![Moody's Investors Service]

Rating Action: **Moody's affirms Deutsche Bahn's Aa1 ratings and downgrades hybrid to A3; outlook remains negative**

20 Oct 2020

Paris, October 20, 2020 -- Moody's Investors Service (Moody's) has today affirmed the Aa1 long-term issuer rating of Deutsche Bahn AG (DB). Moody's also affirms DB's (P)Aa1 senior unsecured MTN rating, and the P-1 short-term rating.

Concurrently Moody's downgraded to a2 from a1 the standalone baseline credit assessment (BCA) and downgraded to A3 from A2 the long-term rating to the Undated Subordinated Resettable Fixed Rate Notes (junior subordinated "Hybrid") issued by DB, through its subsidiary Deutsche Bahn Finance GmbH. The outlook remains negative.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

"The downgrade of DB's BCA to a2 reflects Moody's expectations that the company's leverage will remain above 7.0x and its free cash flows will be materially negative in the next 24 months, much higher than levels seen in the past, as a result of reduced passenger numbers due to the coronavirus pandemic and ongoing high capital expenditure" says Francesco Bozzano, a Moody's Assistant Vice President-Analyst "The negative outlook reflects Moody's expectations that it will remain challenging for the company to reduce leverage below 6.5x, a level more commensurate with its a2 BCA as well as some uncertainty around the timing of the current EUR5 billion equity injection from the German government due to the still ongoing EU approval process and the German government's willingness to step up its support to DB in case of need given the structural challenges that the pandemic is having on the transportation sector", added Mr Bozzano.

DB's Aa1 issuer rating combines: (1) its a2 BCA; and (2) Moody's assessment of a high likelihood that the company will receive extraordinary support from the German Government (Aaa stable) in times of need. This assessment is based on the German government's willingness, and very strong ability to provide support to DB, given the sovereign's ample financial reserves, as reflected in its Aaa rating. Such an assessment results in a 4-notch uplift to the company's final rating.

The lowering of the BCA considers Moody's expectation that coronavirus-related disruptions and its ongoing high capex requirement will continue to weigh on DB's already weak credit metrics. Moody's expects DB's revenues to decline by 11% and EBITDA by over 90% in 2020 compared to 2019 mainly as a result of a coronavirus-related reduction in passenger levels. DB's BCA remains supported by the company's size, geographical diversification and leading global market position, as well as the stability and predictability of the legal framework for railway companies in Germany.

The A3 rating of the Hybrid is one notch lower than DB's a2 BCA and five notches lower than the company's Aa1 long-term issuer rating. This reflects certain features of the security, which is perpetual, deeply subordinated and allows DB to opt for coupon deferrals on a cumulative basis. Because of these characteristics Moody's believes that, in case of need, government support may not be as strong, or as timely as it would be for senior unsecured debt.

In Moody's view, the Hybrid has equity-like features that allow it to receive basket 'C' treatment (i.e 50% equity and 50% debt) for the purpose of adjusting financial statements. Please refer to Moody's Rating Methodology "Hybrid Equity Credit" (September 2018) for further details https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1125264).

Moody's expects the German government will continue to provide timely support to DB if the viability of its German rail infrastructure and operation is at risk, owing to its strategic role of guaranteeing a public rail service across Germany, as well as its strategic role as one of the key drivers for the government's climate action plan aimed at reducing pollution in the transportation sector. The government has also established a track record of ongoing and extraordinary support for DB as evidenced by a up to EUR5 billion capital injection planned by the government to compensate for the losses incurred due to coronavirus. This is in addition to the

EUR1 billion annual capital injection (equity and investment grants) the Government will make through to 2030 and other indirect measures such as VAT reductions and surcharges to domestic air travel aimed at promoting the increased utilisation of rail transport in Germany. The EUR5 billion capital injection is currently under scrutiny from the EU commission and Moody's expects DB to obtain clearance for this within the next six months.

Despite the government's support measures, Moody's expects DB's funded debt to increase by at least EUR4 billion by 2024 to fund the cash shortfall deriving from coronavirus and reflecting the government's decision to temporarily raise DB's debt ceiling from EUR24.6 billion to EUR30 billion. Moody's expects DB's revenues, EBITDA and operating cash flow will continue to recover gradually in the next 24 months as travel concerns should ease and people gradually resume commuting and travelling. However, Moody's expects DB's revenues and earnings will only recover to 2019 levels by 2022 at the earliest, and only after the execution of the company's cost saving program, which aims to reduce costs by more than EUR4 billion by 2024. While EBITDA will only recover gradually, debt will remain high as the company will need to finance its large capex program in the coming years. As a result, Moody's expects the company's leverage to remain high at around 7x in the next 24 months and only start to improve to 6.5x thereafter.

Moody's expects DB to maintain good liquidity over the next 12 months, supported by: (1) its cash position of EUR3.7 billion as of June 30, 2020; (2) its EUR3 billion commercial paper programme, of which EUR1.7 billion was drawn as of June 30, 2020; (3) EUR2 billion of unused committed credit lines; (4) its recovering cash flow from operations, which Moody's expects to be EUR3.5 billion in 2021 and (5) the planned about EUR6 billion in capital injections from the government expected within the next 6-12 months. Major cash needs include high capital spending, which Moody's estimates will be roughly EUR6 billion (including leasing) in 2021, net of grants from the German government and more than EUR3 billion in debt maturities until December 2021.

The rapid and widening spread of the coronavirus outbreak globally has created a severe and extensive credit shock across many sectors, regions and markets. The railway sector in Germany has been significantly affected by the shock given its sensitivity to consumer demand and sentiment. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

RATING OUTLOOK

The negative outlook reflects the significant uncertainty pertaining to the company's recovery in earnings and cash flow over the next few years and Moody's expectations that it will be challenging for the company to reduce leverage below 6.5x, a level more commensurate with its a2 BCA. There is also some uncertainty around the timing of the current EUR5 billion equity injection from the German government due to the still ongoing EU approval process and the German government's willingness to step up its support to DB in case of need given the structural challenges that the pandemic is having on the transportation sector.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade is unlikely given that DB's rating is one notch lower than the sovereign rating and Moody's expects this gap to remain.

The BCA could be upgraded if DB's leverage, measured by Moody's-adjusted debt/EBITDA, decreases well below 5.5x on a sustained basis, DB's operating performance as evidenced by a substantial and sustained improvement in Moody's-adjusted EBITA margin and the company decreases substantially its negative free cash flows.

A downgrade of Germany's sovereign rating will result in a downgrade of DB's ratings. In addition, Moody's could downgrade the DB's ratings if the likelihood of extraordinary support from the government decreases or if the BCA deteriorates further and this is not adequately compensated by evidence of stronger government support.

DB's BCA could be downgraded if its Moody's-adjusted debt/EBITDA looks unlikely to improve towards 6.5x from 2022 onwards, DB's EBITA margins fail to improve to around 5%. Negative rating action could also occur given the weakening of the company's business profile, resulting from a change in its integrated business model, with a separation of its rail and logistics business from its infrastructure management activities.

LIST OF AFFECTED RATINGS

..Issuer: Deutsche Bahn AG

Affirmations:

....Long-term Issuer Rating, Affirmed Aa1

....Commercial Paper, Affirmed P-1

....Senior Unsecured MTN, Affirmed (P)Aa1

....Other Short Term, Affirmed (P)P-1

Outlook action:

....Outlook remains Negative

..Issuer: Deutsche Bahn Finance GmbH

Downgrade:

....Backed Subordinate Regular Bond/Debenture, Downgraded to A3 from A2

Affirmations:

....Backed Commercial Paper, Affirmed P-1

....Backed Senior Unsecured MTN, Affirmed (P)Aa1

....Backed Senior Unsecured Regular Bond/Debenture, Affirmed Aa1

....Senior Unsecured Regular Bond/Debenture, Affirmed Aa1

....Backed Other Short Term, Affirmed (P)P-1

Outlook Action:

....Outlook remains Negative

PRINCIPAL METHODOLOGY

The methodologies used in these ratings were Global Passenger Railway Companies published in June 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1072090 , and Government-Related Issuers Methodology published in February 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1186207 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

COMPANY PROFILE

Deutsche Bahn AG (DB) is a vertically integrated rail and logistics group that owns and operates the German national rail transportation network. DB is one of the largest rails and logistics companies in the world. In 2019, DB generated EUR44.4 billion of revenue and EUR5 billion of reported EBITDA.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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