	59

ICE T (EMU)

The ICE T is a five- or seven-segment electric multiple unit (EMU). The hydraulic tilting technology enables an up to 30 % higher curving speed and – depending on the profile of the line – a reduction in journey times of between 10 and 20 %. The “under-floor” configuration of the drive technology results in more usable space for the passengers who – through glass partitions at the ends of the train – can enjoy an unobstructed view into the cockpit and onto the line. Some of the BR 415 series trains also run on SBB lines (to Zurich and Chur, for example).

Manufacturer	Consortium leaders: Bombardier, DUEWAG, FIAT, Siemens
Commissioning	from 1999
Output	3,000 kW (BR 415)/ 4,000 kW (BR 411)
Max. speed	230 km/h
Seats	250/357
Stock as of Dec. 31, 2003	43 (11/32)

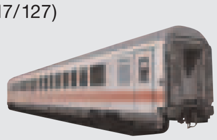
BR 101 (electric locomotive)



The BR 101 series is a four-axled general-purpose locomotive for fast IC traffic. Thanks to its push-pull capability, it is suitable for employment in passenger transport services with driving trailers. To increase its utilization, it is also used for freight transport during the night.

Manufacturer	Adtranz
Commissioning	1997 – 1999
Output	6,400 kW
Max. speed	220 km/h
Stock as of Dec. 31, 2003	145

IC Saloon Passenger Car
(Apmz 117/127)



The Apmz 117/127 saloon passenger cars are cars from the Apmz 122 series that have been reconfigured as pressure-sealed, air-conditioned 1st-class saloon cars for EC/IC traffic. The cars possess a single saloon with a total of 51 seats, 39 in rowed seating and 12 face-to-face. A digital cellular card telephone (D network) is located at one end of the car.

Manufacturer	Waggon Union Berlin
Commissioning	1975/76
Max. speed	200 km/h
Seats	51
Stock as of Dec. 31, 2003	34

EMU = electric multiple unit
DMU = diesel multiple unit

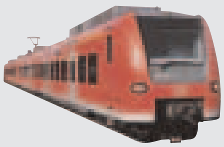
Regional and Urban Transport

BR 146 (electric locomotive)

The BR 146 series is a further development of the BR 145 series, which was developed for freight transport. The installation of newly-developed bogies enables speeds of up to 160 km/h. To allow its use in local transport, the locomotive has been equipped with push-pull train control, selective side-door opening control and a passenger information system. To date, the series has been deployed in Rhineland-Palatinate, North Rhine-Westphalia, and Lower Saxony.

Manufacturer	Bombardier Transportation
Commissioning	2001 – 2008
Output	4,200 kW
Max. speed	160 km/h
Stock as of Dec. 31, 2003	39

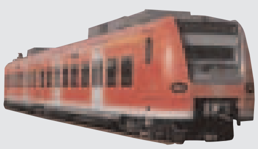
BR 424 (EMU)



The electric multiple units (EMUs) of the BR 424 series were procured for the new metro (S-Bahn) system in the Greater Hanover area. The main difference between the four-segment EMU and the nearly identical BR 425 series is the boarding area, which is custom-tailored to the Hanover metro network. Folding stairs on the passenger doors bridge the gap between the vehicle and the platform edge. The BR 424 series has two sets of double doors in each car segment. Each EMU contains a 1st-class compartment and a vacuum lavatory. Multiple traction of up to four EMUs is possible.

Manufacturer	Bombardier Transportation/ Siemens
Commissioning	2000 – 2001
Output	2,350 kW
Max. speed	140 km/h
Seats/standing room	206/246
Stock as of Dec. 31, 2003	40

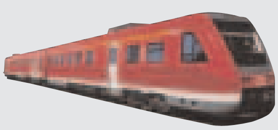
BR 425 (EMU)



The BR 425 series belongs to the EMU family, along with the 424 and 426 series. These fast, four-segment EMUs are equipped with wheelchair lift ramps and are also suitable for low platform heights. The first EMUs of the 425 series were deployed in 2001, for regional transport in the Ruhr region, Trier, Magdeburg, and the corresponding surroundings. Additional EMUs are slated for rollout in the Rhine-Main area, Bavaria, and Baden-Wuerttemberg, where a slightly modified model – the BR 425.2 series – will be deployed in the new RhineNeckar metro (S-Bahn) network.

Manufacturer	Bombardier Transportation/ Siemens
Commissioning	2000 – 2004
Output	2,350 kW
Max. speed	160 km/h
Seats/standing room	206/228
Stock as of Dec. 31, 2003	155

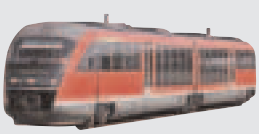
BR 612 (DMU)



The two-segment, air-conditioned DMUs of the BR 612 series are an innovative further development of the BR 611 series with regard to fittings and design. Convenience of access and egress have been enhanced by relocating the entrance/exit doors towards the middle of the vehicle. These DMUs are in service on lines in the low mountains of Thuringia, Rhineland-Palatinate, Saxony, Saxony-Anhalt, Baden-Wuerttemberg, and Bavaria, as well as in North Rhine-Westphalia, the Saarland, and Lower Saxony.

Manufacturer	Bombardier Transportation
Commissioning	2000 – 2003
Output	2 x 560 kW
Max. speed	160 km/h
Seats	146
Stock as of Dec. 31, 2003	173

BR 642 (DMU)



The two-segment, air-conditioned DMU of the BR 642 series is a further development from the Desiro family. Its comfortable internal furnishings – with primarily face-to-face seating, wheelchair-accessible lavatory, and large multipurpose area – meet customer demands in a cost-effective manner. The DMU can be retrofitted with extendible boarding ramps. The vehicle has a light aluminum frame with an integrated GRP head. It is used primarily for regional transport on lines in Thuringia, Saxony, Mecklenburg-West Pomerania, and Bavaria.

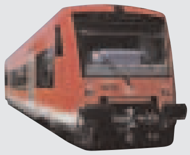
Manufacturer	Siemens
Commissioning	2000 – 2003
Output	2 x 275 kW
Max. speed	120 km/h
Seats/standing room	121/90
Stock as of Dec. 31, 2003	230

BR 643 "Talent" (DMU)

The three-segment, air-conditioned BR 643.0 series DMU originates from the Talent family. Three wide doors provide convenient access and egress. The vehicle has two multi-purpose areas, a separate 1st-class area and a wheelchair-accessible lavatory. The BR 643 series is in service predominantly on lines in Baden-Wuerttemberg, Rhineland-Palatinate, North Rhine-Westphalia, and in the Saarland. A two-segment version, the BR 643.2 series, has been operated in the Rhineland since 2003.

Manufacturer	Bombardier Transportation
Commissioning	2000 – 2004
Output	2 x 315 kW
Max. speed	120 km/h
Seats	137
Stock as of Dec. 31, 2003	99

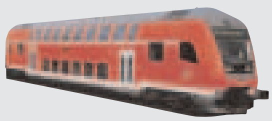
BR 650 (diesel rail car)



The one-segment, air-conditioned BR 650 series diesel rail car is in service especially on the lines of DB ZugBus Alb-Bodensee and in association with vehicles of the State Railways in Baden-Wuerttemberg. The above-average acceleration provided by the powerful engine and effective drive configuration (all axles are powered) are a great advantage in the mountainous areas in which the rail car is in service.

Manufacturer	Bombardier Transportation
Commissioning	1999 – 2005
Output	2 x 257 kW
Max. speed	120 km/h
Seats	71
Stock as of Dec. 31, 2003	53

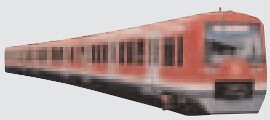
Double-deck driving trailer
(DBpbzf 763.5 and 763.6)



The DBpbzf 763.5 and 763.6 double-deck driving trailers are employed in RegionalExpress train services in the regional areas of Berlin/Brandenburg, Rhine-Main and on the Rhineland and Westphalia regional railways. They are air-conditioned and wheelchair accessible and feature a modern passenger information system. The lower deck offers a multi-purpose area with spaces for wheelchairs, bicycles and strollers, as well as a wheelchair-accessible lavatory.

Manufacturer	Bombardier Transportation (DWA)
Commissioning	1997 – 1999
Max. speed	160 km/h
Seats	101 (763.5), 95 (763.6)
Stock as of Dec. 31, 2003	27 (763.5), 23 (763.6)

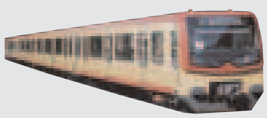
BR 474 (EMU)



The three-segment EMUs of the BR 474 series are the most modern trains on the Hamburg metro (S-Bahn) lines. This model series is characterized by light, breezy interiors, vandalism-resistant furnishings, windows between the individual cars, low-level access, and emergency call buttons in every entranceway that provide a direct connection to the train driver. Modern three-phase current technology, lightweight construction, and recovery of the braking energy provide for low power consumption and low maintenance costs.

Manufacturer	Consortium leaders: Alstom, Adtranz
Commissioning	1997 – 2001
Output	920 kW
Max. speed	100 km/h
Seats/standing room	208/306
Stock as of Dec. 31, 2003	103

BR 481 (EMU)



The BR 481 series is the most modern train of the Berlin S-Bahn (metro) and replaces the older series. By 2004, a total of 500 “quarter-sets” (two-car units) are to be procured for € 1.1 billion. Air-sprung bogies, excellent sound damping and a light, open interior offer more passenger comfort. Modern three-phase current technology, lightweight construction, and recovery of the braking energy provide for low power consumption and low maintenance costs.

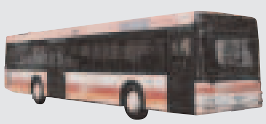
Manufacturer	Consortium leader: Bombardier (DWA)
Commissioning	1996 – 2004
Output	600 kW (quarter-set)
Max. speed	100 km/h
Seats/standing room	94/200 (quarter-set)
Stock as of Dec. 31, 2003	474 quarter-sets

EvoBus-Setra S 315 NF

The low-floor overland busses are in service at the majority of the regional bus companies. The low-floor technology offers passengers convenient access to the air-conditioned bus; the bus is also easily accessible for wheelchair users via the integrated ramp. The bus is equipped with an automatic transmission and is also suitable for scheduled urban and suburban transport services.

Manufacturer	EvoBus-Setra
Commissioning	from 1996
Output	184 kW/220 kW
Seats/standing room	48/42 (depending on configuration)
Stock as of Dec. 31, 2003	approx. 400

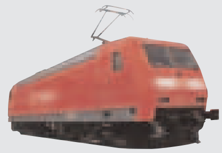
MAN NÜ 313 CNG



The low-floor overland busses run with environmentally-friendly natural gas (CNG) engines, at low noise and emission levels. Its consistent low-floor design enables stair-free access at all doors as well as a stair-free central aisle. Powerful heating and ventilation systems ensure comfortable temperatures, while ergonomic bucket seats offer tremendous seating comfort.

Manufacturer	Neoman Bus GmbH
Commissioning	from 1999
Output	228 kW
Seats/standing room	43/41 (depending on configuration)
Stock as of Dec. 31, 2003	approx. 250

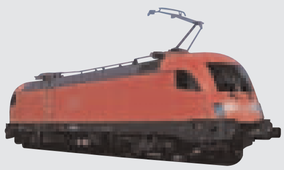
BR 145 (electric locomotive)



The BR 145 series is part of the new generation of three-phase current locomotives in the freight transport stock. It has a flexible range of employment and has proven its worth in local passenger transport as well. Thanks to its power output, it is able not only to replace the BR 140 series, but also to take over some of the performance areas of the heavy, six-axled electric locomotives.

Manufacturer	Adtranz
Commissioning	1998 – 2000
Output	4,200 kW
Max. speed	140 km/h
Starting tractive effort	300 kN
Stock as of Dec. 31, 2003	80

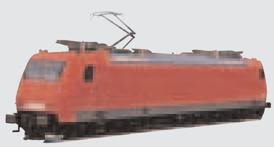
BR 182 (electric locomotive)



The BR 182 series was procured in a lot of 25 units. It is a dual-frequency locomotive that can also be deployed in neighboring countries. Its performance and high speed are well-suited for use in high-value traffic, such as for drawing Parcel Intercity trains. This model is used primarily in cross-border traffic with Austria.

Manufacturer	Siemens, Krauss-Maffei
Commissioning	2001 – 2002
Output	6,400 kW
Max. speed	230 km/h
Starting tractive effort	300 kN
Multisystem capability	Dual-frequency (AC: 15 kV/ 16.7 Hz; 25 kV/50 Hz)
Stock as of Dec. 31, 2003	25

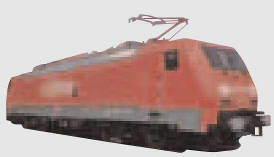
BR 185 (electric locomotive)



The BR 185 series is a further development of the BR 145 series. The procurement program for 400 vehicles is the result of exercising an option with the industry. Owing to the design and configuration of the engine, it can be employed both in Germany and abroad, when fitted with the train protection and train radio systems used in the respective countries.

Manufacturer	Adtranz
Commissioning	2000 – 2008
Output	5,600 kW
Max. speed	140 km/h
Starting tractive effort	300 kN
Multisystem capability	Dual-frequency (AC: 15 kV/ 16.7 Hz; 25 kV/50 Hz)
Stock as of Dec. 31, 2003	147

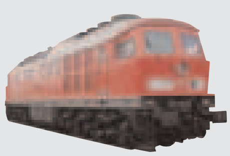
BR 189 (electric locomotive)



Exercising an option for the BR 152 series, DB is implementing another procurement program for 100 units of the BR 189 series. The BR 189 is a vehicle that is strategically focused on the pan-European transport markets. In addition to the train radio and train protection systems for each country, country-specific certifications are also required for cross-border transport. We plan to fulfill these prerequisites in the coming years as permitted by the financial framework.

Manufacturer	Siemens
Commissioning	2003 – 2005
Output	4,200/6,000/6,400 kW
Max. speed	140 km/h
Starting tractive effort	300 kN
Multisystem capability	Quad-system (AC: 15 kV/ 16.7 Hz, 25 kV/50 Hz; DC: 3 kV, 1.5 kV)
Stock as of Dec. 31, 2003	27

BR 233 (diesel locomotive)



In the years 2002–2003, our Cottbus facility refurbished 64 power cars of the BR 232 series to create the 233 series. The key feature of this refurbishment was the installation of new diesel engines. The power cars of the BR 233 series, like the BR 232 series and its derivatives (BR 234, BR 241), are diesel-electric locomotives. They are used mainly for heavy freight transport on non-electrified routes. With its new engine, the locomotive meets all modern environmental protection criteria.

Manufacturer	Locomotive Factory in USSR
Commissioning	1973 – 1982
Output	2,200 kW
Max. speed	120 km/h
Starting tractive effort	290 kN
Stock as of Dec. 31, 2003	64

European land transport (Schenker)

Schenker is a leading international provider of integrated logistics services, supporting the global transportation of goods for industry and traders: in land transport, in global air and sea freight, and with all transport-related services. A specialist for land transport in Europe – on the roads and the rails – Schenker's tightly-woven network of scheduled line services links the major economic regions in over 30 countries with a fleet of some 20,000 vehicles. Subcontractors and carriers are involved in over 90 % of the transports.

Consolidated Financial Statements

Consolidated Balance Sheet

on December 31, 2003

Assets

in € million	Note	Dec 31, 2003	Share in %	Dec 31, 2002	Share in %
A. Fixed assets					
Intangible assets	(5)	531	1.1	540	1.2
Properties	(5)	39,562	83.0	38,329	83.3
Financial assets	(5)	1,269	2.7	906	2.0
		41,362	86.8	**39,775**	86.5
B. Current assets					
Inventories	(6)	1,399	2.9	1,515	3.3
Accounts receivable and other assets	(7)	4,462	9.4	4,347	9.4
Securities	(8)	0	0.0	0	0.0
Cash and cash equivalents		265	0.6	271	0.6
		6,126	12.9	**6,133**	13.3
C. Prepayments and accrued income	(9)	159	0.3	115	0.2
		47,647	100.0	**46,023**	100.0

Equity and Liabilities

in € million	Note	Dec 31, 2003	Share in %	Dec 31, 2002	Share in %
A. Equity					
Subscribed capital	(10)	2,150	4.5	2,150	4.7
Capital reserves	(11)	4,264	9.0	3,921	8.5
Retained earnings	(12)	0	0.0	0	0.0
Balance sheet loss	(13)	– 1,393	– 2.9	– 464	– 1.0
Minority interests	(14)	55	0.1	101	0.2
		5,076	10.7	**5,708**	12.4
B. Special items for investment grants	(15)	**0**	0.0	**0**	0.0
C. Special reserve items with equity portion	(16)	**0**	0.0	**12**	0.0
D. Provisions	(17)	**14,691**	30.8	**14,834**	32.2
E. Liabilities	(18)	**27,002**	56.7	**24,548**	53.4
F. Accruals and deferred income	(19)	**878**	1.8	**921**	2.0
		47,647	100.0	**46,023**	100.0

Consolidated Statement of Income

January 1 through December 31, 2003

in € million	Note	2003	2002
Revenues	(23)	28,228	18,685
Inventory changes		– 93	– 147
Other internally produced and capitalized assets		2,303	2,362
Overall performance		**30,438**	**20,900**
Other operating income	(24)	3,138	2,830
Cost of materials	(25)	– 15,776	– 9,546
Personnel expenses	(26)	– 10,337	– 8,387
Depreciation		– 2,694	– 2,434
Other operating expenses	(27)	– 4,316	– 3,358
		453	**5**
Investment income	(28)	51	46
Net interest	(29)	– 637	– 489
Income before taxes		**– 133**	**– 438**
Income taxes	(30)	– 112	– 30
Income after taxes		**– 245**	**– 468**
Minority interests in profits		25	15
Minority interests in losses		0	0

Consolidated Statement of Cash Flows

January 1 through December 31, 2003

in € million	Note	2003	2002
Income before taxes		**– 133**	**– 438**
Depreciation of properties[1]		2,694	2,434
Changes to pension provisions		39	56
Cash flow before taxes		**2,600**	**2,052**
Depreciation/write-back on financial assets		– 23	– 34
Changes to other provisions		– 1,119	– 498
Changes in special items		0	– 4
Gains/losses from disposal of properties[1]		– 116	– 264
Gains/losses from disposal of financial assets and (partial) divestiture of consolidated companies		– 14	– 31
Changes to current assets (excl. cash and cash equivalents)		130	2,588
Changes to other liabilities (excl. financial debt)		– 366	307
Income taxes		– 112	– 30
Cash flow from business activities		**980**	**4,086**
Proceeds from disposal of properties[1]		596	750
Payments for purchase of properties[1]		– 9,147	– 10,116
Proceeds from investment grants		4,780	4,254
Proceeds from additions to interest-free loans from the federal government		339	686
Repayments of interest-free loans to the federal government		– 350	– 284
Proceeds from disposal of financial assets and (partial) divestiture of consolidated companies		23	60
Payments for purchase of financial assets and (partial) acquisition of consolidated companies		– 418	– 2,644
Investing activities		**– 4,177**	**– 7,294**
Income payments to minority shareholders		– 22	– 10
Proceeds from long-term Group financing		1,467	390
Proceeds/payments from short-term Group financing		66	– 40
Proceeds from sale-and-lease-back		0	0
Proceeds from issuing bonds and new loans and commercial paper		2,278	2,786
Repayments of bonds and loans		– 598	– 10
Financing activities		**3,191**	**3,116**
Net increase (decrease) in cash		**– 6**	**– 92**
Cash and cash equivalents, beginning of year		271	363
Cash and cash equivalents, end of year		**265**	**271**

[1] Including intangible assets

Consolidated Statement of Changes in Shareholders' Equity

	Parent company				
	Capital stock	Retained earnings	Equity earned by the Group	Accumulated other net income	
in € million	No-par value bearer shares			Adjustment item for exchange rate differences	Other non-operating transactions
Balance at Dec 31, 2001	**2,150**	**5,310**	**761**	**2**	**148**
Dividends paid					
Changes to companies consolidated					
	0	0	0	0	0
Net income			– 483		
Other net income				– 32	– 2,249[1]
Total net income	0	0	– 483	– 32	– 2,249
Negative retained earnings offset against capital reserves		– 1,389			1,389
Balance at Dec 31, 2002	**2,150**	**3,921**	**278**	**– 30**	**– 712**
Dividends paid					
Changes to companies consolidated					
	0	0	0	0	0
Net income			– 270		
Other net income				– 63	– 253[1]
Total net income	0	0	– 270	– 63	– 253
Additions to capital reserves		343			– 343
Balance at Dec 31, 2003	**2,150**	**4,264**	**8**	**– 93**	**– 1,308**

[1] Mainly from offsetting differences arising from capital consolidation

	Minority shareholders				
Equity capital	Minority interests	Accumulated other net income		**Equity capital**	**Total equity**
		Adjustment item for exchange rate differences	Other non-operating transactions		
8,371	**59**	**6**	**0**	**65**	**8,436**
0	– 9			– 9	– 9
0	30			30	30
0	21	0	0	21	21
– 483	15			15	– 468
– 2,281				0	– 2,281
– 2,764	15	0	0	15	– 2,749
0					0
5,607	**95**	**6**	**0**	**101**	**5,708**
0	– 22			– 22	– 22
0	– 46			– 46	– 46
0	– 68	0	0	– 68	– 68
– 270	25			25	– 245
– 316		– 3		– 3	– 319
– 586	25	– 3	0	22	– 564
0					0
5,021	**52**	**3**	**0**	**55**	**5,076**

Deutsche Bahn Group: Consolidated Fixed Assets Schedule

	Acquisition and manufacturing costs						
in € million	Balance at Jan 1, 2003	Exchange rate differences	Changes to companies consolidated	Additions	Transfers	Disposals	**Balance at Dec 31, 2003**
Intangible assets							
1. Licences, patents, trademarks, and similar rights	954	– 2	1	58	– 20	– 39	952
2. Advance payments	13	0	0	2	– 11	0	4
	967	**– 2**	**1**	**60**	**– 31**	**– 39**	**956**
Properties							
1. Land, leasehold rights, and buildings including buildings on land owned by others							
a) Land and leasehold rights	5,276	– 8	1	89	– 25	– 157	5,176
b) Commercial, office, and other buildings	4,062	– 27	23	217	67	– 89	4,253
c) Permanent way formation and structures	9,519	0	0	159	236	– 6	9,908
	18,857	**– 35**	**24**	**465**	**278**	**– 252**	**19,337**
2. Track infrastructure, signaling and control equipment	10,935	0	0	327	302	– 69	11,495
3. Rolling stock for passenger and freight transport	13,836	– 8	10	785	712	– 416	14,919
4. Technical equipment and machinery other than No. 2 or 3	1,383	– 38	– 34	77	64	– 29	1,423
5. Other equipment, operating and office equipment	3,025	– 11	31	386	135	– 293	3,273
6. Advance payments and construction in progress	4,708	– 2	1	1,913	– 1,460	303	5,463
	52,744	**– 94**	**32**	**3,953**	**31**	**– 756**	**55,910**
Financial assets							
1. Investments in affiliated companies	49	0	– 12	15	0	– 7	45
2. Loans to affiliated companies	10	0	0	6	– 1	– 7	8
3. Investments in associated companies	293	0	– 1	138	3	– 6	427
4. Investments in related companies	471	0	0	1	– 3	– 3	466
5. Loans to associated and related companies	7	0	0	496	1	0	504
6. Long-term securities	9	0	0	2	0	– 2	9
7. Other loans	37	0	0	3	0	– 9	31
	876	**0**	**– 13**	**661**	**0**	**– 34**	**1,490**
Total fixed assets	**54,587**	**– 96**	**20**	**4,674**	**0**	**– 829**	**58,356**

Accumulated depreciation								Book value	
Balance at Jan 1, 2003	Exchange rate differences	Changes to companies consolidated	Depreciation	Write-backs	Transfers	Disposals	**Balance at Dec 31, 2003**	**Balance at Dec 31, 2003**	Balance at Dec 31, 2002
–427	1	1	–66	0	29	37	–425	527	527
0	0	0	0	0	0	0	0	4	13
–427	**1**	**1**	**–66**	**0**	**29**	**37**	**–425**	**531**	**540**
–125	1	–1	–35	0	0	26	–134	5,042	5,151
–1,107	8	–16	–153	0	1	36	–1,231	3,022	2,955
–1,636	0	0	–175	0	0	3	–1,808	8,100	7,883
–2,868	**9**	**–17**	**–363**	**0**	**1**	**65**	**–3,173**	**16,164**	**15,989**
–4,418	0	0	–660	0	41	46	–4,991	6,504	6,517
–4,588	5	–7	–1,066	0	–3	321	–5,338	9,581	9,248
–806	23	23	–115	0	–29	30	–874	549	577
–1,733	8	–21	–424	0	–39	237	–1,972	1,301	1,292
–2	0	0	0	0	0	2	0	5,463	4,706
–14,415	**45**	**–22**	**–2,628**	**0**	**–29**	**701**	**–16,348**	**39,562**	**38,329**
–9	0	–1	–1	0	0	4	–7	38	40
–7	0	0	0	0	0	6	–1	7	3
85	0	0	–6	30	0	2	111	538	378
–31	0	0	–285	0	0	0	–316	150	440
0	0	0	0	0	0	0	0	504	7
0	0	0	0	0	0	0	0	9	9
–8	0	0	0	0	0	0	–8	23	29
30	**0**	**–1**	**–292**	**30**	**0**	**12**	**–221**	**1,269**	**906**
–14,812	**46**	**–22**	**–2,986**	**30**	**0**	**750**	**–16,994**	**41,362**	**39,775**

Notes
for the Financial Year 2003

The consolidated financial statements of Deutsche Bahn AG (DB 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.

The financial statements of DB AG were audited by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, which issued an unqualified audit certificate. They 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.

In the financial year 2002, the Stinnes Group was only included in the consolidated financial statements and cash flow statement pro rata temporis at their 4th quarter financial data – due to its acquisition at the end of the year. In the following presentation of our business performance, the major effects will be explained, where material. To promote comparability, the unit reported below as “Stinnes” or the “Stinnes Group” does not include the activities of the Group’s former Freight Transport division that are now operated by Stinnes AG.

1 Scope of Consolidation

Apart from Deutsche Bahn AG as the parent company, the consolidated financial statements extend to include 222 domestic and 308 international subsidiaries in which Deutsche Bahn AG has direct or indirect holdings amounting to more than 50 % of the voting capital, as well as one domestic company in which Deutsche Bahn AG or one of its subsidiaries is entitled as a shareholder to appoint the majority of members of the Management Board or the Supervisory Board.

82 associated companies are included with their pro-rata share of equity capital. 33 associated companies have not been included in the consolidated financial statements in accordance with Section 311 (2) HGB.

88 companies of minor significance have not been included in the consolidated financial statements in accordance with Section 296 (2) HGB; of these, 3 are valued at equity.

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

Companies Included in the Consolidated Financial Statements

	2003
Additions	
Shares acquired	20
Formation	8
Inclusion for the first time	17
Other additions	19
	64
Disposals	
Sales	20
Mergers	18
Other disposals	13
	51
Balance	**13**

Associated Companies

	2003
Additions	
Formation	1
Inclusion for the first time	5
Other additions	2
	8
Disposals	
Sales	2
Sales of shares	3
Other disposals	1
	6
Balance	**2**

The differences arising from first-time consolidation were offset in capital reserves and retained earnings.

Any changes in the composition of the Group that had a major impact are dealt with in the Management Report.

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

2 Consolidation Methods

The financial statements of the companies included in the consolidated financial statements have been prepared as of December 31.

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

Capital has been consolidated using the book value method on the basis of the reference date of the Group's opening balance sheet (January 1, 1994) or of the time of acquisition at a later date, respectively.

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

Because a switch to international accounting standards under IFRS is planned, German Accounting Standards (GAS) number 4 ("Acquisition Accounting in Consolidated Financial Statements") and 8 ("Accounting for Investments in Joint Ventures in Consolidated Financial Statements"), as approved by the German Accounting Standards Committee (GASC), Berlin, have been partially applied, in order to provide for accounting continuity. As in previous years, in cases where capital is consolidated as of the time of acquisition, the acquisition costs of participations are offset against the pro-rata shares of equity capital they account for at the respective point in time. Differences arising in the process are apportioned as capital reserves or retained earnings without this affecting the operating result, as these differences are essentially in the nature of goodwill. This apportionment is retained on the disposal of companies. The same principles apply to the accounting of equity in net earnings of associated companies. Through the fully disclosed offset of goodwill (asset-side differences) against Group reserves in accordance with Sec. 309 HGB, there is no capitalization or amortization of goodwill. Treating goodwill as described in GAS 4 and GAS 8 would result in higher equity, which would be reduced by non-cash amortization over the total period to the equity amount reported under the method currently applied.

Although two associated companies work with a different financial year, no interim financial statements as of December 31 have been prepared for these companies. Where no financial statements as of December 31, 2003, or for a financial year ending in the course of financial year 2003 were available, the financial statements of the previous year were used as a basis.

Revenues, income, and expenses as well as receivables, liabilities, and provisions between and among the companies included in consolidation have been eliminated, as have the effects arising from the transfer or creation of assets within the Group.

3 Currency Translation

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

Balance sheet items, income for the year, and depreciation are translated into euros at the mean rates of exchange on the balance sheet date, while the other items of the income statement are translated at the average exchange rates for the respective financial year. Differences arising from this translation have been reported as "Other operating income" or "Other operating expenses".

In the individual financial statements, receivables and liabilities stated in foreign currency are translated at the buying or selling 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.

Currency translations are of relatively minor significance in respect of individual balance sheet items or income statement items of the DB Group. Direct translation effects of the movements in exchange rates are largely negligible. Accordingly, no separate presentation of currency ratios and currency effects has been provided below, with the exception of the fixed assets schedule and changes in equity.

4 Accounting and Valuation Methods

There have been no major changes in the accounting and valuation methods compared to the previous year. Differences in accounting or valuation methods occurring in some isolated cases were analyzed in the process of first-time consolidation, but were not found to have any major effects. Therefore, these differences in accounting or valuation methods were not adjusted.

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.

Since January 1, 2003, the entire Group has recognized scheduled depreciation using the straight-line method based on the normal useful lives. The simplification rule provided for in Sec. 44 (2) Income Tax Regulations (EStR) was applied up to

December 31, 2002. Starting in financial year 2003, depreciation is recognized “pro rata temporis”. This resulted in a one-time gain of around € 12 million in the year under review. 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, tunnels, bridges	75
Track infrastructure	20 – 25
Buildings and other constructions	10 – 50
Land improvements	8 – 20
Signaling equipment	20
Telecommunications equipment	5 – 20
Rolling Stock	15 – 30
Ships	20 – 25
Other technical equipment, machinery, and vehicles	3 – 25
Factory and office equipment	2 – 20

Properties of minor value (at DB AG and the companies spun off effective January 1, 1999, these are fixed assets up to an individual value of € 2,000; other than that, properties up to an individual value of € 410) 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. Holdings in associated companies are accounted for using the equity method.

Inventories are valued at acquisition or manufacturing cost; raw materials and manufacturing 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 the lower of acquisition cost or market price.

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 % p.a. interest rate for discounting purposes. On the basis of actuarial expert opinions, the pension provisions of the Stinnes Group are calculated using the projected unit credit method (interest rate: 5.75 %) and cover all pension and similar obligations.

All other provisions are stated at the amount required, based on sound business judgment. 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.

For temporary differences between earnings determined on the basis of commercial law and earnings as determined for income tax purposes for the companies included in the consolidated financial statements, provisions are set up for deferred taxes if most of these differences are deficits for a specific company. Deferred tax assets are not recorded. Deferred tax assets arising from the consolidation are offset against the deferred income tax items in the individual financial statements of the respective companies.

Liabilities are carried at the expected settlement amount.

Notes to the Consolidated Balance Sheet

5 Fixed Assets

Movements in fixed assets are shown on the pages 188–189.

As mentioned in the Management Report, the sale of an extensive DB AG real estate portfolio to Aurelis Real Estate GmbH & Co. KG was concluded effective April 1, 2003. Due to the structure of the contract, the transaction was not associated with a disposal of real estate from the DB AG asset portfolio, nor with any realized gains/losses.

The investment grants received in the financial year 2003 from the German government in accordance with Article 2 Section 22 (1) No. 2 of the German Railroad Restructuring Act (Eisenbahnneuordnungsgesetz), along with the corresponding subsequent agreement, concerning infrastructure measures relating to the former Deutsche Reichsbahn amounted to € 697 million (previous year: € 601 million) and were offset against additions to assets.

The positive disposal figure shown under "Advance payments and construction in progress" resulted mainly from the fact that investment grants were recorded as income in 2003, while they were offset against acquisition and manufacturing costs in previous years.

Write-downs for impairment of property, plant and equipment – primarily due to values of rolling stock and real estate being affected by a change of use or changes in urban development – amounted to € 232 million (previous year: € 163 million) in financial 2003.

Write-ups of financial assets in the amount of € 30 million (previous year: € 39 million) relate exclusively to an adjustment of investment income from associated companies using the equity method. The write-downs of € 7 million in the past financial year are due primarily to holdings in associated companies.

6 Inventories

in € million	2003	2002
Raw materials and manufacturing supplies	551	549
Unfinished products, work in progress	333	422
Finished products and goods	493	529
Advance payments to suppliers	22	15
Total	**1,399**	**1,515**

Valuation adjustments in the amount of € 324 million (previous year: € 294 million) were made to take into account the strict lower of cost or market value principle as well as marketability discounts (excluding Stinnes).

7 Accounts Receivable and Other Assets

in € million	2003	of which with a remaining term of more than one year	2002
Trade receivables	3,032	28	2,947
Receivables due from affiliated companies	33	0	37
Receivables due from companies in which a participating interest is held	220	175	64
Other assets	1,177	330	1,299
Total	**4,462**	**533**	**4,347**

Value adjustments for accounts receivable and other assets amounted to € 558 million (previous year: € 338 million, without contribution of Stinnes). The increase in value adjustments for trade receivables resulted mainly from the Stinnes Group, with € 112 million.

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.

8 Securities

The securities consisted of fungible securities, particularly from the Stinnes Group (€ 0.4 million).

9 Prepayments and Accrued Income

Prepayments and accrued income amounting to € 159 million (previous year: € 115 million) include a discount of € 79 million (previous year: € 57 million); € 80 million (previous year: € 58 million) mainly involve deferred charges for financing, insurance premiums, and rents and leases.

10 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.

11 Capital Reserves

Capital reserves were increased by € 343 million from retained earnings. Accordingly, an amount of € 4,264 million was reported as of December 31, 2003 (previous year: € 3,921 million).

Capital reserves of subsidiaries included in the consolidated financial statements are to be netted against the book value of the respective shareholding in the consolidated financial statements or to be transferred to “Minority interests”.

12 Retained Earnings/Other Retained Earnings

The subsidiaries' equity share remaining after netting against the book value of the respective shareholding or reclassification to "Minority interests" are shown under "Other retained earnings".

in € million	2003	2002
Retained earnings carried forward to January 1	0	1,045
Balance sheet profit carried forward to January 1	– 464	– 134
Changes in equity and liabilities-side differences resulting from consolidation	– 6	– 7
Changes in assets-side differences resulting from consolidation	– 232	– 2,247
Other changes	– 27	5
Changes resulting from foreign currency translation	– 63	– 32
Transfer from netting of special reserve items with equity portion	12	0
Consolidated net loss for the year	– 245	– 468
Earnings attributable to minority interests	– 25	– 15
Retained earnings and balance sheet profit as of December 31	**– 1,050**	**– 1,853**
Posted as balance sheet loss	1,393	464
Increase in capital reserves (previous year: offset of negative retained earnings)	– 343	1,389
Retained earnings as of December 31	**0**	**0**

13 Balance Sheet Loss

The balance sheet loss recorded in the consolidated financial statements is equivalent to the net loss for the year as shown in the annual financial statements of DB AG.

14 Minority Interests

in € million	2003	2002
Adjustment items on the equity and liabilities side	**55**	**101**

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

15 Special Items for Investment Grants

Special items for investment grants are written back in accordance with the method of depreciation applied to the respective fixed asset subsidized.

16 Special Reserve Items with Equity Portion

in € million	2003	2002
In accordance with Section 281 HGB:		
Reserves in accordance with Section 3 (2) Zonenrandförderungsgesetz — Act Concerning Economic Support of the Areas Along the Former Border to East Germany	0	2
Reserves in accordance with Section 4 Fördergebietsgesetz — Assisted Areas Act	0	10
Total	**0**	**12**

The special reserve items with equity portion were reclassified as retained earnings without affecting net income, effective January 1, 2003, in accordance with Sec. 298 (1) HGB and Art. 54 (1) 1st sentence EGHGB – Introductory Law to German Commercial Code.

17 Provisions

in € million	2003	2002
Provisions for pensions and similar liabilities	953	914
Tax provisions	538	516
Provisions for deferred taxes	1	1
Other provisions	13,199	13,403
Total	**14,691**	**14,834**

In the past financial year, contributions to provisions for pensions and similar liabilities amounted to € 85 million (previous year: € 56 million).

Other provisions consisted of the following:

in € million	2003	2002
Personnel-related commitments	1,557	1,341
Restructuring charges	1,158	1,671
Inherited environmental liabilities	2,590	2,663
Reconveyance obligations	287	309
Accounts payable	871	854
Infrastructure project risks (including planning risks)	1,232	972
Real estate risks	773	777
Properties (Aurelis project)	1,118	17
Deferred maintenance work	304	719
Other risks	3,309	4,080
Total	**13,199**	**13,403**

Personnel-related commitments mainly concern leave entitlements, accumulated flex-time, anniversary bonuses, profit-sharing bonuses, and early retirement benefits. Sever-ance pay and similar expenses are reported under provisions for restructuring charges.

Provisions for inherited environmental liabilities relate, among other things, 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 DB 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),
- Risks from pending business and guaranties,
- Possible reclamation of grants,
- Statutory requirements for retention of business documents for major Group companies.

18 Liabilities

in € million	2003	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	2002
Interest-free loans	7,512	774	1,635	5,103	7,726
Bonds	8,726	0	3,233	5,493	7,068
Liabilities due to banks	2,106	800	449	857	1,584
Advance payments received for orders	609	269	66	274	562
Trade accounts payable	2,768	2,756	12	0	2,707
Bills of exchange payable	19	19	0	0	5
Liabilities due to affiliated companies	10	10	0	0	12
Liabilities due to companies in which a participating interest is held	2,077	180	288	1,609	1,975
Other liabilities	3,175	1,872	748	555	2,909
of which tax liabilities	(153)	(153)	(0)	(0)	(177)
of which social security liabilities	(175)	(175)	(0)	(0)	(154)
Total	**27,002**	**6,680**	**6,431**	**13,891**	**24,548**
of which subject to interest	(12,731)				(11,051)

The interest-free loans arise almost exclusively from German government funding for the extension and replacement of track infrastructure. These loans are based on the government's responsibility for meeting the transport needs of the general public as incorporated in Germany's Basic Law (Article 87e [4] GG) and put in concrete terms in the law governing the extension of the German rail network (BschwAG). Such loans bear no interest. Amortization is set forth in the respective individual and collective financing agreements. In general, the loans are repaid by equal annual installments, the amounts of which are calculated on the basis of the corresponding annual write-downs.

In addition to bonds and liabilities due to banks, interest-bearing liabilities also include the interest-bearing elements of liabilities due to companies in which a participating interest is held as well as other interest-bearing liabilities.

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 € 1,899 million (previous year: € 1,899 million).

Other liabilities of € 500 million reported in the previous year, which resulted from the issues under our Multi-Currency Commercial Paper Program, were completely redeemed.

Other liabilities include an obligation to surrender possession of real estate in the amount of € 1,056 million sold to Aurelis.

In general, liabilities are not secured. Exceptions are:

- Liabilities due to EUROFIMA, which have to be secured pursuant to EUROFIMA's memorandum of association by assignment of railroad equipment (rolling stock).
- Liabilities due to banks in the amount of € 7 million (previous year: € 7 million) were secured by real estate liens.

For a listing of financial debt and the corresponding comments, please see Note 22.

19 Accruals and Deferred Income

Accruals and deferred income of € 878 million (previous year: € 921 million) result primarily from the purchase of redemption commitments in the year 1999 for the years 2025 through 2041 relating to interest-free loans (see Note 18).

20 Contingent Liabilities

in € million	2003	2002
Liabilities from the drawing and endorsement of bills	1	2
Liabilities from guaranties	1,590	244
Liabilities from the provision of collateral for third-party liabilities	52	55
Total	**1,643**	**301**

Contingent liabilities from the provision of collateral for third-party liabilities concern liabilities of the Federal Railway Fund to EUROFIMA European Company for the Financing of Railway Rolling Stock, Basle/Switzerland. Loans extended by EUROFIMA to the Federal Railway Fund (or its legal predecessors, Deutsche Bundesbahn and Deutsche Reichsbahn) are secured by assignment of rolling stock used in passenger and freight transport. While the loans remained with the Federal Railway Fund, the assigned rolling stock was first transferred to Deutsche Bahn AG and then, as part of the spin-off under phase II of the German Rail Reform process, they were transferred to various companies within the Deutsche Bahn Group – primarily to DB Reise & Touristik AG (today: DB Fernverkehr AG), DB Regio AG, and DB Cargo AG (today: Railion Deutschland AG). € 1,337 of the increase in liabilities from guaranties is due to guaranties to Aurelis Real Estate GmbH & Co. KG.

21 Other Financial Commitments

in € million	2003	2002
Purchase order commitments for capital expenditures	6,226	6,815
Outstanding contributions	325	353
Commitments under rental, leasing, and other debt obligations with external parties	4,235	4,450
Total	**10,786**	**11,618**

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 reported at their nominal values. The two tables below list the corresponding nominal values and the net present values (as of December 31, 2003) by due date.

in € million	Nominal value	Net present value at 6 %
Lease payments		
due within 1 year	304	295
due within 1 to 5 years	1,013	858
due after 5 years	686	441
Total	**2,003**	**1,594**

in € million	Nominal value	Net present value at 6 %
Rental and other external-party liabilities		
due within 1 year	433	421
due within 1 to 5 years	997	847
due after 5 years	802	420
Total	**2,232**	**1,688**

22 Financial Instruments

DB AG, as the central treasury for the DB 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 Federal Financial Supervisory Authority (BaFin) and it is subject to periodic internal audits.

A. Financial Instruments

The main basic financial instruments and total financial debt as of December 31, 2003 are listed in the table below, with nominal amounts and book values being equivalent:

	Currency	Residual maturity in years	Nominal interest rate in %	Book value 2003 in € million
Unlisted bonds:				
DB AG, total	JPY, USD	7.7–8.5		67
DB Finance B.V., total	HKD, JPY, CHF	8.5–8.8		126
Total				**193**
DB Finance B.V. bonds:				
Bond 1997 – 2007	DEM	3.8	5.750	511
Bond 1998 – 2008	DEM	4.4	5.000	767
Bond 1999 – 2009	EUR	5.5	4.785	1,350
Bond 2000 – 2010	EUR	6.5	6.000	1,000
Bond 2001 – 2006	DEM	3.0	4.500	31
Bond 2001 – 2006	CHF	2.7	3.375	265
Bond 2001 – 2008	DKK	4.8	5.250	54
Bond 2001 – 2008	SEK	4.8	5.500	42
Bond 2001 – 2008	NOK	4.8	7.000	50
Bond 2001 – 2013	EUR	9.9	5.125	750
Bond 2002 – 2007	CHF	3.4	3.250	512
Bond 2002 – 2007	USD	3.6	4.500	604
Bond 2002 – 2008	CHF	5.0	3.000	170
Bond 2002 – 2012	EUR	8.6	5.375	500
Bond 2002 – 2008	USD	4.0	FRN	76
Bond 2002 – 2006	USD	2.8	FRN	51
Bond 2002 – 2006	EUR	2.8	FRN	100
Bond 2003 – 2018	EUR	14.2	4.750	1,000
Bond 2003 – 2015	EUR	11.5	4.250	700
Total				**8,533**
EUROFIMA loans:				
Loan 1995 – 2005 [1]	DEM	1.7	4.750	7
Loan 1995 – 2005	CHF	1.7	4.750	27
Loan 1996 – 2006	DEM	2.9	6.000	256
Loan 1997 – 2009	DEM	6.0	5.625	256
Loan 1999 – 2009	EUR	5.8	5.750	400
Loan 2000 – 2014	EUR	10.8	5.970	219
Loan 2001 – 2014	EUR	10.7	5.410	300
Loan 2002 – 2012	EUR	8.6	FRN	34
Loan 2002 – 2012	EUR	8.6	FRN	400
Total				**1,899**
Liabilities due to banks:				
Note loan 1998 – 2008	DEM	4.3	5.310	51
Loan 2002 – 2016	EUR	12.7	FRN	200
Loan 2002 – 2022	EUR	18.7	FRN	200
Loan 2003 – 2016	EUR	12.7	FRN	200
Loan 2003 – 2022	EUR	18.7	FRN	200
Other	EUR			1,255
Total				**2,106**
Commercial Paper:				**0**
Total financial debt				**12,731**

[1] 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 DB AG as of December 31, 1996.

The bonds issued in foreign currencies have been swapped to euros, which means no currency risk will arise from these transactions. An amount of € 55 million of the total financial debt has a residual maturity of up to one year. € 55 million of this amount are liabilities due to banks.

In addition to the liabilities shown on the balance sheet, banks had opened guaranteed credit facilities to DB AG totaling € 2.15 billion as of December 31, 2003, to cover short-term liquidity requirements. DB AG had drawn on none of these credit lines as of December 31, 2003.

B. Financial Derivatives

We use financial derivatives to hedge against interest rate, currency, and commodity exposures. Each individual deal corresponds to an on-balance sheet item or an anticipated exposure (bonds, loans, commercial paper, and planned fuel requirements). 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.

Interest rate swaps and interest rate/currency swaps were conducted to cover possible interest rate risks. Resulting interest differentials were apportioned on an accrual basis. Future interest differentials were not carried on the balance sheet because they actually are pending transactions. Because DB refinancing also employs currencies from outside the euro area, we conducted interest rate/currency swaps to convert these items to euro-denominated liabilities, to eliminate exchange rate risks.[1)] Because these transactions were performed to hedge against interest risks, they were allocated to the column "Interest rate risks".

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

Commodity risks primarily involve the purchase of fuels and energy. We conducted various hedging transactions to secure prices for purchasing diesel fuel. 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.

1) An exception are funds borrowed locally by Stinnes.

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 were 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 DB 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	2003	2002
Total notional value	**6,698**	**6,763**
Fair market value of derivatives	– 262	– 27
Change in the fair market value of underlying transactions	26	– 222
Fair market value of derivatives/valuation units	**– 236**	**– 249**

On December 31, 2003, the portfolio of interest rate derivatives consisted almost exclusively of swaps (both interest rate and interest rate/currency swaps) with a remaining term of more than one year. The change in fair market value of the derivatives and their underlying transactions resulted primarily from the appreciation of the euro over other currencies.

Notional and Fair Market Values of Currency Derivatives

in € million	2003	2002
Total notional value	**491**	**963**
Fair market value of derivatives	0	– 7
Change in the fair market value of underlying transactions	1	14
Fair market value of derivatives/valuation units	**1**	**7**

As of December 31, 2003, existing contracts to hedge foreign exchange risks consisted primarily of currency futures contracts with a remaining term of less than one year. The decline in the notional value of currency derivatives is due in part to lower hedging volumes at Stinnes.

Notional and Fair Market Values of Commodity Derivatives

in € million	2003	2002
Total notional volume (diesel fuel in t)	**540,000**	**648,000**
Fair market value of derivatives	– 3	– 2
Change in the fair market value of underlying transactions	–	–
Fair market value of derivatives/valuation units	**– 3**	**– 2**

As of December 31, 2003, the portfolio of commodity derivatives consisted primarily of contracts with a remaining term of up to one year.

Credit Risk Involved in Interest Rate, Currency, and Commodity Derivatives

in € million	2003	2002
Credit risk, interest rate, currency, and commodity derivatives	**113**	**197**

The decrease in credit risk in the comparison to the previous year is due to the value trends of our derivatives portfolio.

The single biggest risk – the risk of default by a specific counterparty – amounts to € 30 million and relates to a counterparty having a Moody's rating of A1.

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 Consolidated Income Statement

To ensure comparability of DB Group's results of operations, the data relating to Stinnes in the notes to the consolidated income statement is reported separately (only for the last quarter in financial 2002, full-year data for financial 2003).

23 Revenues

The breakdown of revenues totaling € 28,228 million (previous year: € 18,685 million) by Group divisions is shown in the Segment Information (Notes 33 and 34).

24 Other Operating Income

in € million	2003	2002
Services to external parties and sale of materials	818	762
of which attributable to Stinnes	(12)	(3)
Rents and leases	180	185
of which attributable to Stinnes	(14)	(2)
Other operating income	817	822
of which attributable to Stinnes	(112)	(21)
Gains on sales of properties and (partial) divestiture of consolidated companies	282	435
of which attributable to Stinnes	(26)	(13)
Income from the release of provisions	941	516
of which attributable to Stinnes	(65)	(35)
Gains on the reversal/recovery of write-downs/write-offs of receivables	63	101
of which attributable to Stinnes	(11)	(4)
Income from the release of special reserve items with equity portion	0	2
Other income unrelated to accounting period	37	7
of which attributable to Stinnes	(4)	(1)
Total	**3,138**	**2,830**
of which attributable to Stinnes	(244)	(79)

€ 284 million of the income from the release of provisions relate to provisions for deferred maintenance.

25 Cost of Materials

in € million	2003	2002
Cost of raw materials, supplies, and merchandise	5,860	2,895
of which attributable to Stinnes	(4,047)	(1,006)
Cost of services purchased	7,494	4,084
of which attributable to Stinnes	(4,561)	(1,096)
Maintenance expenses	2,422	2,746
Subtotal (gross cost of materials)	**15,776**	**9,725**
Federal government contributions	0	– 179
Total	**15,776**	**9,546**
of which attributable to Stinnes	(8,608)	(2,102)

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.

26 Personnel Expenses

in € million	2003	2002
Wages and salaries		
for employees	6,948	5,547
of which attributable to Stinnes	(1,424)	(382)
for civil servants assigned		
Payments to the Federal Railroad Fund IAW Article 2 Section 21 (1) (2) German Railroad Restructuring Act	1,421	1,453
Ancillary remuneration paid directly	70	75
	8,439	**7,075**
Compulsory social security contributions, pensions and similar benefits, and support payments		
for employees	1,595	1,272
of which attributable to Stinnes	(394)	(102)
for civil servants assigned		
Payments to the Federal Railroad Fund IAW Article 2 Section 21 [1] [2] German Railroad Restructuring Act	303	304
	1,898	**1,576**
of which for pensions and similar benefits	(903)	(699)
Subtotal (gross personal expenses)	**10,337**	**8,651**
Contributions by the Federal Railroad Fund	0	– 264
Total	**10,337**	**8,387**
of which attributable to Stinnes	(1,818)	(484)

Grandfathering allowances paid have been offset against provisions for restructuring charges.

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 previous year's figure was adjusted to facilitate comparability.

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 are 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.

27 Other Operating Expenses

in € million	2003	2002
Rents and leases	961	654
of which attributable to Stinnes	(245)	(53)
Fees and dues	135	124
Offices, administration, IT services	488	450
of which attributable to Stinnes	(77)	(20)
Insurance premiums	215	105
of which attributable to Stinnes	(98)	(13)
Legal and consulting expenses	143	196
of which attributable to Stinnes	(40)	(17)
Miscellaneous operating expenses	1,970	1,433
of which attributable to Stinnes	(874)	(190)
Losses on the disposal of fixed assets	151	141
of which attributable to Stinnes	(4)	(3)
Expenses relating to set-up of allowances for and write-off of accounts receivable	250	247
of which attributable to Stinnes	(39)	(27)
Other expenses unrelated to accounting period	3	8
Total	**4,316**	**3,358**
of which attributable to Stinnes	(1,377)	(323)

€ 87 million (previous year: € 58 million) of miscellaneous operating expenses are attributable to "Other taxes".

28 Investment Income

in € million	2003	2002
Income from participating interests	7	7
of which from affiliated companies	(2)	(1)
Income from associated companies	51	47
Transfer of losses	– 1	– 3
Write-down of investments	– 6	– 5
Total	**51**	**46**
of which attributable to Stinnes	(11)	(1)

29 Net Interest

in € million	2003	2002
Other interest and similar income	112	143
of which from affiliated companies	(0)	(0)
Interest and similar expenses	– 749	– 632
of which from affiliated companies	(0)	(0)
Total	**– 637**	**– 489**
of which attributable to Stinnes	(– 46)	(– 11)

30 Income Taxes

Income taxes levied in Germany are corporate income tax, plus solidarity surcharge, and trade income tax. These taxes are reported together with comparable foreign income-linked taxes. € 82 million of the increase is due to Stinnes.

31 Earnings per Share

The calculation of earnings per share is based on net income, which is equivalent to profit after taxes less minority interests in profits, plus minority interests in losses.

		2003	2002
Net income	in € million	– 270	– 483
Number of shares outstanding		430,000,000	430,000,000
Earnings per share	**in €**	**– 0.63**	**– 1.12**

Notes to the Consolidated Cash Flow Statement

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

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

Where a change in the scope of consolidation occurred due to the acquisition or sale of a company, the purchase price less the liquid assets acquired or sold is carried as cash flow from investing activities. All other effects of the acquisition or sale of companies are eliminated under the respective items of the three cash flow categories.

32 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.

Segment Information

33 Delimitation of Segments

Our delimitation of segments is based on the types of services rendered by the various Group divisions. Accordingly, our core business is divided mainly into five Group divisions:

- **Group Passenger Transport division:** The Group Passenger Transport division carries out transport and service activities in passenger transport under DB Personenverkehr GmbH, with stock corporations DB Fernverkehr AG and DB Regio AG as wholly-owned subsidiaries. DB Fernverkehr (Long-Distance Transport business unit) offers long-distance passenger transport services through DB Fernverkehr AG, while its subsidiaries are involved in supporting services. The DB Regio area (Regional Transport and Urban Transport business units) includes comprehensive regional and urban transport services (generally within a distance of up to 50 km or travel times up to one hour). While DB Regio AG is clearly focused on rail transport, its associated subsidiaries are active in both rail and bus-based transport services. There will be greater separation between the Regional Transport and Urban Transport units in the financial year 2004. The transport performance contributed by the Group Passenger Transport division makes the DB Group one of Europe's leading transportation companies.
- **Group Transport and Logistics division:** The new Group Transport and Logistics division, formed on September 1, 2003, consolidated the Schenker business from the Stinnes acquisition with the DB Group's activities in our former Group Freight Transport division under the management of Stinnes AG. Our market presence consists of the business units Schenker, Freight Logistics, Intermodal, and Railion. We have adjusted the ownership structure in accordance with the new business units. The Schenker business unit holds a leading position in European overland transport as well as in the global sea and air freight business. The Freight Logistics and Intermodal units are focused on European markets, and also benefit from their strong positioning. In the segment information, the figures for Freight Logistics and Intermodal consist of the services rendered by the affiliates active in these areas. Measured by transport performance, the Railion business unit is one of the leading rail freight transport providers in Europe.

- **Group Passenger Stations division:** The Group Passenger Stations division is in charge of the operation of passenger stations as traffic stations, as well as developing and marketing the associated station space. Most of the services involved are provided by DB Station & Service AG as the lead management company, which is a wholly owned subsidiary of DB AG.
- **Group Track Infrastructure division:** The Group Track Infrastructure division is responsible for operating the rail infrastructure (long-distance/conurbation network, regional network, marshalling yards and transshipment terminals). The business activities are executed primarily by DB Netz AG, which is a wholly owned subsidiary of DB AG.
- **Group Services division:** The Group Services division, which was formed from the previous Services area, will include the business units DB Energie (energy supply), DB Fahrzeuginstandhaltung (heavy vehicle maintenance), DBFuhrparkService (fleet management), DB Services, DB Systems (IT), and DB Telematik (telematics) in the financial year 2004. The figures for the year under review (and the previous year) do not contain DB Fahrzeuginstandhaltung, as it will be spun out as DB Fahrzeuginstandhaltung GmbH in 2004. To ensure consistency, the DB Projekt-Bau business unit (project construction), which will be directly managed from 2004 onwards, is consolidated in the figures from the previous Service area for the last time in the year under review.

The previous year’s figures were restated for better comparability.

We currently do not report segment information by geographical region. With the exception of the activities in our Schenker business unit, the share of international business in total revenues of our core business is so small that it may be safely neglected. Among the activities that we do not count among our core business, we achieved significant international revenues in the financial year 2003 in our Brenntag and Stinnes-Interfer units, which we purchased within the framework of the Stinnes acquisition but then sold in the first quarter of 2004. Our Annual Report for the year 2004 will contain segment information by geographical region for the first time.

34 Financial Data by Segment

	External Revenues		Intra-Group Revenues		Divisional Revenues		Depreciation[1]		Net Interest[1]	
in € million	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Passenger Transport										
Long-Distance Transport	2,993	3,378	266	313	3,259	3,691	338	347	– 32	– 17
Regional and Urban Transport	8,164	7,801	276	598	8,440	8,399	549	493	– 112	– 100
Total	11,157	11,179	542	911	11,699	12,090	887	840	– 144	– 117
Transport and Logistics										
Railion	2,987	2,974	603	516	3,590	3,490	202	160	– 32	– 16
Schenker	6,856	1,613	1	0	6,857	1,613	136	32	– 20	– 5
Freight Logistics	895	536	34	26	929	562	7	3	– 1	0
Intermodal	42	9	14	29	56	38	1	1	0	0
Other operating entities[3]	24	189	30	0	54	189	3	2	– 4	– 1
Total	10,804	5,321	682	571	11,486	5,892	349	198	– 57	– 22
Passenger Stations	249	226	603	584	852	810	102	98	– 37	– 30
Track Infrastructure	273	203	3,501	3,754	3,774	3,957	892	855	– 159	– 217
Services	259	219	4,077	3,727	4,336	3,946	254	271	– 11	– 6
Other operating entities/ Consolidation effects	5,486	1,537	765	732	6,251	2,269	143	165	– 229	– 99
DB Group	**28,228**	**18,685**	**10,170**	**10,279**	**38,398**	**28,964**	**2,627**	**2,427**	**– 637**	**– 491**

[1] Management measure, deviates from depreciation respectively net interest reported in consolidated income statement with regard to non-operational special charges
[2] Including employees and civil servants, excluding apprentices
[3] TFG-I in the previous year, primarily Stinnes headquarters in the year under review

Notes to the Financial Data by Segment:

- The item "Other operating entities/Consolidation effects" includes consolidation effects as well as operations of other entities not allocable to one of the five Group divisions shown, including operations of the Group holding company DB AG.
- External revenues reflect revenues with external customers from outside the Group.
- Intra-Group revenues relate to revenues with Group companies. Due to the business-specific vertical integration of the DB Group, intra-Group revenues are generated for the most part by the Group Track Infrastructure and Passenger Stations divisions with the Group Passenger Transport and Transport and Logistics divisions. Internal transfer prices of intra-Group revenues are invoiced at the same conditions that apply to external customers.
- Divisional revenues represent the sum of external and intra-Group revenues and thus show the business performance of the segments.
- Depreciation and gross capital expenditures relate to properties and intangible assets. Gross capital expenditures show the commercial value of total capital expenditures before netting for investment grants. Depreciation is based on capital expenditures net of investment grants as reflected in the balance sheet.

Operating Income after Interest		Operating Cash Flow		Capital Employed		Net Debt		Total Assets		Gross Capital Expenditures		Employees[2] as of Dec 31	
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
– 461	57	– 123	404	3,549	3,123	812	220	8,876	4,651	339	489	25,577	27,013
427	168	976	661	4,882	4,970	1,871	1,684	8,214	8,029	965	1,358	42,603	44,024
– 34	225	853	1,065	8,431	8,093	2,683	1,904	17,090	12,680	1,304	1,847	68,180	71,037
169	33	371	193	1,517	1,538	339	147	3,255	3,047	381	360	25,651	28,192
153	20	289	52	1,679	1,499	286	329	3,063	2,721	126	35	33,095	29,769
16	13	23	16	91	89	13	7	208	183	27	7	1,181	709
2	1	3	2	9	6	4	1	26	17	3	4	327	278
– 52	– 1	– 49	1	584	8	707	– 2	3,040	22	0	0	719	163
288	66	637	264	3,880	3,140	1,349	482	9,592	5,990	537	406	60,973	59,111
38	– 218	140	– 120	2,224	2,313	835	882	2,843	2,976	630	591	5,074	5,309
– 307	– 529	585	326	12,575	11,532	5,066	3,859	21,874	21,216	6,254	6,754	44,080	49,556
119	141	373	412	1,405	1,437	82	– 26	2,767	3,023	245	369	31,613	29,839
– 276	– 139	– 133	26	2,449	3,913	2,716	3,950	– 6,519	138	151	27	32,839	35,838
– 172	**– 454**	**2,455**	**1,973**	**30,964**	**30,428**	**12,731**	**11,051**	**47,647**	**46,023**	**9,121**	**9,994**	**242,759**	**250,690**

- Net interest is the difference between interest income and interest paid.
- Operating income after interest is an adjusted operating result after net interest but before taxes that is used as an internal control tool for operating activities.
- Operating cash flow is defined as the operating income after interest, plus depreciation of properties (including intangible assets). In the above table, operating cash flow replaces the previously reported gross cash flow.
- Capital employed includes properties and intangible assets less interest-free loans plus net working capital.
- Net debt corresponds to the interest-bearing liabilities at Group level as described under note 18. At segment level, the net debtor position of the segments with the central DB AG Treasury is reported in addition to interest-bearing (external) liabilities. Receivables and liabilities from intra-Group financing transactions are balanced in the reported figures.
- To provide for better comparability within the DB Group and over time, the number of employees has been restated in terms of full-time employees. Part-time employees working less than a regular, full-time employee year are accounted for on a pro-rata basis.

Supplemental Information

35 Employees

	2003 Annual average	2003 As of Dec 31	2002 Annual average	2002 As of Dec 31
Wage and salary earners	200,124	194,933	172,831	200,077
Civil servants assigned	49,127	47,826	51,927	50,613
Subtotal	**249,251**	**242,759**	**224,758**	**250,690**
Apprentices	7,156	8,154	6,935	8,551
Total	**256,407**	**250,913**	**231,693**	**259,241**

In general, civil servants previously working for the former Deutsche Bundesbahn and Deutsche Reichsbahn have been assigned to work for DB AG as of its registration date by virtue of Article 2 Section 12 German Railroad Restructuring Act ("civil servants assigned"). With the inception of phase II of the German Rail Reform, they now work for the various companies of the DB Group; their official employer is the Federal Railroad Fund (BEV).

36 Exemption of Subsidiaries from the Disclosure Requirement Pursuant to the German Commercial Code

The following subsidiaries intend to make use of Section 264 (3) HGB providing for an exemption from the disclosure requirement:

A. Philippi GmbH, Quierschied
AMEROPA-Reisen GmbH, Bad Homburg v.d.H.
Autokraft GmbH, Kiel
Bayern Express Omnibus GmbH, Munich
Bayern Express & P. Kühn Berlin GmbH, Berlin
BBH BahnBus Hochstift GmbH, Paderborn
BRN Busverkehr Rhein-Neckar GmbH, Ludwigshafen
BRN Überlandverkehr Verwaltungs GmbH, Ludwigshafen
BRS Busverkehr Ruhr-Sieg GmbH, Meschede
BTS Kombiwaggon Service GmbH, Mainz
BTT BahnTank Transport GmbH, Mainz
BVO Busverkehr Ostwestfalen GmbH, Bielefeld
BVR Busverkehr Rheinland GmbH, Düsseldorf
DB Akademie GmbH, Berlin
DBAutoZug GmbH, Dortmund
DB Bahnbau GmbH, Berlin
DBDialog Telefonservice GmbH, Schwerin
DB Dienstleistungen GmbH, Berlin
DB Energie GmbH, Frankfurt/Main
DBFuhrparkService GmbH, Frankfurt/Main
DB Gastronomie GmbH, Frankfurt/Main
DB Personenverkehr GmbH, Frankfurt/Main
DB ProjektBau GmbH, Berlin
DB Regionalbahn Rheinland GmbH, Cologne
DB Regionalbahn Rhein-Ruhr GmbH, Essen
DB Regionalbahn Westfalen GmbH, Münster
DB Regio NRW GmbH, Münster (Westphalia)
DB RegioNetz Infrastruktur GmbH, Frankfurt/Main
DB RegioNetz Verkehrs GmbH, Frankfurt/Main
DB Rent GmbH, Frankfurt/Main
DB Sechste Vermögensgesellschaft GmbH, Berlin
DB Services Immobilien GmbH, Frankfurt/Main
DB Services Nord GmbH, Hamburg
DB Services Nordost GmbH, Berlin
DB Services Sicherheitsdienste GmbH, Frankfurt/Main
DB Services Süd GmbH, Munich
DB Services Südost GmbH, Leipzig
DB Services Südwest GmbH, Frankfurt/Main
DB Services Technische Dienste GmbH, Berlin
DB Services West GmbH, Cologne
DB ServiceStore Systemführungs GmbH, Berlin
DB Systems GmbH, Frankfurt/Main
DB Telematik GmbH, Eschborn/Taunus
DB Verkehrsbau Logistik GmbH, Mainz
DB Vermittlung GmbH, Berlin
DB Zeitarbeit GmbH, Berlin
DB ZugBus Regionalverkehr Alb-Bodensee GmbH (RAB), Ulm (Danube)
DB ZugBus Westfalen Holding GmbH, Münster (Westphalia)
Deutsche Bahn Gleisbau GmbH, Duisburg

Deutsche Eisenbahn-Reklame GmbH, Kassel
Deutsche Gleis- und Tiefbau GmbH, Berlin
Deutsche Touring Gesellschaft mbH, Frankfurt/Main
DVA Deutsche Verkehrs-Assekuranz-Vermittlungs-GmbH, Bad Homburg
Friedrich Müller Omnibusunternehmen GmbH, Schwäbisch Hall
Hanekamp Busreisen GmbH, Cloppenburg
Ibb Ingenieur-, Brücken- und Tiefbau GmbH, Dresden
Metropolitan Express-Train GmbH, Bad Homburg v. d. H.
MITROPA AG, Frankfurt/Main
MITROPA Grundstücks- und Beteiligungsgesellschaft mbH, Frankfurt/Main
Mitteldeutsche Eisenbahn GmbH, Schkopau
MOS Mobile Oberbauschweißtechnik GmbH, Berlin
NVO Temme Nahverkehr Ostwestfalen GmbH, Halle (Westphalia)
Omnibusverkehr Franken GmbH (OVF), Nuremberg
ORN Omnibusverkehr Rhein-Nahe GmbH, Mainz
Railion GmbH, Mainz
Railion Intermodal Traction GmbH, Mainz
RBG Reisebetreuungs GmbH, Frankfurt/Main
RBO Regionalbus Ostbayern GmbH, Regensburg
Regionalbahn Schleswig-Holstein GmbH, Kiel
Regionalbus Braunschweig GmbH – RBB –, Brunswick
Regional Bus Stuttgart GmbH – RBS –, Stuttgart
Regionalverkehr Allgäu GmbH (RVA), Oberstdorf
Regionalverkehr Kurhessen GmbH (RKH), Kassel
Regionalverkehr Oberbayern GmbH, Munich
RMV Rhein-Mosel Verkehrsgesellschaft mbH, Koblenz
RSW Regionalbus Saar-Westpfalz GmbH, Saarbrücken
RVE Regionalverkehr Euregio Maas-Rhein GmbH, Aachen
RVN Regionalverkehr Niederrhein GmbH, Wesel
RVS Regionalbusverkehr Südwest GmbH, Karlsruhe
S-Bahn Berlin GmbH, Berlin
S-Bahn Hamburg GmbH, Hamburg
S-Bahn München GmbH, Munich
SBG SüdbadenBus GmbH, Freiburg
Schenker AG, Essen
Stinnes AG, Berlin
UBB Usedomer Bäderbahn GmbH, Heringsdorf
Verkehrsgesellschaft mbH Untermain – VU –, Frankfurt/Main
WB Westfalen Bus GmbH, Münster (Westphalia)
Weser-Ems Busverkehr GmbH (WEB), Bremen
Zehlendorfer Eisenbahn- und Hafen-GmbH, Berlin
Zentral-Omnibusbahnhof Berlin GmbH, Berlin
ZugBus Schleswig-Holstein GmbH, Kiel

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

in € thousand	2003	2002
Total Management Board emoluments	5,964	5,085
of which variable component	(2,788)	(2,128)
of which fixed component	(3,176)	(2,957)
Emoluments of former Management Board members	2,319	1,374
Pensions provisions for former Management Board members	13,130	12,717
Total Supervisory Board emoluments	279	232
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 226–229.

38 Events After the Balance Sheet Date

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

Berlin, April 5, 2004

Deutsche Bahn AG
The Management Board

Independent Auditor's Report

We have audited the consolidated financial statements and the group management report of the Deutsche Bahn Aktiengesellschaft, Berlin, for the business year from January 1 to December 31, 2003. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law is the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Frankfurt am Main, April 5, 2004

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Kämpfer)	(Jäcker)
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Major Subsidiaries Deutsche Bahn Group

Name and domicile	Ownership in %	Equity in € million	Revenues 2003 in € million	Revenues relative change in %	Net income 2003 in € million	Employees as of Dec 31, 2003
Group division Passenger Transport						
Long-Distance Transport						
DB Fernverkehr AG, Frankfurt/Main[2)]	100.0	2,045.2	2,570.0	– 11.9	– [1)]	20,879
AMEROPA-REISEN GmbH, Bad Homburg v. d. H.	100.0	2.6	95.6	– 10.3	– [1)]	124
Bayern Express & P. Kühn Berlin GmbH, Berlin	100.0	4.1	23.4	1.2	– [1)]	211
CityNightLine CNL AG, Zurich	100.0	20.1	52.5	15.0	4.1	111
DBDialog Telefonservice GmbH, Schwerin	100.0	0.8	65.9	4.9	– [1)]	1,395
Deutsche Touring Gesellschaft mbH, Frankfurt/Main	82.8	5.0	53.9	– 9.2	– [1)]	177
DBAutoZug GmbH, Dortmund	100.0	134.9	220.5	4.2	– [1)]	271
DB European Railservice GmbH, Dortmund	100.0	0.0	25.5	63.7	0.0	562
Metropolitan Express-Train GmbH, Bad Homburg v. d. H.	100.0	4.4	16.1	– 22.1	– [1)]	12
MITROPA AG, Frankfurt/Main	100.0	16.9	118.8	– 40.0	– [1)]	1,543
Regional and Urban Transport						
DB Regio AG, Frankfurt/Main	100.0	1,764.0	4,616.0	– 2.1	– [1)]	21,852
DB RegioNetz Verkehrs GmbH, Frankfurt/Main	100.0	49.7	106.6	– 2.8	– [1)]	497
BRN Busverkehr RheinNeckar GmbH, Ludwigshafen/Rh.	100.0	13.3	50.9	2.0	– [1)]	485
DB Regionalbahn Rhein-Ruhr GmbH, Essen	100.0	126.1	480.9	– 1.6	– [1)]	2,041
DB Regionalbahn Rheinland GmbH, Cologne	100.0	68.6	304.4	2.1	– [1)]	1,121
BRS Busverkehr Ruhr-Sieg GmbH, Meschede	100.0	4.5	28.0	– 12.8	– [1)]	180
BVR Busverkehr Rheinland GmbH, Dusseldorf	100.0	4.2	28.3	– 0.2	– [1)]	175
DB ZugBus Regionalverkehr Alb-Bodensee GmbH (RAB), Ulm (Donau)	100.0	24.0	233.0	4.5	– [1)]	1,158
DB Regionalbahn Westfalen GmbH, Münster	100.0	35.5	382.3	29.2	– [1)]	1,160
WB Westfalen Bus GmbH, Münster	100.0	6.0	26.4	6.5	– [1)]	155
BVO Busverkehr Ostwestfalen GmbH, Bielefeld	100.0	11.3	41.2	– 1.4	– [1)]	324
Omnibusverkehr Franken GmbH (OVF), Nuremberg	100.0	13.3	86.0	2.1	– [1)]	515
ORN Omnibusverkehr Rhein-Nahe GmbH, Mainz	100.0	5.1	39.8	0.7	– [1)]	330
RBO Regionalbus Ostbayern GmbH, Regensburg	100.0	9.8	59.7	7.9	– [1)]	301
Regional Bus Stuttgart GmbH – RBS –, Stuttgart	100.0	15.9	69.3	5.6	– [1)]	510
Regionalbus Braunschweig GmbH – RBB –, Braunschweig	100.0	3.6	39.3	– 2.5	– [1)]	282
Regionalverkehr Kurhessen GmbH (RKH), Kassel	100.0	10.7	56.6	1.7	– [1)]	534
Regionalverkehr Oberbayern GmbH, Munich	100.0	10.8	59.6	5.2	– [1)]	628
RMV Rhein-Mosel Verkehrsgesellschaft mbH, Koblenz	74.9	9.6	58.5	– 0.7	0.0	240
RSW Regionalbus Saar-Westpfalz GmbH, Saarbrücken	100.0	9.4	56.3	– 1.4	– [1)]	307
RVS Regionalbusverkehr Südwest GmbH, Karlsruhe	100.0	7.2	51.8	2.0	– [1)]	359
S-Bahn Berlin GmbH, Berlin	100.0	165.2	478.2	0.2	– [1)]	3,924
S-Bahn Hamburg GmbH, Hamburg	100.0	62.3	176.3	3.7	– [1)]	981
S-Bahn München GmbH, Munich	100.0	225.4	275.2	7.2	– [1)]	1,040
SBG SüdbadenBus GmbH, Freiburg i. Br.	100.0	6.6	68.2	0.0	– [1)]	460
Verkehrsgesellschaft mbH Untermain – VU –, Frankfurt/Main	100.0	3.8	53.1	0.4	– [1)]	355
Weser-Ems Busverkehr GmbH (WEB), Bremen	100.0	10.2	61.4	10.0	– [1)]	379
Regionalbahn Schleswig-Holstein GmbH, Kiel	100.0	10.5	228.2	– 4.5	– [1)]	835
Autokraft GmbH, Kiel	100.0	8.7	70.7	3.1	– [1)]	646

Name and domicile	Ownership in %	Equity in € million	Revenues 2003 in € million	Revenues relative change in %	Net income 2003 in € million	Employees as of Dec 31, 2003
Group division Transport and Logistics						
Stinnes AG, Berlin	100.0	1,245.0	218.1	– 93.3	– [1]	784
Railion						
Railion Deutschland AG, Mainz[3]	98.0	434.6	3,288.6	0.9	– [1]	23,733
Railion Nederland N.V., Utrecht, Netherlands	98.0	70.4	169.8	9.8	0.2	1,313
Railion Danmark A/S, Copenhagen, Denmark	98.0	6.6	75.2	– 1.2	– 9.3	580
Railion Intermodal Traction (RIT) GmbH, Mainz[4]	98.0	0.0	55.8	–	0.0	25
Freight Logistics						
ATG Autotransportlogistic Gesellschaft mbH, Eschborn/Taunus	100.0	3.4	263.3	4.2	2.3	50
TRANSA Spedition GmbH, Offenbach/Main	100.0	10.1	232.0	13.5	1.3	284
BTT BahnTank Transport GmbH, Mainz	100.0	1.5	74.3	61.9	– [1]	90
NUCLEAR CARGO + SERVICE GmbH, Hanau	100.0	8.8	45.2	9.3	3.7	124
Intermodal						
BTS Kombiwaggon Service GmbH, Mainz	100.0	3.9	35.4	5.1	0.0	237
Schenker						
Schenker AG, Berlin	100.0	600.0	2,047.0	8.0	– [1]	10,254
Schenker S.A., Gennevilliers, France	100.0	62.3	350.4	9.6	0.9	991
SCHENKER & Co. AG, Vienna, Austria	100.0	35.1	430.1	0.7	10.6	1,760
SCHENKER AB, Gothenburg, Sweden	100.0	31.1	845.8	1.1	22.5	2,543
Spedpol Sp.zo.o., Warsaw, Poland	99.1	30.4	90.4	3.7	3.7	982
Schenker International (HK) Ltd., Hong Kong	100.0	28.5	293.9	19.0	18.4	618
Schenker Italiana S.p.A., Peschiera, Italy	100.0	24.1	251.2	2.7	1.0	757
Schenker of Canada Ltd., Toronto, Canada	100.0	22.0	205.4	5.0	4.3	661
Schenker Australia Pty. Ltd., Alexandria, Australia	100.0	18.9	104.6	18.5	1.7	295
Kiitolinja Oy, Vasa, Finland	100.0	14.5	166.3	5.4	2.7	1,186
Schenker A/S, Hvidovre, Denmark	100.0	14.3	104.9	5.4	5.0	288
Schenker-BTL S.A., Madrid, Spain	100.0	11.9	64.5	19.9	0.1	218
SCHENKER N.V., Antwerp, Netherlands	100.0	9.9	140.6	1.0	2.7	443
Schenker OY, Helsinki, Finland	100.0	5.9	240.1	0.0	14.4	235
Schenker-Seino Co. Ltd., Tokyo, Japan	60.0	4.4	138.7	3.7	1.3	204
Schenker LTD., London, Great Britain	100.0	3.9	171.5	10.9	– 5.6	542
TRANSPORTS JOYAU SAS, Montaigu Cedex, France	100.0	3.7	204.7	100.0	– 1.1	40

Major Subsidiaries Deutsche Bahn Group (continuation)

Name and domicile	Ownership in %	Equity in € million	Revenues 2003 in € million	Revenues relative change in %	Net income 2003 in € million	Employees as of Dec 31, 2003
Group division Passenger Stations						
DB Station & Service AG, Berlin	100.0	1,201.5	851.3	5.0	– [1]	5,066
Group division Track Infrastructure						
DB Netz AG, Frankfurt/Main	100.0	5,115.8	3,666.0	7.8	– [1]	46,092
DB RegioNetz Infrastruktur GmbH, Frankfurt/Main	100.0	0.0	45.0	95.5	– [1]	484
Deutsche Umschlaggesellschaft Schiene-Straße (DUSS) mbH, Bodenheim[5]	87.5	1.2	24.3		– [1]	438
DB Verkehrsbaulogistik GmbH, Mainz	100.0	3.1	55.7	– 89.7	– [1]	0
Group division Services						
DB Services Technische Dienste GmbH, Berlin	100.0	2.6	288.3	– 13.3	– [1]	4,295
DB Services Südwest GmbH, Frankfurt/Main	100.0	0.8	82.8	22.6	– [1]	1,869
DB Services Nord GmbH, Hamburg	100.0	0.5	61.1	12.8	– [1]	1,517
DB Services Süd GmbH, Munich	100.0	0.5	62.5	11.9	– [1]	1,479
DB Services West GmbH, Cologne	100.0	0.5	68.6	15.0	– [1]	1,481
DB Services Nordost GmbH, Berlin	100.0	0.3	60.0	3.4	– [1]	2,028
DB Services Südost GmbH, Leipzig	100.0	0.3	142.1	11.5	– [1]	3,494
DB Energie GmbH, Frankfurt/Main	100.0	531.1	1,455.8	9.6	– [1]	1,877
DBFuhrparkService GmbH, Frankfurt/Main	100.0	3.5	124.4	6.0	– [1]	182
DB Rent GmbH, Frankfurt/Main	100.0	0.0	33.5	128.5	– [1]	106
DB Systems GmbH, Frankfurt/Main	100.0	214.4	691.2	– 4.4	– [1]	2,428
DB Telematik GmbH, Eschborn/Taunus	100.0	11.8	609.3	– 2.5	0.0	3,485
DB ProjektBau GmbH, Berlin[6]	100.0	23.3	563.0	–	0.0	5,471
Other Subsidiaries						
DE-Consult, Deutsche Eisenbahn-Consulting GmbH, Berlin	100.0	31.4	80.1	– 48.2	3.4	597
Deutsche Eisenbahn-Reklame GmbH, Kassel	100.0	5.5	163.0	– 1.5	– [1]	234
Deutsche Bahn Gleisbau GmbH, Duisburg	100.0	7.5	78.3	17.1	– [1]	445
Deutsche Gleis- und Tiefbau GmbH, Berlin	100.0	12.0	201.1	23.0	– [1]	1,319
Ibb Ingenieur-, Brücken- und Tiefbau GmbH, Dresden	100.0	2.0	102.6	24.2	– [1]	288
DVA Deutsche Verkehrs-Assekuranz-Vermittlungs-GmbH, Bad Homburg v.d.H.	65.0	1.5	28.7	20.9	0.0	79
BRENNTAG S.A., Chassieu, France	99.9	71.5	404.2	2.3	26.7	797
BRENNTAG Canada, Inc., Etobicoke, Canada	100.0	34.0	194.7	5.2	5.8	456
BRENNTAG S.p.A., Milan, Italy	100.0	23.7	244.4	– 7.7	1.8	269
NEUBER Ges.m.b.H., Vienna, Austria	100.0	17.2	151.9	3.3	3.2	324
BRENNTAG Polska sp.zo.o., Kedzierzyn Kozle, Poland	74.0	16.2	131.6	10.2	2.5	361
Biesterfeld Chemiedistribution GmbH & Co. KG, Hamburg	50.0	15.0	190.6	100.0	2.6	190
BRENNTAG N.V., Deerlijk, Netherlands	100.0	11.2	127.6	– 2.7	6.5	203
BRENNTAG Quimica S.A., Dos Hermanas, Spain	100.0	5.0	176.3	17.8	0.0	376
Stinnes Corporation, Tarrytown, USA	100.0	221.9	1,827.3	– 4.1	29.0	3,350

[1] Profit and loss transfer agreement
[2] Renaming in 2003; formerly DB Reise & Touristik AG
[3] Renaming in 2003; formerly DB Cargo AG
[4] Spin-off from Railion Deutschland AG
[5] Purchase of the outstanding shares and therefore full consolidation
[6] Spin-off from several companies to consolidate the project management activities from DB Netz AG, DB Station & Service AG, and others

Major Activity Relationships Within the DB Group

The following table shows the major intra-Group activity relationships among the segments of the DB Group. The figures indicate the infrastructure-related offset for the use of train paths, local infrastructure (including marshalling yards and storage sidings), and passenger stations, as well as energy cost offset.

The offset for infrastructure utilization is billed based on the published pricing systems (Train Path Pricing System, Facility Pricing System, and Station Pricing System). The activities are rendered by DB Netz AG or DB Station & Service AG. The recipients of intra-Group activities are mainly the rail transport companies in the passenger and freight transport area.

Energy activities are consolidated: DB Energie GmbH purchases all energy products from external sources and then charges these activities on to the intra-Group consumers, at fair market conditions. Energy cost offset includes both tractive energy (diesel fuel, rail electricity) and electricity for stationary facilities (such as switch-track heaters and train preheating units of DB Netz AG).

in € million	Passenger Transport		Transport and Logistics	Passenger Stations	Track Infra-structure	Other
	DB Fern-verkehr	DB Regio				
Train path utilization	– 669	– 2,094	– 482	0	3,251	– 6
Utilization of local infrastructure	– 17	– 41	– 159	0	218	– 1
Station utilization	– 89	– 460	0	547	2	0
Energy offset	– 255	– 639	– 303	– 51	– 104	1,352

Management Board of Deutsche Bahn AG

Hartmut Mehdorn

CEO and Chairman
of the Management Board,
Berlin

a) DB Fernverkehr AG (Chairman)[1]
DB Regio AG (Chairman)[1]
DB Station&Service AG (Chairman)[1]
DB Netz AG (Chairman)[1]
Stinnes AG (Chairman)[1]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G.
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G.
Dresdner Bank AG
SAP AG
Vattenfall Europe AG

b) Bayerische Magnetbahnvorbereitungsgesellschaft mbH (Chairman)[1]
DB Akademie GmbH (Advisory Board)[1]
Projektgesellschaft METRORAPID mbH[1]
Railog GmbH (Advisory Board)[1]
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)

Dr. Norbert Bensel

Personnel,
Berlin

a) DB Fernverkehr AG[1]
DB Regio AG[1]
DB Station&Service AG[1]
DB Netz AG[1]
Stinnes AG[1]
Railion Deutschland AG[1]
Schenker AG[1]
DB Gastronomie GmbH (Chairman)[1]
DB Vermittlung GmbH (Chairman)[1]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G.
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G.
Partner für Berlin – Gesellschaft für Hauptstadt-Marketing GmbH

b) DB Akademie GmbH (Advisory Board)[1]
DB Dienstleistungen GmbH (Advisory Board, Chairman)[1]
DBFuhrparkService GmbH (Chairman)[1]
DEVK Deutsche Eisenbahn Versicherung a.G. (Advisory Board)

Klaus Daubertshäuser

Marketing and Political Relationships,
Wettenberg

a) DB Fernverkehr AG[1]
DB Regio AG[1]
DB Station&Service AG[1]
DB Netz AG[1]
Stinnes AG[1]
DB ProjektBau GmbH (Chairman)[1]
DE-Consult Deutsche Eisenbahn Consulting GmbH[1]
S-Bahn Berlin GmbH (Chairman)[1]
Sparda-Bank Baden-Württemberg eG

b) DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. (Advisory Board)

Dr. Christoph Franz

Passenger Transport,
CEO and Chairman of the Management Board of DB Reise&Touristik AG,
CEO and Chairman of the Management Board of DB Regio AG,
Darmstadt
– until May 31, 2003 –

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,
CEO and Chairman of the Management Board of DB Netz AG,
Idstein

a) DB Fernverkehr AG[1]
DB Regio AG[1]
DB ProjektBau GmbH[1]
DB Systems GmbH[1]

b) DEVK Deutsche Eisenbahn Versicherung a.G. (Advisory Board)

Dr. Bernd Malmström
Transport and Logistics,
CEO and Chairman of the Management Board of Stinnes AG,
Berlin
a) Railion Deutschland AG (Chairman)[1)]
Schenker AG (Chairman)[1)]
BRENNTAG AG (Chairman)[1)]
Stinnes Interfer AG (Chairman)[1)]
K+S Aktiengesellschaft
ThyssenKrupp Serv AG
b) Hansa Rail GmbH[1)]
POLZUG GmbH[1)]
Stinnes Corporation, Tarrytown, USA (Chairman)[1)]
BLG LOGISTICS GROUP AG & Co. KG (Advisory Board)
DAL Deutsche Afrika-Linien GmbH & Co. KG (Advisory Board)
DEVK Deutsche Eisenbahn Versicherung a.G. (Advisory Board)

Dr. Karl-Friedrich Rausch
Passenger Transport,
CEO and Chairman of the Management Board of DB Personenverkehr GmbH,
Weiterstadt
a) DB Fernverkehr AG[1)]
DB Regio AG[1)]
DB Systems GmbH[1)]
b) Bayerische Magnetbahnvorbereitungs-gesellschaft mbH[1)]
MVP Versuchs- und Planungsgesell-schaft für Magnetbahnsysteme mbH[1)]
Projektgesellschaft METRORAPID mbH[1)]
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. (Advisory Board)

Diethelm Sack
CFO,
Frankfurt/Main
a) DB Fernverkehr AG[1)]
DB Regio AG[1)]
DB Station & Service AG[1)]
DB Netz AG[1)]
Stinnes AG[1)]
DEVK Allgemeine Lebens-versicherungs-AG
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G.
b) DVA Deutsche Verkehrs-Assekuranz-Vermittlungs-GmbH (Chairman)[1)]
EUROFIMA Europäische Gesellschaft für die Finanzierung von Eisenbahn-material, Basel, Schweiz (Administrative Board)
Dresdner Bank Luxembourg S.A., Luxemburg

[1)] Position within the Group

a) Membership in Supervisory Boards required by law

b) Membership in comparable Supervisory Boards of domestic and foreign companies

Information as of December 31, 2003, or the date of resignation.

Supervisory Board of Deutsche Bahn AG

Dr. Günther Saßmannshausen
Honorary Chairman
of the Supervisory Board,
Hanover
a) Einhorn Verwaltungsgesellschaft mbH
(Chairman)
Heraeus Holding GmbH
b) Deilmann Montan GmbH
(Advisory Board)

Dr. Michael Frenzel
Chairman of the Supervisory Board,
Chairman of the Executive Board of TUI AG,
Burgdorf
a) Hapag Lloyd Fluggesellschaft mbH
(Chairman)[1)]
Hapag-Lloyd AG (Chairman)[1)]
TUI Deutschland GmbH (Chairman)[1)]
AXA Konzern AG
Continental AG
E.ON Energie AG
ING BHF Holding AG
ING BHF-BANK AG
VOLKSWAGEN AG
b) Preussag North America, Inc.,
Greenwich, USA (Chairman)[1)]
Norddeutsche Landesbank

Norbert Hansen*
Deputy Chairman of the Supervisory Board,
Chairman of TRANSNET German Railroad
Workers' Union,
Hamburg
a) DB Netz AG
Stinnes AG
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a.G.
(Chairman)
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
(Chairman)
DEVK Vermögensvorsorge-
und Beteiligungs-AG

Niels Lund Chrestensen
General Manager of N.L. Chrestensen,
Erfurter Samen- und Pflanzenzucht GmbH,
Erfurt
a) Funkwerk AG
b) Dresdner Bank AG
(Advisory Board, Eastern Region)
Thüringer Aufbaubank
(Administrative Board)

Peter Debuschewitz*
Management Representative
of Deutsche Bahn AG for the State of Berlin,
Taufkirchen
b) DB Akademie GmbH (Advisory Board)
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a.G.
(Advisory Board)

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

Volker Halsch
State Secretary, Federal 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
Lebensversicherungsverein a.G.
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.

Jörg Hensel*
Chairman of the Central Works Council
of Railion Deutschland AG,
Hamm
a) Stinnes AG
Railion Deutschland AG

Klaus Dieter Hommel*
Chairman of GDBA
Transport Workers' Union,
Königstein/Ts.
– since September 16, 2003 –
a) Railion Deutschland AG
DB Systems GmbH
DEVK Pensionsfonds-AG
DEVK Rechtsschutz-Versicherungs-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
Lebensversicherungsverein a.G.
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
DEVK Pensionsfonds-AG
DEVK Vermögensvorsorge- und
Beteiligungs-AG
b) DB Akademie GmbH (Advisory Board)

Lothar Krauß*
Deputy Chairman of TRANSNET
German Railroad Workers' Union,
Rodenbach
a) DB Station&Service AG
DB Services Technische Dienste GmbH
DB Vermittlung GmbH
DBV-Winterthur Holding AG

Executive Committee
Dr. Michael Frenzel (Chairman)
Ralf Nagel
Norbert Hansen
Günter Kirchheim

Audit Committee
Dr. Heinrich Weiss (Chairman)
Ralf Nagel
Jörg Hensel
Lothar Krauß

Mediation Committee under Article 27 Section 3 Codetermination Act
Dr. Michael Frenzel (Chairman)
Ralf Nagel
Norbert Hansen
Günter Kirchheim

Heike Moll*
Chairwoman of the Central Works Council
of DB Station&Service AG,
Munich
a) DB Station&Service AG
b) DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
(Advisory Board)

Ralf Nagel
State Secretary, Federal Ministry
of Transport, Building, and Housing,
Berlin
a) Fraport AG

Dr. rer. nat. h.c. Friedel Neuber
Former Chairman and CEO
of Westdeutsche Landesbank,
Duisburg-Rheinhausen
a) Hapag-Lloyd AG
RAG AG
RWE AG (Chairman)
ThyssenKrupp AG
TUI AG (Chairman)
b) Landwirtschaftliche Rentenbank
(Administrative Board)

Günter Ostermann*
Former Deputy Chairman of TRANSNET
German Railroad Workers' Union,
Wunstorf
– until July 31, 2003 –
a) DEVK Pensionsfonds-AG
DEVK Rechtsschutz-Versicherungs-AG
Sparda-Bank Hannover eG (Chairman)

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

Prof. Dr. Ekkehard D. Schulz
Chairman of the Management Board
of ThyssenKrupp AG,
Krefeld
a) ThyssenKrupp Automotive AG
(Chairman)[1)]
ThyssenKrupp Services AG (Chairman)[1)]
ThyssenKrupp Steel AG (Chairman)[1)]
AXA Konzern AG
COMMERZBANK AG
MAN AG
RAG AG
TUI AG
b) ThyssenKrupp Budd Company, Troy,
Michigan, USA[1)]

Dr. Ulrich Schumacher
Former Chairman of the Management
Board of Infineon Technologies AG,
Starnberg
b) Infineon Technologies Asia Pacific Pte.
Ltd., Singapore (Chairman)[1)]
Infineon Technologies Austria AG,
Villach, Austria (Chairman)[1)]
Infineon Technologies China Co., Ltd.,
Shanghai, China (Chairman)[1)]
Infineon Technologies Japan K.K.,
Tokyo, Japan (Chairman)[1)]
Infineon Technologies North America
Corp., Wilmington, Delaware, USA
(Chairman)[1)]

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

Dr.-Ing. E.h. Dipl.-Ing. Heinrich Weiss
Chairman of the Management Board
of SMS GmbH,
Hilchenbach-Dahlbruch
a) SMS Demag AG (Chairman)[1)]
COMMERZBANK AG
Ferrostaal AG
HOCHTIEF AG
Voith AG
b) Concast AG, Zurich, Switzerland
(Chairman)[1)]
Concast Holding AG, Zurich, Switzerland
(Chairman)[1)]
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 Fernverkehr AG,
Nuremberg
a) DB Fernverkehr AG
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.

* Employee representative on the Supervisory Board

1) Position within the Group

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, 2003, or the date of resignation.

Report of the Supervisory Board

Dr. Michael Frenzel
Chairman of the Supervisory Board
Deutsche Bahn AG

During the financial year 2003 the Supervisory Board monitored and advised the Management Board in the discharge of its functions. This was based on the detailed written and oral reports by the Management Board to the Supervisory Board and its committees. In addition, the Chairman of the Supervisory Board maintained regular contact with the Chairman of the Management Board to share information and exchange ideas.

Meetings of the Supervisory Board

The Supervisory Board convened for four regular meetings and one special meeting in the financial year 2003. During its meetings, the Supervisory Board was briefed in detail 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 on business transactions that are subject to Supervisory Board approval according to law or the Articles of Incorporation.

In its meeting on March 12, 2003, the Supervisory Board approved the divestment of a majority shareholding in Aurelis Real Estate GmbH & Co. KG and the sale of a real estate portfolio to Aurelis Real Estate GmbH & Co. KG, effective April 1, 2003.

In its meeting on May 20, 2003, the Supervisory Board specifically discussed the annual accounts of DB AG for 2002 and pending personnel-related issues.

In its meeting on July 2, 2003, the Supervisory Board approved extensive restructuring measures in the Group divisions Passenger Transport, Transport and Logistics, and Services.

In its special meeting on October 23, 2003, the Supervisory Board mainly discussed the medium-term plan for further capital expenditures on infrastructure.

In its meeting on December 10, 2003, the Supervisory Board approved the financial year 2004 budget plan and acknowledged receipt of the medium-term planning 2004–2008 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. Furthermore, the Supervisory Board approved the divestment of the Brenntag group (former Group Chemicals Distribution division of Stinnes AG) and the Interfer steel group (former Group Steel Trading division of Stinnes AG).

Meetings of the Supervisory Board Committees

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 regular meetings and one special meeting. 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. Furthermore, the Executive Committee made the decisions referred to it on personnel-related issues involving the Management Board.

In accordance with the corporate governance policy adopted by the Management Board and the Supervisory Board, the Supervisory Board resolved in its meeting on July 2, 2003 to establish an Audit Committee, which began work on September 29, 2003 and convened twice in the year under review. As set forth in the Rules of Procedure of the Supervisory Board, the Audit Committee deals mainly with accounting and risk management issues. It prepares the resolutions concerning the annual financial statements to be passed by the Supervisory Board. In addition, the responsibilities of the Audit Committee include issues relating to the auditor's independence and awarding the audit contract.

Corporate Governance

In its meeting on March 12, 2003, the Supervisory Board passed a resolution on the adoption of the corporate governance policy of Deutsche Bahn AG, which took effect on July 3, 2003. In the Supervisory Board meeting on December 10, 2003, this corporate governance policy was updated and adjusted in line with the amendments made to the German Corporate Governance Code by the government commission, which came into force in the interim. At the same time, the Supervisory Board conducted a survey to assess the efficiency of its work.

Financial Statements

The annual accounts prepared by the Management Board and the Management Report of DB AG as of December 31, 2003 were audited, together with the corresponding Group documents, and were issued an unqualified audit certificate by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, the auditors selected by the Annual General Meeting. Furthermore, as part of his 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 the key item on the agenda of the Audit Committee meeting on May 11, 2004 and was discussed at length during the meeting on the financial statements on May 12, 2004 in the presence of the auditors, who had 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 2003, and the proposal for appropriation of retained earnings and raised no objections. The annual financial statements of DB AG for the financial year 2003 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

Ms. Margareta Wolf, Parliamentary State Secretary at the Federal Ministry for the Environment, Nature Conservation, and Nuclear Safety, took office as a member of the Supervisory Board as of January 1, 2003, succeeding Mr. Albert Schmidt, Member of the German Bundestag.

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, effective February 5, 2003.

Mr. Günter Ostermann resigned from the Supervisory Board effective July 31, 2003. Mr. Klaus-Dieter Hommel, Chairman of GDBA Transport Workers' Union, was appointed his successor by the competent court of justice effective September 16, 2003.

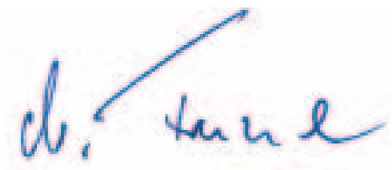
In its meeting on July 2, 2003, the Supervisory Board elected the members of the Audit Committee who, in turn, elected Dr. Heinrich Weiss their chairman. The other members of the Audit Committee are Mr. Ralf Nagel (State Secretary), Mr. Jörg Hensel, and Mr. Lothar Krauß.

Dr. Karl-Friedrich Rausch, previously responsible as a Management Board member for Technology, took the position on the Management Board responsible for Passenger Transport, which had been vacated by Dr. Christoph Franz, effective May 20, 2003. At the same time, the structure of the Management Board was streamlined and a Chief Technology Representative, who is now in charge of the former Technology decision unit of the Management Board, was appointed.

The Supervisory Board wishes to thank Dr. Overhaus, Mr. Ostermann, and Dr. Franz 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 2003.

Berlin, May 2004
For the Supervisory Board



Dr. Michael Frenzel
Chairman

Members of the DB Advisory Board

Prof. Dr. Gerd Aberle
Chair of Competition Theory, Competition Policy, and Transportation Economy, Justus-Liebig-Universität Gießen

Prof. Dr. Dr. h.c. mult. Horst Albach
Formerly Chair for Managerial Economics and Head of the Institute for Corporate Theory and Policy, Humboldt-Universität zu Berlin
Former Director of the WZB, Berlin, and President of the Akademie der Wissenschaften zu Berlin

Prof. Dr. Thomas Ehrmann
Chair of Enterprise Founding and Development, Westfälische Wilhelms-Universität, Münster

Dr. Michael Frenzel
Chairman of the Executive Board of TUI AG

Prof. Dr. Sylvius Hartwig
Specialist for hazardous materials, Bergische Universität, Wuppertal

Dr. Volker Hauff
Senior Vice President BearingPoint GmbH, Federal Minister (ret.)

Hans Jochen Henke
Attorney-at-law,
Ernst & Young
Wirtschaftsprüfungsgesellschaft,
State Secretary (ret.)

Prof. Dr. Peter Hommelhoff
Rector of the Ruprecht-Karls-Universität Heidelberg, Chair of Civil Law/Commercial, Business, and Capital Market Law

Prof. Dr. Dr. Christian Kirchner LL. M.
Chair of German, European, and International Civil and Commercial Law, and Institutional Economics, Humboldt-Universität zu Berlin

Dr. Dieter Klumpp
Vice President, German Rail Industry Federation e.V., Berlin

Prof. Dr. Otto Ernst Krasney
Vice-President (ret.), Federal Social Welfare Tribunal

Prof. Dr. Dr. h.c. mult. Heribert Meffert
Chairman of the Executive Board of the Bertelsmann Foundation

Prof. Dr. Rüdiger Pohl
President of the Economic Research Institute, Halle

Prof. Dr. Dr. Franz Josef Radermacher
Head of the Research Institute for Applied Knowledge Processing, Ulm

Prof. Dr. Werner Rothengatter
Institute for Economic Policy and Research, Universität Karlsruhe (TH)

Prof. Dr. Joachim Schwalbach
Chair of International Management, Humboldt-Universität zu Berlin

Prof. Dr. Wulf Schwanhäußer
Professor emeritus, Rheinisch-Westfälische Technische Hochschule Aachen, consultant for rail policy and the transportation sector

Prof. Dr. Jürgen Siegmann
Specialist for rail tracks and operations, Technische Universität Berlin

Horst Stuchly
President (ret.), Federal Railway Office

Prof. Dr. Andreas Troge
President, Federal Environmental Agency

Dr. Jürgen Warnke
Attorney-at-law,
Federal Minister of Transport (ret.)

Dr. Jürgen Weber
Chairman of the Management Board and CEO of Lufthansa AG

Ulrich Weiß
President, Federal Association of Small and Medium-Sized Construction Companies e.V., Bonn

Dr. Wendelin Wiedeking
President and CEO
of Dr. Ing. h.c. F. Porsche AG

Glossary of Financial Terms

Capital employed
Properties (including intangible assets) less interest-free loans – plus operating net working capital.

Cash flow
Free cash flow generated during the financial year. Cash flow reflects a company's internal financing resources generated by its operative business. Used at the DB Group level as cash flow before taxes: corresponds to operating income before taxes plus depreciation of properties (including intangible assets) and changes in provisions for pensions.

Credit facilities
Credit lines arranged with banks that can be drawn upon as necessary.

Divisional revenues
The sum of external and intra-Group revenues generated by a Group division.

EBIT
(earnings before interest and taxes)
Adjusted operating income before interest and taxes.

EBITDA
(earnings before interest, taxes, depreciation and amortization)
Adjusted operating income before interest, taxes, and depreciation. After additional adjustment for special burden compensation, the best indicator of operative improvements since the start of German Rail Reform.

External revenues
Revenues from non-Group customers.

Gross capital expenditures
Total capital expenditures for tangible and intangible assets – irrespective of the type of financing.

Hedging
Financial transactions conducted within the scope of risk management, particularly to minimize interest and currency risks.

Interest-free federal government loans
Repayable yet interest-free loans from the German federal government. Result from the financial participation of the Federal Republic of Germany in capital expenditures for the extension and replacement of track infrastructure. See also Investment grants.

Intra-Group revenues
Revenues earned from Group companies.

Investment grants
Third-party payments earmarked for specific investment projects.

Net capital expenditures
Gross capital expenditures less third-party investment grants, e. g. for infrastructure measures.

Operating cash flow
Cash flow generated by the operative business, defined as the sum of operating income after interest and depreciation of properties (including intangible assets).

Operating income after interest
An adjusted operating result after net interest but before taxes that is used as an internal control tool for operating activities.

Rating
A judgement of creditworthiness that rating agents issue for a company; affects a company's refinancing options and costs.

Return on capital employed (ROCE)
Our key measure for value-based management. Expressed as a percentage ratio of EBIT to capital employed.

Special burden compensation
Deutsche Bahn received federal compensation from 1994 to 2002 for the increased cost of materials and personnel expenses that were due to the inefficient structures inherited from the former Deutsche Reichsbahn.

Squeeze-out
A procedure that, under defined circumstances, enables majority shareholders to force minority shareholders to relinquish their holdings e.g. in exchange for money compensation (Sec. 327a ff. German Stock Corporation Act/AktG).

Swap
A financial transaction in which two counterparties exchange financing conditions, in which each party benefits from the other's cost advantages.

Value creation (value added)
Difference between the value of products and services sold and the value of inputs purchased and employed required to create such products and services. Calculated as an absolute amount or amount per employee.

Glossary of DB-Specific Terms

bahn.comfort
Our service program for frequent travelers in long-distance passenger transport.

Cleanliness program
Our project aimed at improving the outward appearance of passenger stations.

Combined rail/road transport
The integrated transport of containers or entire trucks on the roads and rails.

DB Campaign
Our key strategic measures are consolidated in our "DB Campaign" strategy. It pursues three overreaching goals: restructuring, performance, and growth.

Existing network
The existing rail network – and thus the backbone of the infrastructure.

"Fokus"
Our Group-wide restructuring program for increasing efficiency within the DB Group and laying the foundation for planned earnings growth.

German Regional Restructuring Act
Regulates payments from the federal government to the states; enables the states to order local transport services.

GSM-Rail (Global System for Mobile Communication-Rail)
A special European standard that is based on the GSM standard for mobile cellular technology. The platform for the future, standardized pan-European command and control technology in rail transport.

Immediate action program
Our short-term project aimed primarily at making small and medium-sized passenger stations more attractive at manageable costs.

Intermodal competition
Competition with other modes of transport.

Interoperability – multisystem capability
The ability of vehicles to operate on the different European rail networks.

Intramodal competition
Competition with other railroad companies.

Length of line operated
The length of the rail network at DB Netz AG – irrespective of the number of parallel tracks.

MORA C
Our successfully implemented program for optimizing the transport of single freight cars in freight transport.

MORA P
Our restructuring program implemented in passenger transport and aimed at focusing services on specific customer use in local and long-distance transport.

Netz 21 (Network 21)
Our strategic approach for segregating passenger and freight traffic within the network, to increase line capacity.

Ordering organizations
Generally the German states, which are responsible for providing local rail passenger transport (LRPT) and order the respective services from transport companies.

Passenger kilometers (pkm)
Unit of measure for transport performance in passenger transport: product of number of passengers and mean travel distance.

Requirement plan network
New line construction and expansions contained in the Federal Transportation Infrastructure Plan.

Station Pricing System
Our pricing system for the utilization of passenger stations; its conditions apply equally to Group and non-Group customers. The specific station prices depend primarily on the performance and furnishings of the respective stations.

Ton kilometers
Unit of measure for transport performance in freight transport: product of freight carried (in metric tons) and mean transport distance.

Traction
Train propulsion (by rail cars).

Train kilometers
Distance traveled by railroad companies on the DB Netz AG rail network. Unit of measure: train-path kilometers (train-path km).

Train-path
Route traveled by a train, defined in the timetable.

Train-Path Pricing System (TPPS)
A clear system that regulates the use of the rail network by internal and external customers. Non-discriminatory, like the station pricing system. Takes into account the individual characteristics of the utilized infrastructure.

Transport association
A regional collaboration of several enterprises to render transport services based on a coordinated timetable and fare system.

Transport contract
A contract between an ordering organization and a railroad company regarding the rendering of local passenger transport services.

Transport performance
Umbrella term for performance rendered in passenger (passenger kilometers) and/or freight transport (ton kilometers).


DB
Die Bahn
Unsere Mitarbeiter
nehmen Ihre
Lounge

Events in 2003

1

1 **IOC selects Schenker as partner**

2 **DB ProjektBau consolidates planning and building competencies**

2

1 **DB submits second Report of the Competition Officer**

2 **Traffic center prototype commissioned at Aachen Central Station**

3

1 **75 years of cooperation between Deutsche Bahn and Opel**

2 **2,000 CeBIT exhibitors count on Schenker**

4

1 **Traveler Information System (TIS) launched**

2 **State-specific brochures take stock of all stations**

3 **Successful transport of new bells for the Church of Our Lady in Dresden**

5

1 **Finalization of product range in single freight car transport**

2 **Squeeze-out completed at Stinnes – stock delisted**

3 **Deployment of new special cars for rail automobile transport**

6

1 **Expansion of online sales at www.bahn.de**

2 **Extension of Parcel InterCity network**

January

1 Schenker is selected as Official Supplier to the International Olympic Committee for forwarding and customs services for the 2004 Olympic Games in Athens, the 2006 Winter Olympic Games in Turin, and the 2008 Olympic Games in Beijing.

2 All capacity for planning, project management, and construction supervision will be consolidated under DB ProjektBau in future. With over 5,100 employees and more than 7,200 projects with a volume of € 5.3 billion in 2003, the new company is instantly one of Europe's largest project management service providers.

February

1 Not just according to the Rail Liberalization Index, but in practice as well: Germany's non-discriminatory network access system is leading in Europe. Our competitors' train kilometers continue to increase. DB AG's Competition Officer submits a second positive summary.

2 A comprehensive information system in Aachen collects and merges data from 23 regional stations, letting us improve traveler information and increase service, safety, and cleanliness at the stations.

March

1 Adam Opel AG and Deutsche Bahn celebrate 75 years of successful cooperation. Opel now transports over a million tons a year – nearly 95 % of its shipping volume – on the rails.

2 The capabilities of the international Schenker network were demonstrated impressively at CeBIT. The services offered covered the entire logistics chain. We scheduled goods receipts and issues around the clock in a receiving area over 10,000 m² large.

April

1 The aim of this nationwide project is to inform our customers about connecting services and alternative routes better and faster. We will continue to expand TIS in the coming years.

2 We reported the results of a stocktaking of all our stations in sixteen state-specific brochures – one for each federal state. Based upon this information, we plan to develop a comprehensive station development program together with the public sector.

3 We mastered one of the most important art shipments of the year, a contribution towards rebuilding the Church of Our Lady in Dresden.

May

1 Two new products in single freight car transport ("Classic" and "Quality") give our customers a choice between different service levels, greatly improving reliability, execution, and planning certainty for our customers.

2 An entry in the Commercial Register ends the market listing of Stinnes AG, completing integration in the DB Group at the same time.

3 Our "Automotive MaXX" and "TUBE" special-purpose freight cars offer high-performance automobile logistics for our customers Volkswagen and DaimlerChrysler.

June

1 Booking online at Deutsche Bahn is now a little easier: Credit card holders can book tickets online and print them out on their own computers.

2 A new east-west link completes our Parcel InterCity network, which will enable us to transport even more parcels and express mail on the rail in future.

7

1 **Berlin's largest photovoltaic project goes online**

2 **Nuremberg marshalling yard turns 100**

3 **Master agreement on modernizing Brandenburg's stations signed**

8

1 **Pricing system modified to meet customer demands**

2 **Damage from flood disaster in Eastern Germany largely repaired**

9

1 **New Stinnes launched in Berlin – DB Cargo becomes Railion**

2 **Fourth "Railroad Day" attracts over 220,000 visitors**

3 **"Four-Country Project" launched for passenger and freight transport**

4 **2,270 apprentices start their vocational education at DB Group**

10

1 **Millionth online customer at www.bahn.de**

2 **Railion starts operations in Switzerland**

3 **Ready, set, click for Surf & Rail**

4 **Special trip by original world championship train to film premiere of "The Miracle of Berne"**

11

1 **Renovation activities on left-hand Rhine route completed**

2 **DB NachtZug introduces a new generation of sleeper cars**

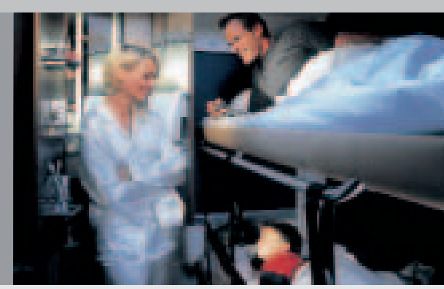
3 **Crash tests for passenger protection completed successfully**

12

1 **New timetable introduced successfully – ICE traffic expanded**

2 **RhineNeckar and Rodgau S-Bahn (metro) systems commissioned**

3 **CityTicket launched**



July

1 A total of 780 photovoltaic modules are installed over an area of some 1,870 m² on the glass roof of the Berlin Central Station. The entire installation is expected to produce around 160,000 kWh of electricity each year.

2 Its dimensions – length of 5.2 km, width of 2.5 km, and surface area of 3.4 km² – make the Nuremberg marshalling yard the largest of its kind in Bavaria. Built in 1903 and modernized from 1983 – 1988, it is one of DB AG's most high-performance marshalling systems.

3 By 2007, we intend to spend € 110 million on modernizing smaller stations in Brandenburg as part of our immediate action program.

August

1 Our range of "BahnCards", with BahnCard 25, 50, and 100, and our "Sparpreis" offers, with discounts of 25 % and 50 %, are the cornerstones of our modified pricing system, which is well received by our customers.

2 One year after the disastrous flooding in Eastern Germany, all signs show that DB AG will be able to resume operations on all important lines by December, thanks to our untiring efforts and support from the federal government and the EU. In particular, the Saxony – Franconia line had been almost completely destroyed by the Weißeritz river.

September

1 Starting September 1, Stinnes AG serves as the management company of our new Group Transport and Logistics division, with business units Schenker, Freight Logistics, Intermodal, and Railion.

2 "Deutsche Bahn Connects" is the motto of our fourth "Railroad Day", on which 14 stations, 9 DB facilities, and 2 DB museums open their doors to many fascinated visitors.

3 As part of our "Four-Country Project", we intend to cut shipping times between Russia and Germany significantly, together with the Polish National Railways (PKP), the Belarussian State Railway (BC), and the Russian State Railway (RZD).

October

1 A free BahnCard 100 is awarded to Deutsche Bahn's one millionth online customer, documenting the massive success of this sales channel among our customers.

2 Railion is the first non-Swiss railroad to receive a safety certification from the Swiss Federal Office of Transport, permitting us to send trains all the way through to the Swiss-Austrian border.

3 Surf & Rail now offers round trips to 20 destinations for € 50 each, increasing the attraction of our online portal.

4 Senator Film Distribution and Deutsche Bahn send the original diesel multiple unit that brought Germany's 1954 soccer world champion team back home on a special trip.

November

1 The left-hand Rhine route is always frequently traveled. This made it necessary to modernize the line over a length of 177 km, a task we completed in record time.

2 After five years of development, a new generation of sleeper cars aimed specifically at our customers' needs is introduced, launching a new era in night train travel.

3 To increase the safety of rail vehicles, a crash test between a streetcar and a regional train is conducted in conclusion of the EU "Safetram" project.

December

1 We expanded our services in long-distance transport in our new timetable, which takes advantage of the increased availability of our ICE fleet that resulted from our new maintenance concept.

2 The new RhineNeckar S-Bahn (metro) celebrates a seamless introduction in the "border triangle" between Baden-Wuerttemberg, Hesse, and Rhineland-Palatinate. The metro network encompasses four lines with a total length of 240 kilometers, and has 61 stations and stops (starting in 2006: 65).

3 In future, BahnCard holders with valid tickets will be able to continue their journeys to their final destinations on local transport free of charge in over 40 cities.

Imprint

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This Annual Report, the Financial Statements of Deutsche Bahn AG, and additional information are available on the Internet.

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Deutsche Bahn Group Ten-Year Summary

in € million	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Balance sheet										
Properties[1)]	40,093	38,869	35,055	34,071	32,815	31,155	29,866	24,034	21,815	17,982
Financial assets	1,269	906	735	600	680	584	665	710	367	305
Fixed assets	**41,362**	**39,775**	**35,790**	**34,671**	**33,495**	**31,739**	**30,531**	**24,744**	**22,182**	**18,287**
Inventories	1,399	1,515	992	973	866	654	604	490	597	709
Accounts receivable and other assets[2)]	4,462	4,347	4,238	3,023	2,346	2,141	2,277	3,755	3,139	1,804
Cash and cash equivalents	265	271	363	394	280	351	447	603	654	640
Current assets	**6,126**	**6,133**	**5,593**	**4,390**	**3,492**	**3,146**	**3,328**	**4,848**	**4,390**	**3,153**
Prepayments and accrued income	159	115	579	406	211	76	33	30	48	53
Total assets	**47,647**	**46,023**	**41,962**	**39,467**	**37,198**	**34,961**	**33,892**	**29,622**	**26,620**	**21,493**
Equity	5,076	5,708	8,436	8,788	8,701	8,528	8,422	6,711	6,278	6,218
Special items	0	12	16	19	23	38	47	205	177	154
Pension and other long-term provisions	9,566	9,217	9,515	8,420	9,241	9,881	9,627	9,902	9,128	7,585
Tax and other short-term provisions	5,125	5,617	4,787	5,747	3,714	2,612	2,181	2,237	1,979	1,401
Provisions	**14,691**	**14,834**	**14,302**	**14,167**	**12,955**	**12,493**	**11,808**	**12,139**	**11,107**	**8,986**
Interest-free loans	7,512	7,726	7,324	6,714	6,344	8,284	7,363	6,308	4,781	2,340
Interest-bearing debt	12,731	11,051	6,993	5,463	4,192	2,532	1,713	858	606	513
Other liabilities	6,759	5,771	3,968	3,337	3,609	2,971	4,413	3,284	3,570	3,203
Liabilities	**27,002**	**24,548**	**18,285**	**15,514**	**14,145**	**13,787**	**13,489**	**10,450**	**8,957**	**6,056**
Accruals and deferred income	878	921	923	979	1,374	115	126	117	101	79
Total liabilities and shareholders' equity	**47,647**	**46,023**	**41,962**	**39,467**	**37,198**	**34,961**	**33,892**	**29,622**	**26,620**	**21,493**
Statement of income										
Revenues	28,228	18,685	15,722	15,465	15,630	15,348	15,577	15,452	15,249	14,793
Overall performance	30,438	20,900	17,535	17,267	17,521	17,104	17,422	17,227	17,244	16,191
Other operating income	3,138	2,830	2,406	3,653	2,511	2,596	2,141	2,169	1,702	1,799
Cost of materials	– 15,776	– 9,546	– 7,108	– 6,625	– 6,688	– 6,595	– 6,716	– 6,475	– 5,757	– 5,195
Personnel expenses	– 10,337	– 8,387	– 7,487	– 8,475	– 8,285	– 8,389	– 8,663	– 8,881	– 9,523	– 9,898
Depreciation	– 2,694	– 2,434	– 2,162	– 2,052	– 1,965	– 1,737	– 1,620	– 1,387	– 1,148	– 984
Other operating expenses	– 4,316	– 3,358	– 3,282	– 3,436	– 2,790	– 2,546	– 2,204	– 2,169	– 2,236	– 1,649
Investment income	51	46	2	– 44	– 55	– 143	– 151	– 127	5	19
Net interest	– 637	– 489	– 313	– 251	– 158	– 89	– 26	12	– 4	– 32
Income before taxes	– 133	– 438	– 409	37	91	201	183	369	283	251
Income after taxes	– 245	– 468	– 406	85	87	170	200	577	135	93
Other financial figures										
EBITDA[3)] before special burden compensation	3,092	2,021	1,433	1,264	427	35	– 445	– 910	– 1,520	– 2,014
EBITDA[3)]	3,092	2,464	2,271	2,492	2,036	1,997	1,920	1,658	1,401	1,248
EBIT[4)]	465	37	109	450	71	260	300	319	253	264
Operating income after interest	– 172	– 454	– 204	199	– 87	171	273	327	247	232
Cash flow before taxes	2,600	2,052	1,786	2,113	2,107	1,985	1,833	1,777	1,445	1,477
Short-term liabilities	12,107	12,524	9,090	9,329	7,325	5,803	7,145	5,992	6,018	5,232
Long-term liabilities	30,464	27,779	24,421	21,331	21,149	20,592	18,278	16,714	14,147	9,889
Capital employed[5)]	30,964	30,428	28,649	27,443	24,911	22,656	20,878	18,600	17,147	14,926
Gross capital expenditures	9,121	9,994	7,110	6,892	8,372	7,660	7,136	7,771	7,329	7,128
Net capital expenditures[6)]	4,013	5,355	3,307	3,250	3,229	3,040	6,223	5,056	5,107	5,533

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Key figures										
Fixed assets as % of total assets	86.8	86.5	85.3	87.8	90.0	90.8	90.1	83.5	83.3	85.1
Equity incl. special items in % of total assets	10.7	12.4	20.1	22.3	23.5	24.5	25.0	23.3	24.2	29.6
Fixed assets coverage (in %) [7]	85.9	84.2	91.8	86.9	89.2	91.9	87.6	95.5	92.9	88.9
Cash flow coverage of net capex (in %) [8]	64.8	38.3	54.0	65.0	65.3	65.3	29.5	35.1	28.3	26.7
Return on capital employed (ROCE) (in %) [9]	1.5	0.1	0.4	1.6	0.3	1.1	1.4	1.7	1.5	1.8
Interest coverage [10]	0.8	0.3	0.0	1.1	1.4	2.3	2.4	5.2	4.3	4.6
Cash flow return on revenues (in %) [11]	9.2	11.0	11.4	13.7	13.5	12.9	11.8	11.5	9.5	10.0
Return on revenues before interest expenses and taxes (in %)	2.2	1.0	0.0	2.5	2.1	2.3	2.0	2.9	2.4	2.2
Rail transport performance										
Total passengers (million)	1,681.7	1,657.2	1,701.7	1,712.5	1,680.1	1,668.4	1,641.0	1,596.4	1,539.4	1,430.6
Long-Distance Transport	117.3	128.4	136.3	144.8	146.5	148.9	152.2	151.2	149.3	139.3
Regional and Urban Transport	1,564.4	1,528.8	1,565.5	1,567.7	1,533.6	1,519.5	1,488.8	1,445.2	1,390.1	1,291.3
Total passenger kilometers (million pkm)	69,534	69,848	74,459	74,388	72,846	71,853	71,630	71,028	70,334	64,539
Long-Distance Transport	31,619	33,173	35,342	36,226	34,897	34,562	35,155	35,620	36,277	34,845
Regional and Urban Transport	37,915	36,675	39,117	38,162	37,949	37,291	36,475	35,408	34,057	29,694
Freight carried (million t)	282.3	278.3	291.3	301.3	279.3	288.7	295.5	289.3	302.4	309.1
Ton kilometers (million tkm)	79,864	77,981	80,348	80,634	71,494	73,273	72,614	67,880	69,492	70,554
Total transport performance (million ptkm)	149,398	147,829	154,807	155,022	144,340	145,126	144,244	138,908	139,826	135,093
Train kilometers (million train-path km)	988.2	967.4	977.3	984.2	976.7	946.5	–	–	–	–
Employees										
Average	249,251	224,758	219,146	230,615	244,851	259,072	277,471	295,610	331,774	355,694
At year end	242,759	250,690	214,371	222,656	241,638	252,468	268,273	288,768	312,579	331,101

1) Including intangible assets

2) Including securities

3) Adjusted operating income before interest, taxes and depreciation

4) Adjusted operating income before interest and taxes

5) (Properties and intangible fixed assets) less Interest-free loans plus Net working capital

6) Gross capital expenditures less Investment grants from third parties

7) Long-term capital / Fixed assets

8) Cash flow / Net capital expenditures

9) Return on capital employed, defined as EBIT / Capital employed

10) (Income before taxes plus interest expenses) / Interest expenses

11) Cash flow / Revenues

Financial Calendar

August 16, 2004	Publication of the Interim Report January – June 2004
May 25, 2005	Annual Results Press Conference on financial year 2004

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