

Chairman's letter



DR. RICHARD LUTZ
CEO and Chairman of the Management Board
of Deutsche Bahn AG



Ladies and gentlemen,

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2018 was an eventful year for Deutsche Bahn. In particular in the railway business – in terms of punctuality and comfort – we had to fight. One thing is clear: we have to get better in 2019. And we are already on the way to a better railway.

Several of our challenges have a common cause: scarce capacity. The sustained growth of rail transport is becoming increasingly noticeable – unfortunately too often our customers are noticing it, too. The solution: additional capital expenditures. If we want to make the railway more reliable and attractive, we must create more capacity, whether in the infrastructure, in the vehicle fleet or in our staff.

More capacity is the key both to further growth and to good operational quality and high punctuality. Of course, the capital expenditures required are not small. But they are essential if we wish to make the railway system in Germany fit for the future, and create growth and employment.

We at Deutsche Bahn, together with the Supervisory Board and our owner, have therefore made the necessary decisions: in favor of more capacity and availability, additional expenses to benefit customers and improve quality, and, not least, further capital expenditures in digitalization and innovation. We brought all of this together at the end of 2018 into the Agenda for a Better Railway, a wide-ranging package of measures to achieve real improvements, which will also be used as the basis in 2019 of a newly formulated DB Group strategy.

Growth in the rail business provides us with a tailwind: never before have so many people expressed their trust in us. Nearly 148 million customers used our long-distance trains in the year under review. That is about six million more than in the previous year – an increase of four percent. This means that we have again broken the record for the number of passengers in long-distance transport.

The high-speed Berlin—Munich route also contributed to this. One year after the line was given the green light, the new connection has become the number 1 means of transport between the two major cities – beating flying and driving! About 4.9 million passengers traveled on the route – twice the number of the previous year.

2018 was also a demanding year for Deutsche Bahn from an economic perspective. With revenues of about 44 billion euros, we are significantly ahead of the previous year's figure – to the tune of some 1.3 billion euros. The adjusted EBIT was 2.1 billion euros, and was thus in line with our July forecasts. DB Netze Track, DB Long-Distance and DB Schenker showed particularly strong development.

As I already mentioned above, punctuality failed to meet our expectations in 2018. The average of 93.5 percent achieved did not fully match the 94.1 percent achieved in the previous year. In long-distance transport, annual average punctuality was 74.9 percent and 94.0 percent in regional transport.

In all of the challenges, one thing is clear: people are as mobile as ever. That benefits not only us but also the environment. As a green mode of transport, we make a substantial contribution to the issue of climate change and fulfill our particular responsibilities as a supplier of mobility and logistical services. Our new, ambitious target: to cover a whole 80 percent of our traction current requirement with renewable energies by 2030. In 2018, it was already 57 percent. All the divisions of DB Group in Germany make a contribution here: take, for example, the Hamburg S-Bahn (metro), which since 2018 has been running completely on renewable energies.

At the same time, we are advancing digitalization across our rail network – for example, through the Digital Rail for Germany program jointly initiated across the sector. In 2018, the first digital interlocking in Europe was put into operation in Annaberg-Buchholz. The project heralded the start of a technological revolution in command and control technology. It marks the starting point for the further development and nationwide implementation of an innovative generation of interlocking systems. This will make the railway more reliable and high-performing.

Another giant leap towards the improved attractiveness of the railway: we will be investing an additional one billion euros in new and modernized trains for long-distance transport. Specifically, we are ordering more ICE 4 trains and extending those we have already ordered. In addition, we are investing in the modernization of ICE 1. For our customers, more and longer trains mean more seats and more comfort as a result of more capacity. We have also agreed a framework contract for up to 100 long-distance trains. As a first batch, we have ordered 23 new trains with a capital expenditure value of about 550 million euros. The first trains should be operational from 2023. This increases the planned mid-term capital expenditures to more than seven billion euros overall.

We are also forging new paths in how we interface with our customers. Today, the journey to or from the station using the subway, S-Bahn (metro), tram or bus is now included in the train ticket in over 120 German cities. And by integrating ever more transport associations, we are transforming our DB Navigator app into a hub for all local and long-distance transport. In the year under review, we also began offering our customers the comfort check-in function in the app: once checked in, there are no ticket checks on board, making the journey even more relaxing.

Smart mobility offers are also available from ioki, our business division for intelligent on-demand mobility. For the first time, an on-demand offer from ioki provided through the digital on-demand bus in Wittlich was integrated into the existing public passenger

transport system. We currently offer services like these in rural areas, but we are only just getting started in urban areas. For example, in Hamburg we have joined with partners to start an individual shuttle service, which is ordered through an app and offers flexible routes to bring passengers to their destinations, in a process that is fully integrated into the regional transport offer.

DB Regional won a large amount of the regional transport services awarded in 2018. Our aim remains to secure our existing transport contracts and to win new ones. This also requires innovations that excite customers. For example, we are currently trialing free WiFi on the Munich S-Bahn (metro). DB Regional is also continuing to work on the Idea Train (Ideenzug) project that we presented to the public in 2018.

In international logistics we have also established innovations that we are systematically developing further. Thus, DB Schenker and Cisco in Houston have opened a joint Innovations Lab, where new technologies in the field of logistics are tested and marketed. Via the eSchenker portal, customers can also configure and order 3D printing.

The DB Cargo freight car fleet in Germany is to be fitted with the latest telematics and sensors by 2020. About 10,000 refitted freight cars are already on the way. The knowledge gained should accelerate the introduction of freight cars that are quieter, more energy efficient and more economic than those currently in operation.

One thing is clear: we are already on the way to the future. In 2019, our focus is on concrete improvements for our customers and on implementing the Agenda for a Better Railway in a disciplined manner. To that end, we and our nearly 198,000 employees in Germany will give our all. And throughout all our efforts, we will always bear the issue of sustainability in mind. For Deutsche Bahn has explicitly committed to the principles of the UN Global Compact.

We have compiled the current integrated report for you with all of the information on the 2018 financial year. At the same time, we are looking forward, too: forward to what moves us and what we want to undertake. For it is our mission to help truly shape the future of mobility and logistics. We look forward to what awaits us!

Sincerely,



Dr. Richard Lutz
CEO and Chairman of the Management Board
of Deutsche Bahn AG