„Setting the course for tomorrow”

2018 Annual Results Press Conference

Deutsche Bahn AG

Speech by Dr. Richard Lutz
CEO and Chairman of the Management Board

- Check against delivery. -
Ladies and gentlemen,

On behalf of the entire DB Management Board, I would like to welcome you to our 2018 annual results press conference.

We are here today at EUREF Campus in Berlin. It is a special venue that embodies sustainable, forward-looking mobility. It also embodies the qualities that define DB as a provider of sustainable mobility – and the tasks and opportunities we face.

Before I discuss the 2017 fiscal year and our performance in 2018, I would like to address two topics that are very important to me.

The first is that our Management Board has some new members. I am very happy that we have filled all the positions on the Board and can get down to work together.

Alexander Doll, our new Board Member for Freight Transport and Logistics, will be starting on April 1. He is here today as well. The second thing is that the photo session we just had reflects part of what being a customer-friendly company means at DB.
The session was intended to give you an idea of the new DB company clothing we are introducing for our employees. We plan to showcase the first collection in early summer.

Our employees play an essential role in helping our company offer better quality and service: only if our employees are satisfied with their jobs will our customers be satisfied with the services we offer.

Ladies and gentlemen, let me now take a look back at 2017, a year with strong financial performance at DB.

Our revenues rose by 5.2%, to some EUR 42.7 billion. In comparable terms – in particular after adjusting for currency effects – that was an increase of over 6%. Adjusted earnings before interest and taxes, or EBIT, rose by 10.6% to EUR 2.15 billion. We are pleased with these figures.

In 2018, we expect to generate revenues of some EUR 44 billion and adjusted EBIT of at least EUR 2.2 billion. We will also continue to invest in our quality, punctuality and reliability – and in our digital future. Our favorable financial performance in 2017 was due both to DB Long Distance and to our business outside Germany, at DB Arriva and DB Schenker.
These two international subsidiaries now account for roughly half our revenues - EUR 21.7 billion in 2017. And 2017 was a record year for DB Arriva and DB Schenker in terms of both revenues and earnings.

Let me turn now to our rail business in Germany. Our long distance services continued to grow.
More than 142 million people used our ICE, IC and EC trains in 2017. That was more passengers than ever before – and 2017 was the third year in a row to see a growth in passenger numbers.

Our new high-speed line between Berlin and Munich is doing particularly well: since the line opened in December, more than twice as many passengers have used our service between the two cities as in the same period a year before. Over a million passengers used the line in the first 100 days.

What is clear is that the 3-hour 55-minute ICE Sprinter connection between Berlin and Munich is giving us a major boost in competition with other modes of transport. The new line shows how much potential the rail system offers. Our ICE Sprinter service between Berlin and Munich has an average on-time rate of some 90%, due in large part to the use of ETCS, the European Train Control System. And our ICE Sprinter trains are in very high demand, with load factors one-fifth higher than on our other long distance trains.

Rail passenger transport as a whole also performed well in 2017, with a rise in passenger kilometers.
We are pleased to report an increase of 2.6% in both long distance and regional transport.

In regional transport specifically, DB Regio achieved the highest contract award rate it had seen in the past five years, winning 74% of the total train kilometers that were put out to tender in 2017. Train-path kilometers rose slightly, by 0.5%. In other words, more trains used Germany's rail infrastructure than ever before.

Non-DB rail companies also continued to increase their share of total train-path kilometers, to 30.9%. And the number of infrastructure customers also rose again in 2017, by 10 companies, to a total of 431. In other words, competition in the rail sector is intense – and becoming more so.

Ladies and gentlemen, we made many improvements last year as part of Zukunft Bahn, our multi-year quality improvement program. But I can state quite clearly that we are not satisfied with our on-time rate.
Let me give you a bit of background. We launched Zukunft Bahn in 2015. The very next year, we succeeded in improving product quality and giving a major boost to long distance punctuality. But as you can see, our on-time rate in 2017 was roughly the same as the rate in 2016. We are not happy with this performance: our objective was an increase that would benefit our customers. As the graph shows, our target for 2018 – average long distance punctuality of 82% – remains unchanged.

Looking at the first few months of 2018, there is no question that we will need to do a lot better, and that we will need to work harder to make Zukunft Bahn more energetic and effective. We set up a construction situation center in 2017, and it has been very effective in helping us manage construction work on our lines.

To continue to raise our on-time rate, we have now also set up an additional situation center – this one for punctuality. As with the construction situation center, we expect the punctuality situation center to further improve things by fostering extensive, continual and overarching collaboration with all the rail operators and local transport authorities involved. The construction situation center has already afforded us successes that benefit the entire rail sector.
As you know, we are investing more than ever before in the rail network. Last year, we invested roughly EUR 7.5 billion to modernize the network, upgrade existing lines and build new ones. This year we are looking at record investment of over EUR 9 billion. And despite extensive construction work in 2017, we still managed to lower construction-related delays by 10% year on year.

The "round table on construction management" set up with the German government, local transport authorities, associations and rail operators has also been helpful in developing solutions for the entire industry. In a nutshell, we want to offer much more punctual service this year, despite increases in both construction work and rail traffic as a whole.

New digital solutions will help to boost our on-time rate. In the medium term, our new data strategy will enable us to monitor our systems much more effectively. This in turn will enable us to reduce technical failures and use predictive methods in train maintenance.

We are increasing our efforts in order to meet our quality objectives

Enhancing measures with a preventative nature

Strengthening resilience in the face of disruptions

What is also clear is that we must become more robust and resilient overall, and learn to mitigate the impact of service disruptions more effectively.
That will be essential – and not only because well-respected scientists report that extreme weather conditions will become increasingly common over the next 15 to 20 years. We must also improve because it is the only way to raise quality for our customers on a long-term basis.

We have learned from our experience with the most recent storms in Germany. We are doing a number of things to be better prepared, including expanding our vegetation management. Specifically, we will be investing half a billion euros in vegetation management over the coming four years.

Digitalization also offers us new options here. For example, we can use optical technology to evaluate rail lines, running automated analyses on the images generated. We must also put better workflows in place to respond to major disruptions, and improve the information we provide to customers in such situations.

To this end, we have partnered with other rail companies and have set up a working group to develop solutions. We are firmly committed to the joint objective of ensuring consistent information across all communication channels, and of offering our customers prompt, specific recommendations about alternate routes in the event of service disruptions.

Our new data strategy will be key here. We are harmonizing our data to create a single source of truth for our customer information systems. We have also set ourselves the target of ensuring that we restore traffic within 24 hours when major disruptions occur at key rail hubs.

Ladies and gentlemen, we are also looking farther into the future. We are investing, modernizing and digitalizing, with a view to our ultimate goal of shifting more traffic to rail. I would like to take a look forward now, and let me first say a few words about the political situation in Germany.

The new German coalition agreement is positive in our view. In the agreement, the governing parties state their support for our integrated Group structure and for a high-performing rail sector.
They also address topics that are important in the rail sector, such as reductions in track access charges, continued increases in investment, and support for innovation in the digital age. All the planned measures will help to strengthen rail in competition with other modes of transport.

In addition, the new government plans to form a "rail pact" with business representatives. The goal between now and 2030 is to foster a significant increase in the number of passengers and goods traveling by rail. There are also plans for a bill to ensure that the transport sector meets its climate protection targets set for 2030. The bill will offer major opportunities to make rail stronger, and give us a key role to play in climate protection in our sector.

A good example of this role can be seen in rail freight transport at DB.

The German government's Rail Freight Master Plan, and the reductions to track access charges the government has announced, will help make rail freight much more competitive. We lost no time in responding to the government's plans, and have launched our own freight transport campaign. We intend to go above and beyond earlier plans for capital expenditure and purchase up to 100 new multi-system locomotives and some 4,000 modern freight cars in the coming four years.
As the largest pan-European rail freight company by far, we are focused on ensuring interoperability, with a view to promoting cross-border traffic as European countries continue to grow together. GPS and other sensors will also be included in the standard features for our freight cars going forward. The government's master plan is expected to generate eight billion additional metric ton kilometers for rail freight transport in Germany – and it is DB Cargo's goal to run roughly five billion of them.

Digital technology will help us in our efforts here: for example, we are moving forward with the construction of a digitalization and automation test site near Munich. Together with the German government, we will also be upgrading freight corridors to eliminate bottlenecks and make it possible to run longer trains.

That brings me to a key issue for the future: digitalization.

It will be an important tool for higher quality, greater capacity and, ultimately, better climate protection. As something that affects our entire company, digitalization will play a major role everywhere – in passenger transport, logistics and infrastructure.

Our new business segment ioki will integrate on-demand service and autonomous driving into public transit, developing modern mobility services that complement rail transport.
Last year, we launched the first self-driving bus in Germany. This year, we are going a step further and launching a driver-based on-demand service in Hamburg that is integrated into the city's public transport system. This project is part of our Smart Cities program, which aims to make urban mobility smarter, more convenient and more eco-friendly.

In logistics, too, we are focusing on digital technology. DB Schenker partnered with MAN and Fresenius University of Applied Sciences in 2017 to run an innovative pilot project on platooning. The test phase starts this spring, and will involve testing digital platoons of trucks in real traffic situations over a period of several months.

Ladies and gentlemen, our Digital Rail for Germany program will have a far-reaching impact. It involves digitalizing the rail network, and it will be a giant leap forward for technology throughout the rail sector. The goal is to generate up to 20% more capacity in the existing rail network. That means many more trains and many more options for our customers.

How will we achieve this goal? In particular, by supporting across-the-board implementation of the European Train Control System (ETCS) and digital signaling technology. The result will be a smart network with digital signals that make it possible to run trains in closer succession and thus use infrastructure capacity much more effectively.

Digital Rail for Germany will make our network extremely efficient, without necessitating the construction of new rail lines. It has the potential to make us a pioneer, to strengthen Germany as a place to innovate and do business, and to foster the development of expertise we can export around the globe.

I would like to emphasize something here: Digital Rail for Germany is a task for the entire sector. To be successful in the coming 10 to 15 years, we will all need to work together. Ultimately, the more digital we become, the faster – and the more punctual – our services will be. This will make rail travel more attractive, and bolster eco-friendly mobility in Germany.
Digital Rail for Germany will also lead us to a bright future in other ways. Digital changes will foster new, exciting jobs: rail signaling will become a high-tech profession. And we will become a more attractive employer for young people. We have been digitalizing for a number of years now, and despite the concerns some have expressed, we are still hiring new people at record levels.

Last year, we hired nearly 20,000 people, and we plan to hire some 19,000 in 2018 – from vocational trainees to rail staff to IT experts. As you can see, we are moving forward in many ways - setting the course for tomorrow. We want to deliver impressive results for our customers, combining higher quality, new services, innovations in our network, and record investment. To do so, we will need a strong team.

I would like to thank each and every one of our employees for their work and dedication over the past year. As the most eco-friendly mode of transport in the growing transport industry, we will have major opportunities in the coming years.

We want to take advantage of those opportunities and provide mobility that serves our customers and meets the challenges of the 21st century – with customer-focused, safe, reliable, comfortable, convenient and eco-friendly services.

Thank you.
Setting the course for tomorrow
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