Mobility
Networks
Logistics

Deutsche Bahn AG
2008 Management Report and Financial Statements

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MANAGEMENT REPORT

Overview

Both Deutsche Bahn AG (DB AG) and DB Mobility Logistics AG (DB ML AG) – a fully owned subsidiary of DB AG – function as management holding companies within the Group structure of Deutsche Bahn Group (DB Group). Following the successful restructuring that took place during the year under review, DB AG directly manages the DB Netze Track, DB Netze Energy and DB Netze Stations business units. The remaining six business units are bundled together in the DB Mobility Logistics subgroup under the management of DB ML AG. An integration committee ensures that there is extremely close coordination between the Management Boards of DB AG and DB ML AG, as does the fact that the same two persons serve as CEO and CFO on both boards. This structure allows the continued realization of synergies to take place. The business units are responsible for the conduct of business operations. The structure is rounded out by central Group and service functions.

DB AG's business development is primarily driven by the development of the overall Group. DB Group and its business units faced a very challenging environment during the 2008 financial year. While the first half of the year was still influenced by the consequences of the wage dispute and sharply rising prices for energy, the second half of the year was buffeted by the rapidly accelerating downturn in the global economy and the consequences of the crisis in the financial markets.

Despite the difficult overall conditions, the development in the year under review was favorable. DB Group was able to continue the successful development seen in previous years by posting further gains in revenues, operating results and its key value management figures. However, the individual gains posted were no longer at the very high levels recorded in the previous years.

The planned partial privatization of DB ML AG, which was scheduled to take place via an initial public offering (IPO) of its shares during the year under review, was postponed because of the turbulent situation in the international financial markets and the related sharp falls seen in stock prices. The internal structure of DB Group was also changed as part of the preparations for the IPO.

PREPARATIONS MADE TO SELL SHARES OF DB ML AG

On May 30, 2008, the German Parliament (Bundestag) passed the motion submitted by the governing parties, "The Future of the Railway, the Railway of the Future – the Further Development of Rail Reform" ("Zukunft der Bahn, Bahn der Zukunft – die Bahnreform weiterentwickeln") by a big majority. At the end of April, the Federal Cabinet set the key parameters for a partial privatization. Based on this decision, up to 24.9 % of DB ML AG may be privatized.

In their meeting held on June 25, 2008, the Supervisory Board of DB AG approved the participation agreement (Beteiligungsvertrag) negotiated with the Federal Government, covering the roles of the Federal Republic of Germany, DB AG and DB ML AG. This agreement established the basic structural and corporate law prerequisites for transferring holdings and Group functions from DB AG to DB ML AG needed to complete the planned partial privatization of DB ML AG.

The IPO of DB ML AG, which was scheduled to take place at the end of October 2008, was postponed because of the turbulent situation in the international financial markets.

Business and overall conditions

CHANGES IN DB GROUP

LEGAL CHANGES MADE TO CORPORATE STRUCTURES

A spin-off and takeover agreement, which was signed by DB AG and DB ML AG on May 16, 2008 formed the basis for the restructuring of DB Group that took place during the year under review. DB ML AG was previously known as Stinnes AG. The renaming of Stinnes AG took place on January 30, 2008. The change was entered into the commercial register on February 1, 2008. Following the merger, retroactive to January 1, 2008, of DB Sechste Vermögensverwaltungsgesellschaft mbH, which was fully owned by DB AG, with DB AG, the sole owner of DB ML AG is DB AG.

Following the signing of the spin-off and takeover agreement, the spin-off of activities of the planned DB Mobility Logistics Group (DB ML Group), which had been previously managed directly by DB AG, to DB ML AG took place by means of a complete legal successor agreement. The spin-off involved transferring the assigned parent companies and/or other subsidiaries and minority holdings, which were not yet brought together, under DB ML AG. Based on this, entities transferred are companies owned by the DB Bahn Long-Distance, DB Bahn Regional, DB Bahn Urban and DB Services business units, as well as significant Group and service functions of DB AG, and additional companies in which stakes are held and are involved with DB Group's business activities.

This action bundled together the DB Bahn Long-Distance, DB Bahn Regional, DB Bahn Urban, DB Schenker Logistics, DB Schenker Rail and DB Services business units, as well as significant Group and service functions and additional companies in which stakes are held, under the management of DB ML AG. Corresponding transfers of associated companies and Group functions from DB AG to DB ML AG were agreed on June 2, 2008 and took effect retroactively to January 1, 2008.

Motions passed by the Federal Government and the German parliament regarding the partial privatization of DB AG have opened opportunities for private investors to participate in DB ML AG. The approved key points foresee that up to 24.9 % of the shares of DB ML AG may be privatized, and accordingly at least 75.1% of the shares in DB ML AG will be held by DB AG, which will continue to hold 100 % of the shares of DB Group companies within the DB Netze Track, DB Netze Stations and DB Netze Energy business units.

The foreseen privatization model retains the integrated Group structure and thus the single DB Group labor market as well.

MAJOR M&A TRANSACTIONS WITHIN DB GROUP

DB Group once again complemented its organic growth with M & A transactions during the year under review. The focus was placed on strengthening the market positions in the DB Bahn Regional, DB Schenker Rail and DB Schenker Logistics business units. In addition DB Group made divestitures in the area of its non-core activities.

During the year under review DB Group once again only selectively participated in transactions that supported its strategic and financial goals within target markets defined by DB Group.

Important transactions concluded during the year under review included:

- JOINT VENTURE WITH GREEN CARGO: In March 2008, following approval by the responsible cartel authorities, the Swedish freight railway, Green Cargo AB, Stockholm/Sweden, acquired a 49 % stake in the previous Railion Danmark A/S, Glostrup/Denmark, which was newly restructured as a joint production company for Scandinavia and renamed DB Schenker Rail Scandinavia A/S, Taastrup/Denmark. Sales activities remain fully owned by DB Group in the form of the spun-off DB Schenker Rail Danmark Services A/S, Taastrup/Denmark. DB Schenker Rail Scandinavia serves to enhance the performance and efficiency of train transports between Scandinavia and Central Europe for DB Group customers through the use of end-to-end trains. Both of the shareholders will invest in modern, multisystem-capable locomotives.
- ACQUISITION OF LAING RAIL: In March 2008, following issuance of all regulatory approvals, DB Group took a major step forward in its internationalization efforts in the DB Bahn Regional business unit by acquiring 100 % of the shares of Laing Rail Ltd., an English rail company based in London/UK. The purchase price was € 67 million. Laing Rail, which was renamed DB Regio UK Ltd. directly after the transaction was approved, is active in the rail passenger local transport market in the UK and owns 100 % of the Chiltern Railway Company Ltd. (Chiltern), London/UK, and also holds a 50 % stake in two joint ventures: London Overground Rail Operations Ltd. (LOROL), London/UK, and Wrexham, Shropshire and Marylebone Railway Company Ltd. (WSMR), London/UK. Chiltern primarily operates commuter trains between London and Birmingham and between London and Aylesbury and frequently received the "Rail Operator of the Year" award in the UK. LOROL's activities consist of commuter-train-similar routes in London; WSMR offers its own operated connections between London and the Wales cities of Wrexham and Shropshire.
- ACQUISITION OF TRANSFESA: In April 2008 the purchase of a majority stake of 55.1 % in the Spanish firm Transportes Ferroviarios Especiales S.A. (Transfesa), Madrid/Spain, was concluded following the approval by the responsible cartel authorities. The purchase price was € 135 million. The Spanish railway, RENFE, and the French railway, SNCF, remain minority shareholders in Transfesa. Transfesa is an

internationally active provider of rail freight and road transport as well as logistics services and is specialized in the automotive, bulk freight and general cargo segments of the transport market. Transfesa provides DB Group with ideal access to Spain and Portugal due to its wide presence throughout the Iberian markets and the fact that it operates its own axle regauging facilities. This transaction enables DB Group to further expand the position as a leading rail freight enterprise in Europe and make a major contribution towards optimizing freight transports to and from Southwest Europe.

/// ACQUISITION OF WAGGONBAU NIESKY: In July 2008 DB Group completed the purchase of 100 % of the shares in WBN Waggonbau Niesky GmbH. The company was subsequently renamed DB Waggonbau Niesky GmbH (WBN). WBN was acquired within the framework of planned bankruptcy proceedings under the new bankruptcy law. The purchase price was € 10 million. The company has been active in the manufacture of industrial and rail vehicles for almost 170 years, and has made a name for itself as an internationally renowned maker of freight wagons. WBN is well known far beyond its domestic market as a recognized center of competence for incorporating aluminum to manufacture rail vehicles. The company makes various kinds of freight wagon and supplies individual components for rail vehicles, especially freight wagons, to other manufacturer and railway companies.

/// ACQUISITION OF ROMTRANS: In November 2008, following the approval of the responsible cartel authorities, DB Group concluded the acquisition of the Romanian freight forwarding company, S.C. Romtrans S.A. (Romtrans) Bucharest/Romania. The shares were tendered by shareholders within the framework of a takeover offer made to all of the company's shareholders. The purchase price was € 91 million for 99.3 % of the shares. Romtrans is Romania's largest forwarding company. The company offers land, air and ocean freight transport services, as well as rail forwarding and customs clearance services. It also operates a successful multimodal transport location at the Black Sea port of Constanța.

/// SALE OF HOLDINGS IN ARCOR: In May 2008 DB Group sold the total holdings of 18.17 % in Arcor AG & Co. KG (Arcor), as well as 18.15 % in Arcor Verwaltungs-Aktiengesellschaft to Vodafone plc, Newbury/UK. The sales mark a continuation of the strategy to further focus on the core business. The sales price was € 314 million.

BUSINESS ENVIRONMENT

The vast majority of DB Group's passenger transport business, as well as the freight transport business, are highly dependent on economic developments within the home market, Germany. In 2008 the impulses driving growth were notably weaker than in 2007.

Although the globally oriented freight forwarding and logistics activities benefited from the still favorable development of global trade, which expanded at a faster pace than the worldwide gross domestic product, the rate of growth noted was, however, significantly less in comparison to the rate posted in the previous year.

ECONOMIC DEVELOPMENT NOTABLY BLEAKER

Total economic development: increase in gross domestic product (GPD) %	2008	2007
World[1]	2.1	3.6
USA	1.2	2.0
Japan	0.3	2.4
China	9.0	11.5
Eurozone	0.9	2.6
Germany	1.3	2.5

[1] Total selected industrial and emerging countries.
Data for 2007/2008 is based on information and estimates available on February 25, 2009.
Source: Consensus Forecasts, Federal Statistical Office, Germany.

Over the course of 2008 the world's economic growth decelerated notably due, in particular, to the crises in the financial and real estate sectors. Countries that depend on exports for their expansion were disproportionately affected at the end of the year. The notable cooling of the economy in the USA, which had already begun in 2007, continued. While this also led to a dampening of exports in the Eurozone, the decline in the value of the euro vis-à-vis the dollar that began in the spring had a stabilizing effect. However, the pace of overall economic growth slowed significantly due to factors including barely rising consumer demand and sluggish capital expenditures. The economies in Central and Eastern Europe were also affected by these factors, although the pace of growth noted in these regions was significantly more dynamic than in Southern and Western Europe. Following years of above-average growth, the economy in the UK was hit especially hard by the effects of the crises in the financial and real estate markets, and led to a significant slowdown in the UK economy. Asia was once again the world's fastest growing region, although even in China, economic growth slowed, albeit at a high level.

Despite the fact that Germany grew at a faster pace than the Eurozone average, a decline in growth by over one percentage point was noted. In view of the decelerating expansion of the global economy, rates of growth posted for exports and capital expenditures declined while employment figures still continued to grow during the course of 2008. In particular, the number of persons holding jobs requiring mandatory social insurance contributions grew significantly. Driven by sharp increases in prices for energy and food that lasted into the fall, the fastest rise in consumer prices in 14 years and a further increase in the rate of personal savings combined to restrain economic growth in Germany.

SHARP CHANGES SEEN IN ENERGY PRICES DURING THE YEAR

During the first half of 2008 the price of crude oil, which had initially started to climb in 2007, continued to rise at an accelerated pace. The American benchmark, West Texas Intermediate (WTI), set a historic record in July 2008 when it peaked at US dollars (USD) 147/barrel (bbl) only to fall within a few months to its lowest level since the end of 2003.

High demand from emerging markets as well as a decline in oil production in the western industrialized nations at the beginning of 2008 combined with fears of a further tightening of resources, including within oil-producing countries, fueled a significant increase in the price of oil. At the end of 2008 the price of WTI was 45 USD/bbl. Average annual oil prices of nearly 100 USD/bbl exceeded the comparable year-ago price by nearly 40 % – despite the price drop seen in the second half of 2008. The upward move in the exchange rate of the euro to the dollar was, however, able to cushion the swings in the price of oil within the Eurozone. While the situation on the supply side remains tight, the contraction of the global economy has caused demand around the world to decline so dramatically that an excess of oil supplies may be expected for some time to come. This situation drove the decline in prices in the second half of 2008.

Prices for 50-hertz power on the futures market weakly tracked developments in the primary energy markets as they rose by more than 40 % in the first half of 2008. The forward contract for 2009 traded at a record high of € 90/MWh and remained above the € 55/MWh level during the declines seen in the second half. The annual average of forward prices for power (base load year future) in 2008 was about 27 % higher than in 2007. Spot prices for power remained at record levels throughout the year: the European Energy Exchange (EEX) intra-day base load index occasionally exceeded € 100/MWh.

DIVIDED DEVELOPMENT OF THE EURO

Higher interest rates in the Eurozone than in the USA led to a rise in the value of the euro, which peaked at a record 1.60 USD at mid-year. Cuts in interest rates moved to the center of attention around the world due to the subprime crisis in the USA and its subsequent effects on the global economy. The Eurozone, which had higher interest rates at the time than the United States, had greater potential to reduce its interest rates. This led to declining rates of exchange for the shared currency vis-à-vis the US dollar. Furthermore, this decline was reinforced as US firms repatriated major amounts of dollars from abroad in the second half. At the end of October the euro hit its lowest level to the US dollar in 2008 with 1 euro worth USD 1.25. The euro gained after the European Central Bank cut its key interest rate and announcement of economic stimulus plans by EU member states. At the end of the year the euro was trading for USD 1.39.

SHARP SWINGS SEEN IN THE BOND MARKET DURING THE YEAR

Rising rates of inflation fueled by very high prices for energy led to an increase in long-term yields during the first half. Peak rates for 10-year Bunds exceeded 4.60 %. High demand was noted for sovereign bonds of very creditworthy issuers as the financial crisis worsened and led to sharply higher prices for these securities. Towards the end of the year the yield stood at 2.94 %. Prices for spread products, like corporate bonds, moved in the opposite direction as investors' felt generally insecure about these types of bonds, which in turn led to heavy sales pressure on these products across all rating categories. As a result, investors demanded higher premiums for lending, which was reflected in the credit spreads seen for new issues. The capital markets remained open to good borrowers seeking funds for refinancing purposes, although only if they were willing to accept paying higher premiums for new issues.

DEVELOPMENT IN THE RELEVANT MARKETS

A detailed report on the development of rail transport in Germany is also available in DB Group's annual Competition Report.

PASSENGER TRANSPORT

Strong growth of rail passenger transport in Germany

German passenger transport market	Growth rates		Market share	
% BASED ON VOLUME SOLD	2008	2007	2008	2007
Rail passenger transport	+ 3.5	+ 0.4	9.9	9.5
DB Group	(+ 3.0)	(+ 0.0)	(9.4)	(9.0)
Non-Group railways	(+ 11.0)	(+ 8.3)	(0.6)	(0.5)
Public road passenger transport	− 0.5	+ 0.6	9.8	9.7
DB Group	(+ 1.0)	(+ 4.5)	(1.1)	(1.1)
Motorized individual transport	− 1.5	− 0.5	79.0	79.5
Air transport (domestic)	+ 3.0	+ 7.7	1.3	1.3
Total market	− 1.0	− 0.3	100.0	100.0

Data for 2008 is based on information and estimates available on February 25, 2009; growth rates rounded up by half a percentage point

The decline in demand in the German passenger transport market (all motorized modes of transport: motorized individual transport, rail, public road passenger transport, as well as domestic air transport) accelerated slightly in 2008 in comparison to the previous year due to weakness noted in the motorized individual transport segment. This was primarily due to a long period of rising fuel prices at a high level, which reached its peak in late summer. Despite the significant drop in fuel prices that took place in the following months, the average annual price for gasoline and diesel fuel still posted a strong increase as it rose by nearly 7 %.

Volume sold recorded for the rail passenger transport sector significantly exceeded the previous year's figures and led to a correspondingly notable expansion of its share of market. Positive effects for the sector resulted from developments in the labor market and the long phase of higher fuel prices, as well as the basis effects stemming from the wage dispute in the previous year. Along with the favorable gain posted by Group-companies, DB Group estimates that non-Group railways also recorded a strong increase in their volume sold. This was mainly due to them gaining more contracted routes in the regional transport area. Non-Group railways' share of volume sold in the rail passenger local transport segment rose accordingly in 2008 by 0.6 percentage points to 10.1%.

A slight decline in demand was noted in the public road passenger transport sector – consisting of bus, streetcar and subway routes. While scheduled line services benefited from the favorable development seen in the labor market, the declining number of schoolchildren and the strike at the Berliner Verkehrsbetriebe (BVG), which lasted weeks, had a negative impact on performance (about 12 % of all passengers who use local scheduled line services in Germany are transported by the companies from Berlin).

The non-scheduled transport segment was mainly burdened by the high average annual price of fuel and stagnant disposable income figures. On an overall basis, the volume sold of DB Group bus companies rose slightly.

The dynamic growth of volume sold noted by the domestic air transport segment in the first half of 2008 in comparison to the same year-ago period was dampened by sharply rising prices for aviation fuel and the shrinking economy in the second half. The pace of growth in the low-price airlines segment decelerated significantly as these carriers responded to reduced demand by restricting their offers and decommissioning aircraft.

FREIGHT TRANSPORT

Rail freight transport asserts itself in a difficult environment

German freight transport market	Growth rates		Market share	
% BASED ON VOLUME SOLD	2008	2007	2008	2007
Rail freight transport	+ 1.9	+ 7.1	17.4	17.3
DB Group[1]	(– 1.0)	(+ 2.9)	(13.6)	(13.9)
Non-Group railways	(+ 13.5)	(+ 28.7)	(3.8)	(3.4)
Road freight transport	+ 1.6	+ 6.2	70.7	70.5
Inland waterway transport	– 1.1	+ 1.2	9.6	9.8
Long-distance pipelines	– 3.4	– 0.1	2.3	2.4
Total market	+ 1.3	+ 5.7	100.0	100.0

[1] DB Schenker Rail Deutschland AG (previously Railion Deutschland AG) and RBH Logistics GmbH.
Data for 2008 is based on information and estimates available on February 25, 2009.

The growth of the freight transport market in Germany (rail, road, inland waterway transport and long-distance pipelines) weakened notably in comparison to the same year-ago period. While stable gains in performance were still noted in the first half of 2008, the pace of growth of volume sold slowed considerably in the second half of 2008 due to the sharp contraction of the economy. Moreover, rising cost burdens were also felt. Despite the fact that the rapid rise of fuel prices, which peaked in July 2008, was followed by a significant drop in the subsequent months, the average price of diesel fuel for the entire year, for example, still rose by about 14 % over the same year-ago period. This meant that the price of diesel fuel rose disproportionately faster than gasoline prices. However, powered by growth noted in the first six months, the volume sold of the total market rose in 2008 – with rail once again posting the highest rate of growth in comparison to the other modes of transport, albeit at a low level.

Although the pace of growth in the rail freight transport segment slowed considerably in 2008 it was still strong enough to surpass the high level of performance noted in the previous year. Market share once again rose slightly in 2008 continuing the successful development seen in the last five years.

Following very good developments in the first half of 2008, the pace of growth slowed notably in the second half due to the cooling global economy. Growth was once again driven by combined transport (CT), although its overall performance was weaker than expected in 2008. Dampening effects were noted in both the seaport hinterland transport segment as well as in the continental CT segment across all industries. Support was provided by the petroleum-based products and coal, iron and steel (Montan) sectors, although the coal, iron and steel industry was heavily burdened by economic developments in the final quarter of 2008.

DB Group companies active in the rail freight transport business in Germany were unable to fully reach the high level of performance they attained in the previous year due to the difficult market environment. The favorable development in volume sold noted for non-Group railways continued at a notably slower pace than seen in the previous year. A significant drop in the transit transport segment was countered by a sharp gain in the stronger performing domestic sector – above all due to the unbroken expansion of the international business in import and export transports. DB Group estimates that the non-Group railways' share of the rail freight transport market rose further and was about 22 % in 2008.

The development of volume sold recorded by the road freight transport segment (German and foreign trucks – including cabotage routes in Germany) was also notably weaker. Increases in volume sold noted for foreign trucks, which clearly dominated cross-border routes, was once again stronger than the growth rates noted for their German competitors – despite the significant deceleration in impetus from foreign trade in the second half of 2008. Their share of total volume sold on German roads was about 36 %. While demand still remained stable during the first half of 2008, growth was primarily burdened by the sharp increase in fuel prices. The situation almost reversed itself during the remaining course of the year. On one hand, the price of diesel fuel again fell sharply, calming the situation, while on the other, demand fell notably, leading to excess capacities in available loading space, which had a corresponding effect on pricing. On an overall basis, volume sold posted by the road segment was slightly above the level of total market growth.

Following a slight increase in volume sold posted by inland waterway transport in 2007, the year 2008 saw a continuation of the weak growth noted in previous years. Overall, this segment's volume sold in 2008 lagged behind performance noted in the previous year. Only few weather-related restrictions and initially still stable overall economic conditions were not enough to offset the weak development stemming from the contracting economy in the second half of 2008. A further burden on this segment's performance was the sharp increase in the price of gas oil noted in the first months of 2008. The bottom line was that inland waterway transport was – unlike in the previous three years – unable to hold its share of market.

Declining development in rail freight transport in Great Britain

DB Group, with its subsidiary company DB Schenker Rail (UK) Limited, London/UK, which was acquired in July 2007, is the biggest provider of rail freight transport services in Great Britain. DB Schenker Rail (UK) previously operated under the name English Welsh & Scottish Railway Holdings Limited (EWS). At the time when this report was being prepared DB Group only had initial estimates available regarding developments in the UK freight transport market. These indicated that the freight transport market in Great Britain (rail and road) had posted significantly weaker growth in comparison to the same year-ago period. The modal split is also dominated in this market by road freight transport.

On an overall basis, rail transport had already recorded a decline in volume sold in the previous year. This development also continued into the start of 2008 due to comparatively warm winter weather. The cooling off of the British economy culminated in a recession in the second half of 2008 and a significant decline in production in the construction, automobile and steel industries, which rely heavily on rail transport. Furthermore, combined transports also declined because of a drop in demand for container transports.

The development of volume sold in the overall market led to heightened competitive pressures in both inter- and intramodal transports, which in turn led to greater pricing competition. The increase in fuel taxes in October 2008 was an additional negative influence that impacted on the road freight transport sector.

FREIGHT FORWARDING AND LOGISTICS

The global economic downturn in the second half of 2008 had a significant effect on the international transport and logistics markets.

The relevant markets for the business recorded significantly weaker development in 2008 following strong advances in the previous years.

European land transport

DB Group noted favorable development in demand in the land transport market in Europe up until the summer of 2008 thanks to a growing economy. After the second quarter of 2008, however, recessionary tendencies became noticeable in all of the major countries in Europe and led to a significant decline in the volume of freight transported. Nevertheless, the total market in Europe grew by an additional 4 % to 6 %, based on revenues. Within Western Europe the first area to show signs of decline was the national business segment, in particular, while international business was initially supported primarily by growth – albeit restrained – in Eastern Europe. Declines in shipping volume noted in the second half of the year led to excess capacities in the market and increasingly aggressive pricing-based competition as market players took steps to secure their own capacity utilization levels. Shipping volumes handled by the DB Group network also declined notably since the summer.

The consolidation trend continued in the industry and was driven by acquisitions and bankruptcies of smaller and mid-sized transport companies. Independent of the uncertainty surrounding the next moves in the price of diesel fuel following the peak reached at the end of the second quarter in 2008, the further rise in operational costs (due to factors including the introduction of the road toll, or higher tolls) led to heightened cost pressures. These were offset by rising excess capacities at freight forwarders, which made it difficult to pass on higher prices to shippers, on one hand, and also tended to lower procurement prices paid by freight forwarders.

Air freight

Following years of strong growth, shipments, based on freight ton kilometers, in the worldwide airfreight market declined by 4 % in 2008. Tonnage shipped via the DB Group network also fell during the year under review. Up until May 2008 it had noted growth – albeit sluggish – in the market. However, the volume of goods shipped via air freight fell notably from June until the end of the year. This decline was so significant that it pulled down the total volume figure to such an extent that it was lower for all of 2008 than the previous year's figure. The main reason for this decline was the restraining effect of the financial crisis on the global economy. In addition, the market had also been burdened by high fuel prices until the middle of 2008. The Asian market, which represents close to 50 % of total market volume, played a major role in the shrinking shipment volumes.

The growth of exports from Asia had already started to decline at the beginning of the year. Absolute reductions in volumes were recorded in the third quarter, and even sharper declines were posted in the fourth quarter of 2008. The total volume of goods transported from Asia declined by over 6 % in 2008. With the exception of the Near East, market volumes declined on all other trade routes.

Ocean freight

The optimistic growth expectations foreseen for ocean freight market in 2008 were already muddied at the start of 2008 by the decelerating pace of global economic growth, and the corresponding reduction in volumes in key markets. As a result, growth (measured in TEU) in 2008 only amounted to about 3 to 5 %. Volumes handled by the DB Group network remained stable.

Routes from Asia to North America and Europe retained their roles as the trade lanes with the heaviest volumes in the world market. Inner-Asian transports continue to be marked by heavy activity. The unfulfilled growth expectations led to unfavorable utilization of tonnage capacities – which was made even worse as shipping lines had expanded their capacities – and ultimately to an erosion of ocean freight rates, which continued through to the end of the year. The high level of intense competition remained unbroken in both the relevant markets as well as among the shipping lines.

Contract logistics

Revenues-based growth posted by the Contract Logistics/Supply Chain Management (SCM) market in 2008 expanded again, but at a weaker rate of nearly 4 %. While a strong increase in demand was still visible in the first three quarters of 2008, market growth fell abruptly in the subsequent months. The main reason for this was the dramatic drop in sales seen in the automobile industry. However, the high-tech sector also posted notable declines in volumes due to the global economic crisis. The rate of growth of DB Group was on a level with the development of the total market.

RAIL INFRASTRUCTURE IN GERMANY

Selected key figures DB rail infrastructure in Germany	2008	2007	Change absolute	Change %
Train operating companies	340	338	+ 2	+ 0.6
DB Group	28	28	–	–
Non-Group railways	312	310	+ 2	+ 0.6
Train-path demand (million train-path km)	1,043	1,050	– 7	– 0.7
DB Group	882	903	– 21	– 2.3
Non-Group railways	161	147	+ 14	+ 9.5
Station stops (million)	143.1	142.8	+ 0.3	+ 0.2
DB Group	125.2	126.6	– 1.4	– 1.1
Non-Group railways	17.9	16.2	+ 1.7	+ 10.5

Increasing numbers of non-Group train operating companies (TOC) are using the infrastructure in Germany because of the market liberalization that has been in place since 1994. This number rose slightly further in 2008. Competition in the rail sector in Germany is more intense than in any other country within the EU.

The development of the key figures relevant for DB Group rail infrastructure companies is dependent on their customers' operational programs and, accordingly, on developments noted in the transport markets.Volumes produced by DB Group and non-Group customers in the rail passenger and freight transport segments, which is measured in track kilometers, determines the utilization of the existing infrastructure and thus demand for DB Group products and services in the area of rail infrastructure. In 2008, demand for train-path almost reached the previous year's level, despite the difficult environment. The number of station stops rose slightly in comparison with 2007; as in previous years the number of station stops by non-Group railways climbed further.

Furthermore, the competitive situation faced by the mix of goods and services available in the passenger stations vis-à-vis the offers in neighboring department stores, in pedestrian zones, marketplaces, as well as in other retail and dining outlets is of vital importance to DB Group stations. Total real sales recorded by retailers in Germany declined slightly during 2008.

REGULATION OF THE RAILWAY SECTOR

During the year under review the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railroads (Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen; BNA) continued to carry out its responsibilities for regulating access to the railway infrastructure in Germany, as well as monitoring the observance of guidelines regarding the unbundling of infrastructure and transport services.

A detailed report on regulatory subjects is also available in DB Group's annual Competition Report.

BASIC RULING ISSUED ON HOW INFORMATION REGARDING CONSTRUCTION SITES SHOULD BE PROVIDED

The Federal Network Agency concluded proceedings concerning informational and coordination processes associated with construction measures, which had been ongoing since the summer of 2007, on October 31, 2008. With their ruling, the Agency ensured that a process that had been previously agreed with DB Netz AG, covering all of DB Netz AG's construction measures would integrate TOCs even earlier than before. DB Netz AG will implement the planned steps even though the ruling has not yet become legally binding. However, DB Netz AG filed a lawsuit against the ruling because the Federal Network Agency has taken a fundamental legal position with it. For example, it has retained its very broadly defined anti-discrimination position, even though it has become obsolete against the background of agreements reached for specific cases.

FEDERAL NETWORK AGENCY EXAMINING SYSTEM USED TO SET PRICES FOR STATIONS AND TRAIN-PATH

Since August 2007 the Federal Network Agency has been examining the station prices charged by DB Station & Service AG. It has also been examining the structure and extent of DB Netz AG's train-path prices since February 2008. As of the date when this report was prepared the Agency had not issued decisions for either of the two reviews.

DB REGIO AG WORKSHOPS HAVE TO POST TERMS OF USE

With rulings issued on May 8, 2008 and July 31, 2008, the Federal Network Agency obligated DB Regio AG to submit terms of use, which contain certain contents, for their workshops including, in particular, detailed descriptions of services provided. The Agency assumes that the workshops run by DB Regio AG are considered part of the rail infrastructure for the purposes of regulatory law. DB Regio AG appealed the ruling, which means that they have not yet become enforceable. On November 19, 2008, the Higher Administrative Court in Münster partially granted DB Regio AG's appeal to order the postponement of the implementation of the ruling dated July 31, 2008. In regards to the demand made by Federal Network Agency, to include detailed descriptions of services provided in the terms of use, the Court ordered that its implementation be postponed as requested in the appeal. On the other hand, the Court confirmed the view held by the Federal Network Agency that the DB Regio AG workshops are a part of the rail infrastructure. DB Regio AG retains its opposing opinion. This will be continued in the main proceedings.

Business performance

DEVELOPMENT OF REVENUES

As in the previous year, DB AG did not record any revenues during the year under review.

DEVELOPMENT OF INCOME

Other operating income fell significantly to € 1,316 million during the year under review (previous year: € 2,346 million). The higher year-ago figure reflects effects from the sale of Scandlines and Aurelis. The sale of DB Group's stake in Arcor had an opposite effect during the year under review. Nevertheless, total income from the sale of holdings fell by € 777 million. The second major effect resulted from the restructuring of DB Group during the year under review and the new function of DB ML AG as the second Group holding company with a corresponding takeover of Group management functions. This led to a considerable decline in income from Group charges and settlements for DB AG.

The cost of materials amounted to € 72 million was lower than the same year-ago figure (previous year: € 82 million). This change was due to the one-time effect caused by reassigning property ownership within DB Group in the previous year.

Personnel expenses fell sharply during the year under review to € 324 million (previous year: € 474 million). This change resulted from the reduction in personnel due to the transfer of Group management functions to DB ML AG within the framework of the restructuring of DB Group that took place during the year under review.

Depreciation taken amounted to € 10 million and was below the previous year's level (previous year: € 14 million). This change was due to the one-time effect caused by reassigning property ownership within DB Group in the previous year.

Other operating costs rose slightly to € 1,140 million (previous year: € 1,083 million). DB ML AG is now providing services to DB AG due to the restructuring of DB Group that took place during the year under review, and DB ML AG's new function as a second Group managing company. DB ML AG is remunerated correspondingly for these services. Furthermore, allocations to reserves also rose during the year under review.

The notable improvement in income from holdings to € 1,698 million (previous year: € 1,181 million) was mainly driven by the favorable development posted by subsidiary companies, which led to higher income from transfers of profits, or lower losses which had to be absorbed. Business units in the passenger transport sector, in particular, developed quite favorably during the year under review.

DB AG handles the central financing function for DB Group in accordance with the financing requirements of the Group companies and then passes on the funds it has obtained at basically the same conditions. Total net interest posted in the year under review was € 74 million (previous year: € –140 million), and clearly reflected the notably lower financial debt in comparison to the previous year.

This resulted in total in lower results from normal business operations of € 1,545 million (previous year: € 1,735 million). In evaluating the figures it should be noted that the previous year's results were partially influenced by special effects linked to the sales of holdings in other companies. After taking the tax position of € –35 million into consideration (previous year: € –79 million), annual profit amounted to € 1,510 million (previous year: € 1,656 million). After bringing forward profit from the previous year of € 1,564 million (previous year: loss carryforward of € 92 million) annual profit amounts to € 3,074 million (previous year: € 1,564 million).

Financial situation

FINANCIAL MANAGEMENT

DB AG's Treasury serves as the central treasury for DB Group. This structure ensures that all Group companies are able to borrow and invest funds at optimal conditions. Before obtaining funds externally, DB Group first conducts intra-Group financing transactions. When borrowing external funds, DB AG takes out short-term loans in its own name, whereas long-term capital is generally obtained through the company's financing company, Deutsche Bahn Finance B.V., Amsterdam/the Netherlands (DB Finance). These funds are passed on to DB ML AG companies within the framework of a dual-level treasury concept as time deposits or loans. The remaining Group companies are linked directly to DB AG Treasury. This concept enables DB Group to pool risks and resources for the entire Group, as well as to consolidate the expertise, realize synergy effects, and minimize refinancing costs.

The long-term debt issuance program of € 10 billion will be updated in 2009 and expanded in volume to € 15 billion. By the end of the year under review DB Group had tapped this program for a total of € 7.2 billion.

With respect to short-term financing, as in the previous year, a multi-currency multi-issuer commercial paper program of over € 2 billion was available and had not been tapped as of December 31, 2008. Furthermore, as of December 31, 2008 DB Group also had a guaranteed unused credit facility of € 1.7 billion. The credit facility serves as backup to secure the commercial paper program. In addition, credit facilities of € 1,041 million were also available for the operational business as of the date of record. These credit facilities, which are available to DB Group subsidiaries around the world, include provisions for financing working capital, as well as sureties for payment.

No major financed leasing transactions were concluded during the year under review.

DB Group's creditworthiness is regularly examined by the rating agencies Standard & Poor's (S&P) and Moody's. During the year under review these rating agencies conducted their annual rating reviews and subsequently reconfirmed DB AG's very good credit ratings: Moody's "Aa1/stable," S&P "AA/stable" in the long-tem category, and Moody's "P–1," S&P "A–1+" in the short-term category. These ratings have remained unchanged since they were first issued in 2000. In April 2008, S&P had placed DB AG's ratings on "CreditWatch with negative implications." Following a renewed examination, in December 2008 S&P took DB AG off the negative CreditWatch and once again stated that the outlook for the ratings was stable.

Moreover, as of 2009, DB AG's creditworthiness is also being rated by Fitch Ratings.

CAPITAL EXPENDITURES

Gross capital expenditures made by DB AG in tangible and intangible assets amounted to € 14 million, and were again at the comparatively low level posted in the previous year (previous year: € 11 million). The primary emphasis of the expenditures made was on procurement of plant and equipment and information technology (IT) purchases.

BALANCE SHEET

Balance sheet structure %	31.12.2008	31.12.2007
Asset side structure		
Non-current assets	83.4	81.1
Current assets	16.6	18.8
Deferred income	0.0	0.1
Total assets	**100.0**	**100.0**
Equity and liability side structure		
Equity capital	45.8	32.4
Reserves	19.0	16.3
Liabilities	35.1	51.3
Shares held by interest-bearing liabilities of total	(32.4)	(46.7)
Deferred expenses	0.1	0.0
Total assets	**100.0**	**100.0**
Total assets in € million	26,162	32,330

As of December 31, 2008 the sum of total assets declined significantly from the same year-ago figure (–19.1%, or € –6,168 million). This change is primarily due to the transfer of assets and liabilities to DB ML AG during the year under review. This applies, in particular, to shares in affiliated companies and participations (–20.6%, or € –3,380 million) within financial assets and liabilities owed to affiliated companies (–49.7%, or € –7,084 million) within liabilities.

As of December 31, 2008, non-current assets consisted almost exclusively of financial assets, just as they did at the end of the previous year. These declined notably due to restructuring measures taken within DB Group and the related transfer of holdings (especially DB Regio AG, DB Fernverkehr AG, DB Vertrieb GmbH, DB Stadtverkehr GmbH, DB Dienstleistungen GmbH and DB (UK) Logistics Holding Limited, Cardiff, UK) to € 21,774 million (as of December 31, 2007: € 26,168 million).

Current assets have also declined significantly due to the restructuring as claims against affiliated companies fell sharply by € 885 million to € 3,448 million as of December 31, 2008. This change reflects the new dual-phase structure of the Group treasury and the related lower claims from cash pooling. Furthermore, as a result of the notable reduction of financial debt, cash and cash equivalents fell by € 909 million to € 616 million.

An overall slight shift in favor of fixed assets took place on the assets side of the balance sheet.

On the equity and liabilities side, equity rose from € 10,495 million to € 12,005 million due to the annual profit posted for the year under review. The equity capital ratio improved further as a result.

Allocations to reserves amounted to € 4,974 million and were below the same year-ago figure (as of December 31, 2007: € 5,277 million). This figure was also influenced by the transfer of personnel-related reserves to DB ML AG that took place within the framework of the restructuring of DB Group. The share of total assets held by reserves rose slightly as the value of total assets fell significantly.

As of December 31, 2008 liabilities had fallen sharply by € 7,384 million to € 9,163 million (as of December 31, 2007: € 16,547 million). As of December 31, 2008 liabilities of € 7,181 million consisted primarily of liabilities owed to affiliated companies (as of December 31, 2007: € 14,265 million). These liabilities are particularly related to long- and short-term Group financing, especially funds that DB Finance has provided to DB AG in the form of loans. DB Finance issues bonds guaranteed by DB AG to refinance these loans. Among other reasons, the decline as of December 31, 2008 is due to the transfer of liabilities to DB ML AG (€ 3,000 million) and the decline in liabilities linked to cash-pooling due to the restructuring of the cash-pooling arrangement. In addition, liabilities owed to DB Finance were repaid. The share of total assets represented by liabilities fell significantly due to the decline in total assets.

Strategy

With the passage of the German Rail Reform Act in 1994, DB Group took on the task of converting the former Federal Railways into a commercial enterprise. During the earlier years DB Group placed special emphasis on modernizing the rail business and eliminating the backlog in capital expenditures that had accumulated over decades. DB Group has achieved a lasting improvement in the service offers, quality and profitability due to the resolute cost management and the continual optimization of the processes combined with numerous modernization measures.

DB Group is established as an integrated Group with regard to the business portfolio, and considers the focus on interrelated business units as a significant success factor. DB Group's mobility and logistics activities, as well as most of the service activities, are bundled together within DB ML Group. The business activities of DB Group and DB ML Group are closely interrelated. The close link between DB Group and DB ML Group is also reflected by the integrated approach to strategy, organization and management. This approach allows DB Group to preserve the synergies that are realized through interactions between the carriers and the infrastructure. For example, DB Group is able to strengthen the competitive position for intermodal rail freight transport.

In DB Group's rail business, the primary goals are maintaining the strong market position in the passenger and freight transport sector and improving its competitive edge in the field of intermodal transport. The Group's integrated structure is a fundamental prerequisite for accepting comprehensive responsibility for the further development of the overall rail system.

In addition to furthering the development of the rail system in Germany, the home market, DB Group has also successively added to and expanded the portfolio in the European rail market as well as in the worldwide freight forwarding and logistics business. These steps have enabled DB Group to further align the Group's activities with changing and more demanding customer requirements as targeted enhancements to DB Group's core business were made. The acquisitions of Schenker (2002) and BAX (2006), in particular, unlocked additional potential for DB Group to expand in European land transport, in the international air and ocean freight business, and in the field of contract logistics. The acquisitions of EWS (2007) and Transfesa (2008) marked a further expansion of DB Group's position in the European rail freight transport sector. In passenger transport, DB Group achieved an entry into the British rail passenger transport market by acquiring shares in Laing Rail Ltd. (2008), significantly strengthening its position in the European market. Today, DB Group has already achieved leading market positions in all of the relevant transport segments.

DB GROUP HAS SET ITSELF THE GOAL OF BECOMING THE WORLD'S LEADING PASSENGER AND LOGISTICS COMPANY

Today, DB Group moves people and freight via seamless mobility and logistics chains, thanks to the integrated operation of transport and infrastructure elements, as well as the intelligent economical and ecological linkage of all modes of transport. DB Group is involved in creating and operating the transport networks of the future: the railroad infrastructure in Germany, passenger transport in Germany and in Europe, rail freight transport and land transport in Europe as well as air and ocean freight around the world.

DB Group has set itself the goal of becoming the world's leading passenger and logistics company. This goal will be achieved by further upgrading and expanding the transport networks to meet future market requirements – and DB Group is setting benchmarks in the markets as DB Group moves toward the goal. DB Group aims to achieve the goals by advancing in three key categories: expanding the transport network, continuously upgrading the existing business, and realizing the benefits of synergies inherent in a large group.

EXPANDING DB GROUP'S TRANSPORT NETWORKS

The continuous evolution of DB Group's transport networks to meet changing customer needs and general competitive conditions, as well as the shifts in DB Group's societal environment, is of decisive importance in maintaining and expanding its leading market positions. The major emphasis of DB Group's planned activities is primarily driven by three megatrends: globalization, climate change and a scarcity of resources.

Globalization

The globalization of industrial structures involving far-reaching relocations of production sites leads DB Group to anticipate that the transport and logistics sector will continue to grow at a faster pace than GDP in the long term. In order to meet the sharply rising demand for rail freight services, especially for seaport hinterland freight transport, DB Group will take carefully selected measures to expand the railroad infrastructure in Germany. The customers' demands for complex and globally linked logistics solutions have also risen as a result of globalization. In response, DB Group intends to take steps – including acquisitions – to further strengthen the contract logistics business and global freight forwarding business. DB Group is developing offers involving the operation of complex local transport networks in order to meet the growing demand in emerging markets for customized specific solutions that meet the requirements of their individual transport markets. DB Group's core competencies in the field of rail transport have increasingly proven to be a decisive competitive advantage vis-à-vis competing providers of transport services.

Climate change and a scarcity of resources

Climate change and long-term increases in the cost of fossil fuels, as well as an increasingly high level of public awareness regarding these issues, will significantly increase governments' and customers' demands for CO_2-efficient and energy-efficient transport and mobility solutions in the future. Because of rail's superior CO_2 and energy efficiency, DB Group will expand the rail network competencies and networks throughout Europe, in keeping with the rising demand for environmentally friendly transport services that help conserve resources.

Deregulation

Within the framework of continuing deregulation of the European rail transport markets, it is likely that rail transport will see a further opening up of the market and a harmonizing of regulative and technical framework conditions, which will continue to drive the growth of European rail transport markets. Through partnerships and acquisitions, DB Group will continue to expand the European rail freight transport network within the European rail freight transport market, which has been completely liberalized since 2007, in order to provide long-term security for the leading position in the market.

European markets will be opening their rail passenger transport sector to cross-border routes in 2010. This will provide the rail business with the same opportunities in Europe that international transport companies have actively enjoyed in Germany for years because of its open market access. DB Group's goal is to play an active role in developing European rail transport networks. DB Group intends to expand the European long-distance transport network primarily through partnerships with other state railways. Furthermore, DB Group will selectively expand the activities in the European local public transport market wherever entering into foreign markets can help to realize lasting competitive advantages.

CONTINUOUSLY UPGRADING DB GROUP'S EXISTING BUSINESS

Based on the restructuring successes that DB Group has achieved in recent years, additional areas with the potential for improvement will be identified – both in terms of organic growth potential and with regard to cost savings and/or increased productivity – and then DB Group will realize this potential in order to further enhance the performance of the transport networks. The majority of the improvements will take place on a centrally managed, cross-divisional and intermodal basis. In addition to lowering costs and increasing capacity utilization, the goal is to improve quality throughout the Group. Furthermore, DB Group will continue to improve processes within the business units to further enhance their productivity as the Group advances towards achieving one of the goals: attaining a significant increase in the quality of the railroad business in Germany. A key element here is improving punctuality in rail passenger and freight transport. With "Qualify," the Groupwide program launched for this purpose in 2007, DB Group is able to significantly increase punctuality. DB Group intends to continue improving the reliability and performance of the rail networks in the future.

Rapidly rising demand for passenger and logistics services, and the corresponding effects on the environment, will pose a major challenge to providers of these services. The sustainability of the services being offered plays an important role in providers' ability to offer these services at competitive prices in the face of steadily rising energy costs, without endangering the attainment of climate protection goals.

DB Group will continue to improve the range of passenger and logistics offers, which are already delivering a lower climate impact today than competitive offers, by further lowering the specific CO_2 emissions across the Group by an additional 20 % by 2020 (in comparison with 2006), and by increasingly linking the rail mode of transport with other modes of transport.

REALIZING THE BENEFITS OF SYNERGIES INHERENT IN A LARGE GROUP

DB Group intends to better coordinate the individual activities within the Group so that customers can be provided with even more attractive offers and so benefit from cross-selling opportunities. The improved coordination of the activities will enable DB Group to realize further opportunities to cut costs and achieve greater savings. One example here is the realization of additional benefits of scale by bundling procurement requirements. Additionally, DB Group will further optimize the entire rail system and use technical improvements to reduce costs. DB Group anticipates that bundling all of the Group's energy requirements will lead to further synergy-driven improvements in buying power beyond the already high level the Group currently has.

Within the business units in the Passenger Transport Board division DB Group plans to combine all of the individual offers in a single mobility platform and then add supplementary services that will make "door-to-door" mobility possible across all of Germany, thereby creating a competitive alternative to traveling by car. DB Group will focus on more cross-selling opportunities in the Transport and Logistics Board division, which arise on a cross-business unit basis, and will increasingly bundle together the various offers available within the Group to create products. Particular focus will be placed on exploiting the synergy effects that exist between DB Schenker Rail and DB Schenker Logistics. DB Group will bundle together the services and quantities (efficiency and purchasing advantages) in the DB Services business unit to create a service portfolio focused on the needs of the intra-Group customers; this will also allow DB Group to achieve additional savings by coordinating existing processes and procedures.

INTEGRATED MOBILITY IN GERMANY AND POSITIONING IN EUROPE

Further growth is anticipated in the rail passenger transport sector within Europe. The liberalization of the markets in the local and long-distance passenger transport sectors has begun, but has advanced at varying speeds across Europe. In long-distance rail passenger transport, Germany, with its open market access, has assumed a clear leadership position within Europe. In contrast, the number of tender offers for local transport routes has also been rising in other countries.

Against this backdrop, the first priority continues to be the defense of DB Group's position in the home market of Germany. This means further developing the DB Bahn Long-Distance, DB Bahn Regional and DB Bahn Urban business units, as well as linking them more closely together and creating intermodal passenger offers including back-up systems for information, ticketing and settlement.

The further development of the BahnCard into a mobility card, the consistent fares through to the level of the various public transport associations, as well as the operations of DB Carsharing and "Call a Bike" have enhanced the appeal of the offers, which are increasingly extending beyond rail and bus transports. In addition, DB Group will continue to expand cross-border transport and, if the occasion arises, as with the acquisition of shares in Laing Rail Ltd. for the British rail transport market, take advantage of opportunities to enter foreign markets to further gradually internationalize activities. Accordingly, DB Group is also emphasizing the further development of www.bahn.de to make it a comprehensive mobility-booking platform for viewing Europe-wide train connections as well as almost all public local transport connections in Germany.

DB Group's goal for the DB Bahn Long-Distance business unit is to ensure a highly competitive offering of fast, high-frequency connections between German metropolitan areas and other European countries. In this context, DB Group relies on the traditional advantages of rail systems: rapid and relaxed travel, convenient transport from city center to city center, and plenty of time for personal use. The offers feature open access to systems, thereby allowing customers to flexibly organize their travel arrangements. DB Group has given priority to further improving the quality of the information and performance. Furthermore, DB Group is continually developing the service and price concepts, along with the methods to increase customer loyalty, in target-group-oriented ways. In the cross-border transport sector DB Group will continue to intensify the cooperation with rail companies in neighboring countries. As part of these efforts, DB Group joined together with several other European rail companies in 2007 to establish RailTeam, a strategic alliance. The purpose of this alliance is to increase the attractiveness of European high-speed rail transport vis-à-vis air and car travel, by improving the offerings, quality and services.

The goal for the DB Bahn Regional and DB Bahn Urban business units is to continue providing attractively priced offers to ensure smooth mobility in both urban areas and the countryside. This requires continual improvements in productivity, quality and service. Currently, the German urban transport market is still highly fragmented and characterized by municipal providers. The gradual opening of this market leads to expectations that it will see a successive consolidation process in the coming years. Since the opportunities for collaboration within Germany are limited by the current interpretation of antitrust law, DB Group is looking at the prospects for growth opportunities in neighboring European urban transport markets, and for winning tenders in Germany.

HIGH-PERFORMANCE GLOBAL NETWORKS AND LOGISTICS COMPETENCE

The international transport and logistics markets are long-term growth markets with increasing consolidation tendencies. Customers are increasingly demanding complete coverage of global transport flows, intermodal offers and additional logistical services. To remain competitive and profitable over the long term DB Group will have to strengthen its position in key markets and add new logistical services to current services portfolio.

To achieve this goal DB Group will systematically further develop the logistics competence and drive the expansion, as well as the linkage, of the transport networks in the coming years.

The primary goal is to realize cross-business-unit potential by further development of integrated products. DB Group will continue to develop comprehensive solutions for key businesses like automotive, chemical/pharmaceutical and industrial. Integrated services should be pushed and placed in the market. These services include Rail Logistics and Forwarding (RLF) in the DB Schenker Logistics business unit, sea port hinterland transport, and solutions in combined transport as well as railports. Beyond this, the integration of key account sales activities will unlock cross-selling potential between the individual product areas.

DB Group is the market leader in the European land transport market. The strategic program, "Market Leadership," is focused on developing the further expansion of the European network, particularly in the South and Southeast regions, as well as in the UK. In addition to the further development of the land transport network in terms of network performance and density, the products Full Truck Load (FTL) and Rail Logistics and Forwarding, as well as – regionally limited – Parcel should be established or expanded, respectively.

The development of the European hub network and a shortening of start-time intervals will continue to improve the transit times and processes for transported goods, thereby continually improving product quality for the customers.

DB Group plans to continue expanding the air and ocean transport networks and to continue developing the hub structure. In doing this, the focus is on the Near and Middle East as well as Africa, Central Asia and Latin America. DB Group will continue to strengthen the Asian and trans-Pacific businesses. In order to gain competitive advantages from benefits of scale, DB Group will, for example, continue to develop the Preferred Carrier strategy and further standardize the operational and administrative processes. Customers will be provided with one-stop, door-to-door solutions tailored to their individual needs.

In the next few years, the Contract Logistics/SCM area of business to establish itself among the world's leading companies, measured by revenues in the global market, through continued organic growth at a faster pace than the overall market in specific regions and sectors, as well as through selected acquisitions.

The continuous improvement of all existing product solutions and processes will increase the quality and profitability of the offerings. To this end, existing solutions and processes should continue to be further developed and globally standardized, and investments made particularly in employees and IT. This will simultaneously increase processing quality and lower processing costs.

The ongoing liberalization of the European rail freight transport markets is leading to new opportunities in the international transport sector.

The DB Schenker Rail business unit is well positioned to handle the rising demand for cross-border routes. Here it is necessary to provide better management strategies for European-wide transport chains in order to achieve efficient and reliable rail transport services. For example, DB Group offers end-to-end transport services on the North-South corridor from Scandinavia to Italy. Against this backdrop, DB Group will continue to expand the existing network in an internationally targeted manner.

The expansion of sales competence in Europe and the further development of the Railport concept have contributed to the desired stabilization of the share of the intramodal transport market and an increase of the share of the intermodal market. DB Group's long-term goal is to hold the leading position in the European rail-based transport market.

Building upon the successful restructuring of the rail freight transport business, as a result of which DB Group was able to significantly improve the volumes sold and capacity utilization rates, the productivity and quality of the DB Schenker Rail business unit are to be further increased in terms of capacity.

Combined Transport is the fastest growing segment in the European rail freight transport market. DB Group is the European leader in this market. In order to reinforce this position the activities will be systematically further developed. The execution of the combined transport rail business model, with its stronger focus on the high-traffic European rail corridors, will lead to higher productivity and quality and ultimately to greater customer satisfaction. DB Group is participating in the expansion of seaport hinterland transport by ensuring the access to continental/maritime terminal capacities and by constructing a hub to secure the link between the hinterlands and the western seaports.

FIRST-CLASS ONE-STOP SERVICES

The DB Services business unit, as the strategic value-adding partner for intra-Group customers and synergy managers, provides first-class services for DB Group in the areas of vehicle maintenance, information technology, telecommunication services, facility management, security services and fleet management. The DB Services business unit makes a significant contribution to the future of DB Group by consistently lowering the costs of intra-Group services while simultaneously ensuring marketable quality and performance levels. In particular, this is achieved through further integration into the customer's value-added chain, and by using the non-Group business to ensure capacity utilization as well as creating benchmarks for quality and price.

GUARANTEEING A RELIABLE, ATTRACTIVE AND AFFORDABLE INFRASTRUCTURE

Rail infrastructure plays a large role in determining the long-term competitive capability of rail transport. The key task here is to facilitate secure and reliable railway operations with a high-quality offer tailored to the needs of the railway companies, thereby increasing the competitive capability of rail transport. The service offerings and the associated prices for using the infrastructure are non-discriminatory.

In order to ensure high infrastructure quality for the long term, along with target-oriented further development of the rail network in Germany, DB Group strives to create a sustainable, modern infrastructure partnership with the Federal Government. The successful conclusion of negotiations about the service and financing agreement marked a significant milestone for DB Group on this path during the year under review. As of January 1, 2009, the service and financing agreement, as a comprehensive contractual regulation for the entire existing network infrastructure, replaced the previous collective and global agreements for the existing network, as well as any existing individual agreements.

Increasing efficiency for the sharply rising traffic flows on the main routes and hubs poses a significant challenge for the DB Netze Track business unit. Its implementation is laid out in the “Net 21” strategy, and forms the strategic basis for a high-quality, reliable and secure rail transport offering. Selected expansion and new construction measures will take a targeted approach to eliminating bottlenecks and significantly increase efficiency. Sufficient capacity should be provided for future traffic developments. Another key focus is on the cost-effective and need-based modernization and maintenance of the rail network. An integrated capital expenditure and maintenance plan, along with bundling together construction sites into corridors and including them in the annual train schedule, ensures the efficient allocation of resources and minimizes the effects of extensive construction work for customers in passenger and freight transport.

In the DB Netze Stations business unit, DB Group is working in close partnership with the Federal Government and local authorities to continue the customer-oriented, need-based modernization plan. In addition to the program for security, cleanliness and service, the integrated maintenance and capital expenditure strategy represents a milestone in the long-term development of the business unit. The “Station 11, 11 points in favor of train stations” (“Station 11, 11 Pluspunkte für die Bahnhöfe”) program, with its differentiated development concepts, drives the systematic further development and increased attractiveness of DB Group train stations based on clearly focused portfolio strategy.

In the DB Netze Energy business unit, DB Group ensures railroad companies’ rail transport offerings by providing them with a very high level of assured electricity and diesel supplies. With these purchasing advantages ensured for the long term and with the successful energy services, DB Group aims to dampen the negative effects of highly volatile commodity prices as much as possible for the rail mode of transport.

Sustainability

DB Group is increasingly focused on responding to the central challenges of globalization, climate change, scarcer resources, deregulation and changing demographic structures. Only an energy-efficient company can also control its cost development and secure its market position, protect its jobs and, at the same time, protect the climate. DB Group is facing its social responsibilities with a sustainability-oriented corporate policy.

DB Group is committed to the principles of sustainable, future-oriented management, and this is reflected by DB Group-wide sustainability management policies. DB Group's first integrated Sustainability Report appeared in 2007 and provided an overall view of environment-related subjects, as well as personnel and social themes; it also replaced the previously separate environmental, employee and social reports. The Sustainability Report will appear every two years. A printed version complements the detailed Internet version available at http://www. deutschebahn.com/sustainability.

EMPLOYEES

The number of employees is calculated on the basis of full-time employee (FTE) positions to permit better comparability within the DB Group and over time. Figures for part-time employees are converted into figures for equivalent full-time employees in accordance with their share of the normal annual working time.

The number of employees at the end of the year under review was 4,287 (previous year: 6,328 employees). In addition, 180 trainees were also employed (previous year: 165 trainees). The annual average number of DB AG employees was 4,328 (previous year: 6,230 employees). The notable decline in the number of employees was due to the transfer of Group management functions to DB ML AG.

ENVIRONMENT

In the light of ever rising long-term mobility and transport needs, the impact on the environment and the atmosphere caused by the transport sector should be kept as low as possible. DB Group feels that a corporate policy that takes into account economic, ecological and social factors is the key to business success. The successful introduction of sustainable products requires both a careful analysis of customers' wishes and the expectations of society at large, and the consideration of the latest research findings. This is reflected in the sustainability management approach, which is directed from the DB Environment Center (DB-Umweltzentrum).

In an ecological comparison with other modes of transport, rail transport offers significant advantages. In addition to technical safety, the advantages for the customers include quality performance and service orientation, a proven important factor when selecting a means of travel and/or transport. In view of the growth forecasts for flows of travel and transport in the coming years and decades, the importance of environmentally friendly rail in securing a sustainable comprehensive transport system will continue to rise.

Serving global markets also means acting as a responsible corporate citizen worldwide. By sensibly interlinking all modes of transport under a single umbrella organization, DB Group creates "green networks." Shifting shipments to environmentally friendly modes of transport equally assists the customers and the Group in efforts to improve CO_2 figures. During the year under review, for example, shipments formerly transported by truck between Wels, Austria, and the Port of Rostock were shifted to the Danube-Nordic Shuttle, saving about 120,000 kilometers of truck transport, and thus about two-thirds of the previous CO_2 emissions, each week.

CLIMATE PROTECTION PROGRAM EXTENDED TO THE ENTIRE GROUP

With the energy savings and climate protection programs, DB Group was able to reduce specific CO_2 emissions in rail transport by 25.9 % between 1990 to 2002 and by 15.6 % from 2002 to 2008. During the year under review, DB Group raised the goals: the aim is to reduce Group-wide specific CO_2 emissions by 20 % between 2006 and 2020. The basis for this is the Group-wide greenhouse gas emissions balance sheet, which was first presented during the year under review. According to the balance sheet, vehicles and facilities of DB Group, along with transports performed by DB Group and by subcontractors, emitted 23.1 million tons of CO_2 worldwide in 2007. This result serves as the foundation for the implementation of the new "Climate Protection Program 2020."

Leverage for a successful climate protection program

Within this framework, DB Schenker Logistics has also captured and calculated for the first time its worldwide CO_2 emissions in land transport, air and ocean freight, contract logistics, and operating facilities. This information will be used as the basis for future CO_2 savings – through intelligent networking of modes of transport, for instance, or by shifting transports to modes of transport with lower emissions.

Environmental measures extend to every area of business at DB Schenker. DB Schenker is already fully certified under ISO 14001 across the European level today, and is gradually extending this certification to its global network.

Specific factors that the company leverages to reduce emissions across all modes of transport include the use of modern vehicles with enhanced energy efficiency, optimization of capacity utilization, and improvements in operational processes. The employees contribute as well, by conserving energy when they drive. DB Group supports the train drivers and truck drivers in their efforts with appropriate training measures.

Energy consumption and CO_2 emissions in rail transport further reduced

Since 1990, DB Group has reduced the specific CO_2 emissions in rail transport by nearly 40 %. During the year under review, DB Group was able to further reduce the specific CO_2 emissions, meaning CO_2 emissions with reference to the volume sold, in both rail passenger transport and rail freight transport by 2.5 % compared to last year.

Emissions of the greenhouse gas CO_2 were reduced by 3.9 % to about 62.4 grams per passenger kilometer in rail passenger transport. The same figure for long-distance transport fell by 5.1 % and specific local transport CO_2 emissions went down by 3.0 %. Rail freight transport values improved by 1.7 % to 23.3 grams of CO_2 per ton kilometer. These represent further contributions by rail transport towards protecting the climate, and mark a further increase in rail transport's environmental lead.

FURTHER IMPROVEMENTS IN REDUCING RAIL TRANSPORT NOISE

The aim is to cut rail transport noise pollution to half of its 2000 levels by 2020. DB Group is continuing to implement the Federal Government's noise abatement campaign, and by the end of the year under review, DB Group had already been able to cut noise in 21 %, or along 740 km, of the lines most heavily affected by train-related noise. During the year under review, 55 km of noise protection walls along existing lines were built, and noise abatement measures in 5,100 apartments were implemented.

The focus is still on reducing noise at its source. As part of a pilot innovation program, the Federal Government plans to have 5,000 freight cars retrofitted with low-noise composite brake shoes, which, in conjunction with smooth tracks, reduce perceived noise by half. DB Group has been purchasing new freight cars with the low-noise brake shoes since 2001. During the year under review, the number of cars equipped with this feature rose by 1,100, to a total of 4,400 cars.

The year under review saw the launch of the research project "Quiet Train on Real Track" (Leiser Zug auf realem Gleis, LzarG), sponsored by the Federal Ministry of Economics and Technology. Industrial firms, universities and providers work together in the project, under the overall supervision of DB Group, to develop and test new technologies. The research project is focusing closely on the interplay between wheels and rails.

Advances in clean diesel technology

During the year under review, DB Group succeeded in reducing particulate emissions by all the vehicles (diesel and electric traction) by 3.4 %. This represents a continuation of the positive development from previous years: since 1990, DB Group has been able to reduce particulate emissions by the vehicles by a total of 87 %. DB Group has also recorded similar success in reducing nitrogen oxide emissions. During the year under review, an improvement of 1.9 % was achieved, and since 1990, the figures have fallen by a total of 66 %.

Important measures for the reduction of air pollutants include the use of modern vehicles, retrofitting of the existing fleet with new engines, driving with an eye to energy conservation, and the electrification of additional lines. By testing new technologies, DB Group is preparing for stricter future limits and supporting the industry in the development of innovative technical solutions.

SOCIAL COMMITMENT AND INVOLVEMENT

For DB Group, "moving the future" (Zukunft bewegen) is not only the guiding principle behind the economic development of the company, this idea also mirrors the social responsibilities the Group undertakes. As one of Germany's biggest employers and occupational trainers, DB Group bears a special responsibility – to the customers, employees, the environment, and society as a whole. Providing support for children and young people is especially important. The activities in this area focus on education and sports.

For example, DB Group has been supporting reading and language development among children and young people since 1996 as a partner and member of Stiftung Lesen (the Reading Foundation). By the end of the year under review, cases of books and read-aloud materials had been supplied to 1,200 homes for children and youth throughout Germany.

Social integration of children and young people in need is the aim of the aid organization Off Road Kids, which is active in several regions. DB Group has supported this organization for 15 years, enabling street outreach workers to travel throughout Germany by train and assist homeless young people to get their lives back on track. In the second DB Kids Camp organized with Off Road Kids, 60 children from children's homes were again able to spend a week on vacation in Bad Dürrheim in August 2008.

Promoting sports is also a high priority for DB Group. As a long-standing official mobility partner of Youth Training for the Olympics (Jugend trainiert für Olympia), the world's largest school sports event, DB Group organized low-cost transport for participants to and from the site of the spring and fall finals in 2008 as well as their accommodation. And since 2002 DB Group has also been setting benchmarks in how sports through the partnership with the German National Paralympic Committee (Deutscher Behindertensportverband) have been valued, a partnership that extends far beyond Germany's borders, as was made clear when DB Schenker transported the sporting goods and equipment for the Paralympics in Beijing in 2008.

The aim is mobility, with as few barriers as possible, for athletes and sports fans – with or without disabilities. The Bundesliga travel guide for people with disabilities, which DB Group published with the German Football League (Deutsche Fußball Liga; DFL) and the German Working Group on Fans with Disabilities (Bundesbehindertenfanarbeitsgemeinschaft; BBAG) in August 2008, enables handicapped football fans to prepare for and carry out their trips to the stadiums effectively. DB Group's commitment and involvement, as reflected in the DB Young Talent Award (DB-Nachwuchs-Förderpreis), which was granted for the first time during the year under review, and which also addresses the base – and with it, the future – of the younger generations in this field.

INTEGRATED SYSTEMS RAIL

In its capacity as a service provider, the Integrated Systems Rail department supports the business units and offers integrated solutions for mobility and logistics, thereby focusing on DB Group as a whole. This organization's tasks comprise cost-effective procurement of all materials and quality assurance for those materials, overarching optimization of vehicle maintenance, ecological and economic further development of the railway as a mode of transport, and supporting the rail industry in the development of innovative, efficient and environmentally friendly products, along with ensuring safe railway operations and occupational safety and health.

QUALITY

Quality is an important part of the product-related responsibilities, and it ensures the sustainability of the product range. The Integrated Systems Rail department has consistently further developed processes associated with product and service quality in the business units. The focus was on a methodical consideration of measures to improve punctuality, and on process-oriented adaptation of the key quality indicator system. Group-wide audit programs have further contributed to the standardization of process management and firmly established these principles within the Group. DB Group is also addressing the increasing internationalization of the Group with measures aimed at quality assurance in procurement of rail systems on the worldwide supplier market.

TECHNOLOGY

Within the Integrated Systems Rail department, DB Systemtechnik (system technology) serves as the technical interface to all areas of day-to-day railway operations. In addition to activities within the scope of system service and procurement projects, DB Systemtechnik also designs and further develops technology used by the business units, tests technical projects, and performs feasibility studies for technical projects. The further development of technology serves as an important basis for additional improvements, including the environmental advantage that rail transport enjoys. For example, work is consistently progressing to make further advances in economical, efficient noise abatement technologies for both rail vehicles and the infrastructure.

The "GZ 1000" project is testing the technical feasibility of long freight trains. In Europe, the typical maximum permissible length for these trains is 750 meters. As part of this project, which is funded by the Federal Ministry of Economics, DB Group teamed with the Dutch infrastructure operator Keyrail to run a freight train approximately 1,000 meters long, for the first time, via the Betuwe route between Oberhausen and Rotterdam in November 2008. The aim of this project is to enhance the capacity of the network, thereby cushioning the impact of capacity shortages in hinterland transport from seaports, for instance. The information gathered in the "GZ 1000"project will be used for further projects.

Another area being explored to reduce the impact of capacity shortages in seaport hinterland transport is the potential offered by mixed transport, meaning mixed operation of passenger and freight trains, along the major corridors.

Moreover, the services in this area are increasingly in demand on the market outside DB Group as well. For example, working on behalf of the entire industry, DB System-Technik carried out tests for the initial licensing of several model series for use in regional transport. DB Systemtechnik, together with Balfour Beatty, also received orders for the production of overhead wire measurement instruments for use in China. In cooperation with DB International, DB Systemtechnik offers its services on an international basis as well. One example of this is the testing of the Siemens high-speed train Velaro in China.

PROCUREMENT

During the year under review DB Group was able to realize significant savings in the acquisition of equipment, vehicles and vehicle spare parts as well as maintenance and logistical services by means of cross-business-unit procurement and optimization projects.

The sustainability of solutions used to further enhance the competitive advantages enjoyed by rail transport in the areas of environmental protection and safety plays an important role in this process. In addition, long-term consideration of operating and maintenance costs is of great economic importance for products used in railway transport in particular, as they have extremely long lifetimes. Integrated procurement teams consisting of technicians, buyers, users, value analysts and logistics experts ensure a comprehensive overview of the acquisition process. This is supported by corresponding global sourcing activities used to develop new suppliers, which were continued and expanded during the year under review.

DB Group maintains business ties with about 35,000 suppliers worldwide, and the orders provide security for up to 600,000 jobs.

The total volume of orders placed during the year under review amounted to € 23.3 billion (previous year: € 21.2 billion). Next to the € 10.2 billion (previous year: € 10.4 billion) spent on freight and shipping services, the main focus was once again on the industrial products segment, with a procurement volume of € 4.2 billion (previous year: € 3.7 billion), and on construction and engineering services, with a procurement volume of € 4.0 billion (previous year: € 3.5 billion). The usage of third-party services rose year on year, with procurement volume of € 2.4 billion (previous year: € 1.6 billion). In the area of cable-and-pipe-bound power and fuel, total procurement volume rose to € 2.5 billion (previous year: € 2.0 billion).

More than half of the procurement volume (excluding freight and shipping services), or € 7.6 billion (previous year: € 7.2 billion), was allocated to small and midsized companies. More than 90 % allotted for building purposes, or € 3.6 billion, went to mid-sized companies (previous year: € 2.7 billion). This once again made DB Group one of the biggest investors in Germany during the year under review as a significant contribution towards securing jobs was made.

In line with the major capital expenditures, significant orders were placed, in particular, in the infrastructure sector as well as for the further modernization of the rolling stock.

Additional information

ADDITIONAL FEDERAL FUNDS FOR INFRASTRUCTURE IN 2009–2010

In December 2008, the Federal Government passed a package of measures to ensure growth and employment (Maßnahmenpaket zur Sicherung von Wachstum und Beschäftigung). This will create opportunities for quickly overcoming the effects of the weak economy.

The Federal Ministry of Transport, Building and Urban Affairs launched a "Workplace Program for Construction and Transport" (Arbeitsplatzprogramm Bauen und Verkehr) on the basis of this package of measures. This will accelerate implementation of urgent capital expenditures for transport. It includes specific transport projects and measures for rail, roads and waterways, with a volume of € 1 billion in both 2009 and 2010. Capital expenditures for the Federal train paths will focus on strengthening ongoing projects and launching new projects, initiation of a passenger station program and providing more resources for noise abatement. A total of € 620 million has been set aside for these projects.

In February 2009, the Federal Government provided an additional € 2 billion for capital expenditures relating to transport infrastructure, as part of the Economic Stimulus Plan II.

WAGE AGREEMENT AND NEW PAY STRUCTURE

The 2007 round of wage negotiations with the collective bargaining association (Tarifgemeinschaft; TG) representing TRANSNET and the Transport Workers' Union (Gewerkschaft Deutscher Bundesbahnbeamten und Anwärter; GDBA), as well as with the German Train Drivers' Union (Gewerkschaft Deutscher Lokomotivführer; GDL), were concluded in March 2008. Two "fundamental wage agreements" form the basis for the new wage agreement and a consistent pay structure, which consists of a basic wage agreement and six function-specific wage agreements.

One function-specific wage agreement is the separate traindrivers' wage agreement (Lokführertarifvertrag; LfTV) negotiated with the GDL, which defines employment conditions for train drivers. The LfTV is in effect from July 1, 2007 to January 31, 2009. Individual pay rises between 7 % and 15 % resulted from the classification of individuals according to work experience. At the same time, among other things, the pay framework was increased in two steps in May and September 2008.

The other five function-specific wage agreements were concluded with the TG, as well as an agreement regarding a new wage structure. This has been in effect since March 1, 2008 and includes 13 wage groups and six levels of experience. Employees' initial classification was based on their seniority.

COMPLIANCE DEPARTMENT EXPANDED

During the year under review the Compliance department was reorganized and the number of personnel in this area was substantially increased. DB Group has placed the compliance activities on an international footing as increasing numbers of the employees are working abroad. DB Group complemented the Ombudsman process, which was introduced in DB Group in 2000 with the launch of a worldwide electronic whistle-blowing system. The Internet-based system now provides 24/7 access to this communications platform to all branch offices and subsidiaries of DB Group, as well as to all of the business partners throughout the world. The system is operated on an external server located in a high-security computer center. This not only rules out unauthorized access, but also prevents identification of the whistle-blower.

Along with boosting the number of personnel in the Compliance department DB Group also intensified employee training and advice. The purpose of the training is to provide employees all around the world with the certainty they need to conduct themselves properly and to make them more aware of the risks of white-collar crime. All business units will also receive additional compliance officers to ensure that national and international laws as well as internal regulations are observed across DB Group.

During the year under review standards and expectations for daily business were collated in a Code of Conduct. All members of the Management Boards, Managing Directors, executive management and DB Group employees are committed to these principles. The central elements of the Code of Conduct are customer orientation, progress, partnership and awareness of responsibility.

FURTHER DEVELOPMENT OF THE EUROPEAN LEGAL FRAMEWORK

A detailed presentation covering the further development of the European legal framework in the railway sector is contained in the annual Competition Report. DB Group maintains a continuous dialogue with members of the European Parliament and the European Commission to ensure that competition in Europe takes place on a level playing field.

UNIFORM TRAIN SAFETY SYSTEM – ETCS

The wide spectrum of incompatible train safety systems used by the member states of the European Union is a key hindrance blocking the realization of a European railway area with cross-border railway routes that do not require locomotives to be changed at borders. In order to promote the interoperability of railway systems, European lawmakers have enacted laws that require high-speed lines, as well as conventional rail transport network lines, to be equipped with the uniform European Rail Traffic Management System (ERTMS), consisting of two technical components, ETCS and GSM-R.

After reviewing and evaluating the submitted national migration plans, the European Commission wishes to notably accelerate migration to a uniform ETCS train safety system along the conventional European railway network. To this end the Commission submitted a proposal for a binding European plan to migrate to ETCS. This proposal contains major additions to the national migration plan for the conventional rail network that was submitted by the German Federal Government to the European Commission in September 2007. The Commission's proposals, including the target dates mentioned in the proposal, can only be realized if the Federal Government and the EU substantially increase the foreseen budgets without delay. Other important transport projects will have to be postponed if these increases do not take place. Moreover, concerns have been raised about the procedural legitimacy of imposing a binding capital expenditure obligation of this extent solely by virtue of committee procedure (also known as comitology) and without the involvement of the European Parliament. DB Group has taken the initiative to call attention to the detrimental effects of this regulation on countries with complex rail networks and mixed routes.

EUROPEAN RAIL FREIGHT REGULATION PROPOSED

At the end of 2008 the European Commission adopted a proposal for an EU regulation to develop a European rail freight transport network to foster competition in freight transport. The main purpose of the proposal is to improve the quality of service and competitiveness of long-distance, cross-border rail freight transports. The proposal calls for the mandatory creation of internationally staffed corridor operators along the European corridors. The intention here is to deepen cross-border cooperation between infrastructure operators and achieve closer coordination on investments. The proposal is not entrepreneurial driven and involves considerable bureaucratic expenses for infrastructure operators. The results will have detrimental effects on railway operations due to higher costs and the elimination of infrastructure capacities. The regulations regarding an end-to-end increase in capacities and preferred treatment for rail freight transport would primarily impact on rail passenger transport. The passenger transport sector is especially vulnerable to the effects of intermodal shifts triggered by longer travel times and interruptions in the travel chain. The Commission's proposed regulation is currently in the co-decision procedure phase in the Council and the European Parliament.

Risk management

The business activities of DB Group involve opportunities as well as risks. The business policy is simultaneously directed at seizing opportunities and actively controlling identified risks through the risk management system. The necessary information for this is prepared in DB Group's integrated risk management system, which conforms to the legal requirements of the German Control and Transparency Act in the Corporate Sector (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich; KonTraG). This system is continuously further developed.

INTEGRATED RISK MANAGEMENT SYSTEM

The principles of risk policy are set by Group management and implemented within DB Group. Within the framework of the early risk detection system, quarterly reports are submitted to DB AG's Management Board and Supervisory Board. Risks or negative developments that arise outside of the regular reporting cycle must be reported immediately. Planned acquisitions are subject to additional special monitoring.

Within DB Group's risk management system all risks are shown in a risk portfolio as well as in a detailed listing, taking materiality thresholds into account. The risks mentioned in the risk report are categorized and classified based on the probability of occurrence. In addition to the possible consequences, the analysis also contains approaches to and the costs of countermeasures.

In terms of organization, Group controlling is the risk management coordination center within DB Group. In the context of Group financing, which is strictly oriented to the operating business, the Group Treasury bears responsibility for the limitation and monitoring of the resultant credit, market price and liquidity risks. By consolidating the related transactions (money market, securities, foreign exchange or derivative transactions) at DB AG level, the associated risks are centrally controlled and limited. Group Treasury is organized to conform with the "Minimum Requirements for Risk Management" (MaRisk) formulated for financial institutions and, applying the criteria derived from these guidelines, fulfills all requirements of the KonTraG.

ACTIVE RISK MANAGEMENT

The business actions are aligned with active risk management. In particular, the risks for DB Group include:

GENERAL ECONOMIC AND BUSINESS ENVIRONMENT RISKS

Demand for mobility services, and especially the transport and logistics services, is also dependent on overall economic development.

Economic growth drives the megatrends in the relevant markets, which in turn are key drivers of the strategy. For this reason, general economic shocks like the current financial crisis can have a negative impact on DB Group's business.

A key influencer of passenger transport is the overall development of major economic factors, such as personal disposable income and the level of employment.

In rail freight transport the most critical factor is freight demand for consumer goods, coal, iron and steel, oil, chemical products and construction materials. These, on the one hand, are subject to cyclical fluctuations. On the other hand, DB Group must consider structural changes in the production structures of the customers, who are frequently involved in global competition. In the area of freight forwarding and logistics, demand for storage and transport services is driven by the customers' economic development.

In addition, DB Group provides rail-related services in a regulated market. Access to the German railway network has been available to third parties on a non-discriminatory basis since 1994. Regulatory measures also affect the individual components of the pricing systems and terms of use applied by DB Group's railway infrastructure companies. In this area there is a risk of complaints. So the rail transport companies face the risk of having a complaint submitted regarding the technical condition of their vehicles – specifically the risk that individual model series are prohibited from operation, or may only operate under restrictions (e.g. speed limitations or shorter service intervals). These result in disturbed operations as well as higher costs.

MARKET RISKS

In the passenger transport market DB Group is engaged in tough intermodal competition with motorized private transport, which is still the dominant competitor. DB Group is continuously improving the service performance in order to strengthen the competitive position. On the offer side DB Group is optimizing the structure of the scheduled services as part of the regular timetable change. DB Group is able to offer more attractive connections on many routes as measures to improve the infrastructure were completed. Numerous special offers and promotions as part of the efforts were used to improve the customers' perception of prices. In addition, DB Group regularly employs sales promotion measures to specifically target new customers. The further development of punctuality, which is subject to strict monitoring, continues to be quite important.

Intensive intramodal competition exists for long-term service contracts in the regional and urban transport sector. A key influencing factor in the development of this market is the level of regionalization funds provided by the Federal Government over the medium term to states. These funds form the basis for ordering routes from transport companies by the individual states. Reductions in this area can have a serious impact on the activities. Among other measures, DB Group works to offset these reductions by increasing the farebox revenues. DB Group has observed the growing role played by the subsidiaries of major international corporations within the structure of market participants. A risk of tender losses exists here, especially because some companies are prepared to pay premiums to enter the market, or base their bids on ambitious assumptions. However, DB Group can see that contracting organizations are becoming increasingly aware of the negative consequences involved here. In addition, the tender management and cost structures are continuously optimized so attractive bids that make economic sense can be submitted. Additional burdens in the area of personnel costs, which only affect the subsidiary companies, make the competitive position more difficult.

Considerable intermodal competitive pressure exists in the rail freight transport sector in addition to the increasing intensity of intramodal competition. This situation is being aggravated by the increasing market significance of low-cost truck fleets from the new EU member states. In an isolated analysis of rail freight transport DB Group can see market risks arising from the necessity to adjust to the increasing intensity of intermodal competition and the resulting margin losses. DB Group reacts to this with intensive measures to further improve efficiency and reduce costs. Furthermore, the range of rail-related services are optimized and the rail freight transport is integrated into a comprehensive range of logistics services.

The activities in the logistics segments are especially influenced by the dynamic consolidation processes within the logistics industry and further increases in customer demands. From a position of competitive strength DB Group views the coming consolidation processes as an opportunity to not only defend the market positions, but also to strengthen them. The continued expansion of the networks via acquisitions, together with the opening of logistics centers, are at the core of the activities.

Due to the special nature of the business, the airfreight activities face risks arising from the submission of clearance declarations to airlines, which could lead to serious consequences in individual cases. Over the past few years the rules for granting customs guarantees have been continuously revised and improved. In addition, DB Group strictly observes country-specific safety regulations governing shipments of air and ocean freight. Furthermore, country-related practices regarding clearance of shipments must also be taken into account.

Across the entire DB Group risks arising from changing customer demand or shifts in traffic flows with intensive market observation and by continuously upgrading the portfolio were combated. In regard to market risks related to changing legal conditions at domestic or international levels, DB Group actively submits its position into preliminary consultations and discussions.

Increases in energy prices impact all of the activities. Depending on the state of the markets, increased costs can only be passed on to customers to a limited extent. Within DB Group this risk by employing suitable derivative financial instruments is encountered.

OPERATING RISKS

In the rail transport area DB Group operates a technologically complex, networked production system. Risks arise for the rail activities due to service interruptions, in particular because of the resulting decline in punctuality.

A significant reduction in punctuality in long-distance transport diminishes the perceived quality of the service and can lead to a loss of customers. In addition, DB Group has obligated itself to compensate customers if they encounter delays exceeding a certain time. In the future this issue will be affected by tighter restrictions arising from new pan-European regulations. These regulations will also apply to regional transport in the future. Here, DB Group faces the additional risk of fines imposed by the respective contracting organizations in the event of train cancellations or insufficient levels of on-time operation.

Reliable punctuality of shipments is an important criterion for selecting the mode of transport in the rail freight transport sector. In addition, irregularities may occur during the conduct of transport operations, such as violations of customs regulations, and theft. DB Group combats these risks by employing qualified customs coordinators, as well as a special system that immediately notifies DB Group when tax assessments are received.

DB Group generally counters the risk of operational disturbances with systematic maintenance and the use of qualified staff, coupled with continuous quality assurance and the improvement of the processes. The nature of the railway business as an open system, however, means that DB Group has limited influence on certain factors that have a potentially negative impact on the flow of operations. In this case, DB Group strives to limit the possible consequences.

DB Group maintains an intensive quality dialog with the respective suppliers and business partners as the quality of its own efforts greatly depends on the reliability of the means of production employed, services purchased and the performance quality of the partners.

PROJECT RISKS

The modernization of the overall rail system involves high amounts of capital expenditures as well as a large number of highly complex projects. Changes in the legal framework, delays in implementation or necessary adjustments during the frequent multiyear project terms can result in project risks that have a cross-business-unit impact due to the networked production structures.

DB Group takes such risks into account by intensively monitoring the projects. This particularly applies to the major projects.

INFRASTRUCTURE FINANCING

A key element of the German Rail Reform is the Federal Government's constitutional obligation to finance the infrastructure. The crucial elements are not only a sufficient amount of resources, but also the predictability of future resources.

DB Group concluded a performance and financing agreement for the existing network that stipulates the financing term until 2013. The availability of sufficient funds for the systematic network expansion and the elimination of bottlenecks is a crucial factor for the long-term competitiveness of rail as a mode transport as well. As part of the mid-term planning DB Group assumes the availability of Federal funds for the successful implementation of infrastructure projects, for which binding agreements cannot exist so far.

FINANCIAL RISKS

DB Group counters risks associated with interest rates, foreign exchange and energy prices arising from the business operations with, among other things, original and derivative financial instruments. These instruments are explained in the Notes.

Exchange rate risks have risen as DB Group expanded the international business activities because cash flows are created in different currencies. This applies, in particular, to the US dollar, the British pound and the Swedish krona.

A portion of the obligations stemming from pension benefits and other pension-benefit-related commitments is covered by plan assets consisting of stocks, property, fixed-income securities and other assets. Declines in the value of these assets directly reduce the extent of pension benefit obligations covered by plan assets and can, under certain circumstances, lead to the company making additional allocations.

LEGAL AND CONTRACTUAL RISKS

Legal risks may arise, for instance, in the form of claims for damages and from legal disputes or ecological issues. These frequently stem from construction projects and real estate transactions. Moreover, there is also the risk that some of the long-term transport contracts may become uneconomical due to unforeseen increases in costs. In cases like this DB Group tries to counter the negative effects with commensurate measures to reduce costs and raise income.

Provisions are made for legal and contractual risks after estimating the respective probability of occurrence. The actual utilization of these provisions depends on whether the risks materialize to the extent as set forth in the current estimates.

PERSONNEL RISKS

Employees and their skills are of key importance for DB Group's future success. The remuneration system and personnel development programs and measures are aimed at enhancing the loyalty of the employees and motivating them to turn in top performance. Unwanted staff departures remain at a consistently low level. This, on the one hand, reflects the efforts to enhance the commitment and identification of employees with the Group. On the other hand, it shows its attractiveness as an employer. Furthermore, DB Group is faced with increasing competition for highly qualified specialists and executives. Among other measures, DB Group is meeting this challenge by maintaining close contacts to universities and through the recruiting measures. During the processes to integrate newly acquired companies DB Group concentrates on the efforts on raising the loyalty of employees in key positions.

The personnel costs in comparison to those of the competitors are of decisive importance for DB Group in order to assert itself in the competitive environment. Additional one-sided burdens in this area, for example wage agreements that exceed the competitors' levels, worsen DB Group's competitive position significantly.

IT RISKS

Insufficient IT management can lead to serious interruptions of operations. DB Group employs a wide range of methods and means to minimize these risks. Ongoing system architecture monitoring and regular renewal of hardware platforms ensure that the information technology always optimally meets changing business demands and conforms to the latest state of technology.

In order to ensure high availability in IT operations, DB Group uses distributed and redundant systems for operations and data backup, fail-safe network coupling, together with partly outsourced tape backup and separate administrations. This safeguards critical business processes and IT processes, and prevents serious breakdowns. The wide area network (WAN) is designed redundantly wherever required by security and business continuity.

RISK PORTFOLIO FREE OF EXISTENCE-THREATENING RISKS

During the year under review, as in the previous year, the main potential for risk lay in the high project volume in the infrastructure sector, as well as the high level of competition in project- and market-related risks. Regular in-depth analyses are carried out for this purpose. Operational countermeasures included extensive business-unit-specific and Group-wide efficiency and rationalization programs. In addition, DB Group is continuing to systematically develop the offers on a market-oriented basis in the business units.

To hedge against unavoidable risks, insurance policies to limit the possible financial consequences from damage claims and liability risks for DB Group, are also taken out.

Based on the current assessment of risks, countermeasures, hedges and provisions, no risks are discernible that would threaten the existence of DB Group.

Management Board report on relationships with affiliated companies

The Federal Republic of Germany holds all shares in DB AG. Pursuant to Sec. 312 German Stock Corporation Act (Aktiengesetz; AktG), the Management Board of DB AG has therefore prepared a report on its relationships with affiliated companies, which concludes with the following (translated) declaration:

"We hereby declare that, based on the circumstances known to us at the time at which the legal transactions were entered into, our company received reasonable consideration in each and every legal transaction.

In the year under review, the company did not take or refrain from taking any action at the instigation or in the interest of the Federal Government or parties related to it."

Events after the balance sheet date

SERVICE AND FINANCE AGREEMENT TAKES EFFECT FOR THE EXISTING NETWORK

In November 2008, negotiations were completed with the Federal Government regarding the service and financing agreement. According to this agreement, the Federal Government is obligated to provide DB Group with € 2.5 billion per year for the next five years, to be used as capital expenditures for the existing network, train stations and power plants. This binding guarantee of resources significantly improves planning reliability. It allows DB Group to make more long-term plans regarding replacement capital expenditures and maintenance, which not only reduces the administrative overhead, but also allows DB Group to increase its efficiency while using the same level of resources.

DB Group agreed to give the Federal Government specific quality guarantees for the rail network, train stations and energy supply. The guarantee is based on the annual infrastructure status and development report. This gives the Federal Government the ability to monitor the usage of public funds at any time, along with the effects achieved and the overall condition of the network.

In addition to the funds provided by the Federal Government, the service and financing agreement obligates DB Group to invest € 500 million of its own funds in the existing network each year. Together with the amount established by the service and financing agreement for maintenance use € 1.25 billion or € 1 billion in DB funds – this means that a total of approximately € 4.2 billion or € 4 billion will flow into track infrastructure each year.

The service and financing agreement was signed on January 14, 2009 and took effect as of January 1, 2009.

ACQUISITION OF THE POLISH RAILWAY COMPANY, PCC

At the end of January 2009 the contracts were signed for the purchase of the logistics arm of the PCC SE corporate group. With roughly 5,800 employees, revenues of € 350 million in 2008, and about an 8 % share of market, PCC Logistics is the biggest private railway company in Poland. PCC Logistics consists of several regionally operating companies that are primarily specialized in transporting coal, chemicals and construction materials. PCC Logistics operations are centered in Silesia. The company also operates efficient services to all of Poland's economic centers. DB Group will integrate PCC Logistics into the rail freight transport network and wants to further develop this company to make it the central pillar for Eastern Europe.

Poland is Germany's biggest trading partner in Eastern Europe, and Germany is Poland's largest export market. Poland represents the second largest national rail market within the EU and offers great potential for growth in rail-bound logistics offers for Polish and international customers. In addition, Poland plays an important role in developing traffic along the trans-European rail corridors.

The acquisition has been concluded pending the agreement of the responsible authorities and anti-trust agencies.

CONCLUSION OF 2009 ROUND OF WAGE NEGOTIATIONS

DB Group began the collective wage negotiations 2009 in mid-January 2009 with the collective bargaining association representing TRANSNET and GDBA, as well as with the GDL. DB Group reached an agreement with all three unions at the end of January. The results of the negotiations foresee improvements in the structure of work and rest periods for employees working shifts, including fixed non-working periods on weekends, longer off periods and improved planning of shift schedules. In addition, the employees' wages will increase linearly by 2.5 % starting February 1, 2009 and by 2.0 % as of January 1, 2010; they will also receive a one-time payment of € 500 in December 2009. The wage agreement is valid for 18 months.

DB AG NOW ALSO RATED BY FITCH

As of 2009, a third ratings agency in addition to Moody's and Standard & Poor's is now evaluating the creditworthiness of DB AG: Fitch Ratings (Fitch). Fitch published its first evaluation of DB AG at the beginning of February 2009. The results: a long-term Issuer Default Rating (IDR) of "AA," a Senior Unsecured Rating (SU) of "AA," and a short-term IDR of "F1+." The long-term rating is thus only two steps below the highest possible rating (AAA). The short-term rating is the highest possible classification.

RESOURCES FROM ECONOMIC STIMULUS PLAN II FOR TRANSPORT INFRASTRUCTURE

With the investment strengthening program for transport as part of the Economic Stimulus Plan II, the Federal Government is providing an additional € 2 billion for construction projects relating to road, rail and waterways in 2009 and 2010. This will increase the momentum that began at the end of 2008 with the innovation and capital expenditures program for transport (Innovations- und Investitionsprogramm Verkehr). Of the additional € 2 billion, € 700 million are to be used for rail-related capital expenditures, and € 100 million for CT. Key investment areas in the rail sector are infrastructure measures, accelerated renovation of passenger stations, increased noise abatement measures for train tracks, pilot programs for innovative technology (including exhaust-cleaning systems for diesel locomotives and the development of "intelligent" freight cars), as well as the faster introduction of safety technologies.

Overall, the two Economic Stimulus Plans provides total investments for rail of about € 1.3 billion for 2009 and 2010.

NEW GROUP PROGRAM IN RESPONSE TO ECONOMIC DEVELOPMENT

The new Group program, reACT09, is designed to help lessen the short-term effects of the economic crisis and ensure DB Group's competitive position in the long term.

It reports directly to the CEO and is based on the same management principles as the earlier Group programs, Focus and Qualify. It is guided by clear objectives and consistent monitoring. In addition to Group-wide management of expenses and capital expenditures, reACT09 includes programs to further improve the cost-related and competitive position. These include evaluating management areas, optimizing purchasing processes, and carrying out efficiency projects at the business unit level.

Outlook

According to the estimates available at the time this report was prepared, the fundamental economic conditions will worsen significantly in 2009 in Germany due to the international financial crisis. Growth projections for the industrialized nations also indicate a noticeable slowing in economic development. Thus DB Group expects significant burdens for the 2009 business year stemming from the economic development in Germany and the Eurozone, as well as from the recessive phase projected for the global economy as a whole. However, the specific effects of the financial crisis and the further upheaval it will cause cannot be predicted at this time. In particular, these developments mean uncertainty regarding the duration and extent of the financial market crisis, and its effects on the economy.

ECONOMIC OUTLOOK

The following estimates regarding economic development in 2009 are based on the assumption of stable overall geopolitical development. The effects that the financial crisis will have on the economy are still unclear. If these turn out to be more serious than is currently assumed, the economic situation of both exports and capital expenditures would suffer significantly as well.

For Germany, the projections available for 2009 suggest a weak development similar to that seen throughout the Eurozone. Here, too, the average annual GDP (gross domestic product) will remain noticeably lower than in 2008. Contributions from foreign trade are expected to continue to worsen in comparison to the development seen in 2008, as exports are expected to be significantly lower than in 2008. Because of the weak foreign demand and difficult financing conditions, capital investments will sink noticeably. The employment reduction that had already begun at the end of 2008 will continue to grow, increasing consumer uncertainty and hindering private consumption. Because of the sinking energy and fuel prices in particular, the inflation rate will be noticeably lower in 2009 than in 2008.

In the Eurozone, most of the current forecasts anticipate that the GDP will noticeably decrease in comparison to the previous year. There are no growth impulses expected from either foreign trade or domestic demand. DB Group anticipates that capital investments will remain significantly lower than in 2008. GDP will once again be able to increase slightly in the EU member states in Central and Eastern Europe in 2009, thereby remaining significantly higher than the EU average, although the rate of growth among these countries is likely to decelerate sharply as a result of the economic slowdown in the Eurozone.

The global economy's weakening pace of growth, as observed in the previous year, should continue in 2009. While the US national economy was only able to improve slightly last year, it will decline notably in 2009. After its slight decrease in the previous year, Japan is also expected to see a greater decline in overall economic production. The rate of expansion in China will slow as a result of weaker foreign demand and unbroken high import levels. The rate of development in the other East Asian countries is also expected to slow as a result of the weaker global economy.

ANTICIPATED DEVELOPMENTS IN THE RELEVANT MARKETS

Overall economic conditions expected in Germany in 2009 preclude any thoughts of favorable demand effects that could influence the passenger or the freight transport market.

For this reason, DB Group believes that the passenger transport market will shrink once again in Germany in 2009, and that the level of volumes sold for all modes of transport will contract. DB Group expects that development in the rail passenger transport segment will remain stable in comparison to the previous year. The German freight transport market is also expected to shrink in 2009, which will also affect all modes of transport.

It is likely that the transport and logistics markets will also be negatively influenced by the global economic downturn in 2009. At this time, neither the extent of the corresponding effects can be fully foreseen nor can they be quantified. Accordingly, any statements regarding this issue involve a great deal of uncertainty. In the European market it is expected that negative developments in the major land transport markets, such as Germany, France, Italy, the UK and Spain, will contrast with dampened growth in Eastern Europe. In the face of rising excess capacities, DB Group anticipates that all modes of transport will see competition intensify notably. The market consolidation process will continue at an accelerated pace.

It is expected that neither the ocean freight nor the airfreight sector will reach the levels they posted for the year under review. This will lead to an unbroken decline in rates charged by shipping lines and carriers, which will be exacerbated by the resulting excess capacities. The contract logistics segment will also be substantially affected by the expected weakened overall conditions in 2009, which will lead to reduced demand for logistical services.

ANTICIPATED DEVELOPMENT IN THE PROCUREMENT MARKETS

DB Group does not anticipate that any significant bottlenecks on the procurement side during the current financial year will be encountered. The further development of energy prices will play a decisive role. In general, DB Group anticipates that prices will continue to climb for energy and commodities, along with prices for construction work.

SITUATION IN ENERGY MARKETS MARKED BY GREAT UNCERTAINTY

The crisis in the financial markets and the subsequent global economic downturn resulted in a price correction in the energy markets in 2008. DB Group believes that energy prices will remain under pressure in 2009. This effect, however, is solely due to the substantial decline seen in demand: the situation on the supply side remains tight. DB Group anticipates that energy prices will again increase sharply as soon as the global economy recovers.

The negative outlook for industrial production in 2009 will continue to place pressure on the price of coal. Together with unchanged weak prices for CO_2 certificates, resulting from a drop in industrial production, as well as weakened regulations, the costs of coal-fired electricity will decline and be reflected in spot prices for electricity.

The spot market for gas in many areas of Europe is still in an early stage and heavily influenced by local conditions. The overall supply situation for 2009 appears to be good. It is anticipated that exchange-traded gas prices will be lower than oil-indexed prices.

It is expected that 2009 will see the first drop in oil and oil refinery products around the world since 1980 due to declining demand. Postponing capital expenditures for expanding production and refinery capacities will, however, lead to renewed bottlenecks in the mid-term.

Futures prices on the German EEX weakly tracked the moves seen in the primary energy markets in 2008 and are likely to continue doing so in 2009. Despite the price drop noted in the second half of 2008, futures prices noted for the next five years still remain at a very high level; spreads between individual delivery years have widened considerably and prices for delivery in later years are trading at significantly higher prices. The reasons for this situation are: the CO_2 allocation process, upcoming capital expenditures and/or restructuring measures in the power plant sector, as well as the uncertainty surrounding primary energy prices in the next decade. Thus, extremely volatile prices are anticipated to continue.

ANTICIPATED DEVELOPMENT OF IMPORTANT BUSINESS CONDITIONS

No major impulses are expected from overall conditions that will change or are currently under discussion. DB Group anticipates that the approved increase in the road tolls for road freight transports, which took effect on January 1, 2009, will not give a notable boost to rail freight transport.

In comparison with the rest of Europe in terms of liberalized markets, Germany has a proven leading position today as it already had opened its rail infrastructure to competition as of 1994. For this reason DB Group welcomes all advances made that move towards comprehensive alignment of standards to the one that has been already achieved in Germany. A further transport policy task is adjusting the competitive conditions faced by the various modes of transport. DB Group will continue to be actively involved in all key transport policy issues affecting the rail mode of transport.

ANTICIPATED INCOME, FINANCIAL AND ASSET SITUATION

Due to the current high levels of uncertainty and reduced ability to make forecasts arising from the current financial crisis, DB AG cannot rule out that the income situation, as well as the financial and assets situation, will be impacted by notably negative effects in the coming years. These restrictions, in the form of great uncertainty and reduced forward forecasting visibility, are reflected by the very limited outlook. Currently, DB AG is unable to quantify the expectations and anticipates that a forecast as part of the interim reporting could be made.

In addition, DB Group is currently preparing numerous countermeasures.

OPPORTUNITIES REPORT

To secure the corporate strategy of revenue-based growth, DB Group has implemented comprehensive packages of measures as part of Group-wide or business-unit-specific programs, which will ensure or improve the performance quality, efficiency and cost structures. Here, DB Group also sees opportunities for further organic growth, which are likely to be reflected in further improvements in the results and key financial ratios.

The general conditions of the relevant macroeconomic environment could develop largely more favorably than anticipated. The resulting variations would have a positive impact on DB Group and its business units. This applies especially to the unforeseeable effects of the worldwide financial crisis. DB Group is responding to the anticipated deterioration in overall economic conditions by implementing a comprehensive program containing a series of short- and long-term countermeasures. This is seen not only as a chance to react to the current situation and weaken its related effects, but is also an opportunity to further improve the long-term competitive position.

Despite the very intensive competitive situation in the markets, DB Group also sees market-related opportunities arising from the foreseeable market consolidation, which should be used for the leading market position to actively shape the process. DB Group wants to use the opportunities offered by the consolidation process and the chances contained in the continuing globalization in the area of freight forwarding and logistics. DB Group is superbly prepared to use the opportunities being unlocked by open or opening markets in both the European rail freight sector as well as in the European rail passenger sector.

DB Group is generally very well positioned to benefit from the opportunities arising from the significant trends in the markets. In conjunction with these remarks, the reader is invited to review the remarks made in the "Strategy" chapter.

Favorable exchange rates and interest rate moves could potentially have a positive impact on the financial results. The Group Treasury department is closely following developments in the financial markets to identify possible opportunities.

These estimates are, as always, subject to the following reservations set forth below.

FORWARD-LOOKING STATEMENTS

This Management Report contains statements and forecasts pertaining to the future development of DB AG, its business units and individual companies. These forecasts are estimates DB Group made based on information that was available at the current time. Actual developments and currently expected results may vary in the event that assumptions that form the basis for the forecasts do not take place, or risks – for example, those presented in the Risk management – actually occur.

DB AG does not intend or assume any obligation to update the statements made within this Management Report.

ANNUAL FINANCIAL STATEMENTS

Auditor's report

The annual financial statements have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, who added the following auditor's report[1]:

"We have audited the annual financial statements – consisting of balance sheet, income statement and the notes – together with the bookkeeping system, and the management report of the Deutsche Bahn Aktiengesellschaft, Berlin, for the business year from January 1 to December 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 German Commercial Code (Handelsgesetzbuch; HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the results of our audit, the annual financial statements are in compliance with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and provides on the whole a suitable understanding of the company's position and suitably presents the risks of future development."

Berlin, February 27, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gerd Eggemann	Thomas Kieper
Auditor	Auditor

[1] This English version of the original German version of the auditor's report has been prepared for purposes of convenience only; in case of doubt the original German version shall prevail.

Balance sheet

ASSETS

As of December 31 € MILLION	Note	2008	2007
A. Fixed assets			
Intangible assets	(2)	0	0
Property, plant and equipment	(2)	40	47
Financial assets	(2)	21,774	26,168
		21,814	**21,215**
B. Current assets			
Inventories	(3)	5	3
Receivables and other assets	(4)	3,717	4,547
Securities	(5)	0	0
Cash and cash equivalents		616	1,525
		4,338	**6,075**
C. Prepayments and accrued income		**10**	**40**
		26,162	**32,330**

EQUITY AND LIABILITIES

As of December 31 € MILLION	Note	2008	2007
A. Equity			
Subscribed capital	(6)	2,150	2,150
Reserves	(7)	5,310	5,310
Retained earnings	(8)	1,471	1,471
Balance sheet profit		3,074	1,564
		12,005	**10,495**
B. Provisions	(9)	**4,974**	**5,277**
C. Liabilities	(10)	**9,163**	**16,547**
D. Accruals and deferred income	(11)	**20**	**11**
		26,162	**32,330**

Statement of income

January 1 through December 31 € MILLION	Note	2008	2007
Inventory changes		2	1
Other internally produced and capitalized assets		1	0
Overall performance		**3**	**1**
Other operating income	(15)	1,316	2,346
Cost of materials	(16)	- 72	- 82
Personnel expenses	(17)	- 324	- 474
Depreciation		- 10	- 14
Other operating expenses	(18)	- 1,140	- 1,083
		- 227	**694**
Investment income	(19)	1,698	1,181
Net interest	(20)	74	- 140
Income before taxes		**1,545**	**1,735**
Income taxes		- 35	- 79
Income after taxes		**1,510**	**1,656**
Profit carried forward / loss carried forward		1,564	- 92
Balance sheet profit		**3,074**	**1,564**

Statement of cash flows

January 1 through December 31 € MILLION	Note	2008	2007
Income before taxes		1,545	1,735
Depreciation of properties [1]		10	14
Changes to pension provisions		7	25
Cash flow before taxes		1,562	1,774
Changes to other provisions		- 25	- 490
Gains/losses from disposal of property, plant and equipment [1]		- 1	- 303
Gains/losses from disposal of financial assets		- 243	- 727
Changes to current assets (exclusive cash and cash equivalents)		- 419	6
Changes to other liabilities (excluding financial debt)		- 669	- 931
Income taxes		- 35	- 51
Cash flow from investing activities		**170**	**- 722**
Proceeds from disposal of properties [1]		7	1,414
Payments from purchase of properties [1]		- 14	- 11
Proceeds from disposal of financial assets		314	1,051
Payments for the purchase of financial assets		- 22	- 198
Cash flow from investing activities		**285**	**2,256**
Proceeds/payments from long-term Group financing		- 123	254
Proceeds/payments from short-term Group financing		- 1,033	- 6
Repayment of bonds and loans and commercial paper		- 208	- 365
Cash flow from financing activities		**- 1,364**	**- 117**
Net increase/decrease in cash		- 909	1,417
Cash and cash equivalents, beginning of year	(21)	1,525	108
Cash and cash equivalents, end of year	(21)	**616**	**1,525**

[1] including intangible assets

Fixed assets schedule

€ MILLION	Balance at Jan 1, 2008	Spin-off DB ML AG	Additions	Transfers	Disposals
Intangible assets					
1. Licenses, patents, trademarks and similar rights	0	0	0	0	0
	0	**0**	**0**	**0**	**0**
Property, plant and equipment					
1. Land, leasehold rights and buildings including buildings on land owned by others					
a) Land and leasehold rights	7	0	0	0	- 4
b) Commercial, office and other buildings	1	0	1	1	- 2
c) Permanent way formation and other structures	0	0	0	0	0
	8	**0**	**1**	**1**	**- 6**
2. Track infrastructure, signaling and control equipment	1	0	0	0	0
3. Rolling stock for passenger and freight transport	1	0	0	0	0
4. Technical equipment and machinery and other than Nos. 2 and 3	22	- 1	1	1	0
5. Other equipment, operating and office equipment	85	- 8	7	1	- 4
6. Advance payments and construction in progress	5	0	5	- 3	- 1
	122	**- 9**	**14**	**0**	**- 11**
Financial assets					
1. Investments in affiliated companies	16,265	- 3,292[1)]	3,038	0	- 3,019
2. Loans to affiliated companies	9,750	0	388	2	- 1,403
3. Investments in associated companies	494	- 37	0	0	- 415
4. Loans to associated and related companies	2	0	0	- 2	0
5. Other loans	3	0	0	0	0
	26,514	**- 3,329**	**3,426**	**0**	**- 4,837**
Total fixed assets	**26,636**	**- 3,338**	**3,440**	**0**	**- 4,848**

[1)] Balance of spin-off investments (€ 4,075 million) and increase in investment carrying amount DB ML AG (€ 1,413 million)

Acquisitions and manufacturing costs	Accumulated depreciation					Book value	
Balance at Dec 31, 2008	Balance at Jan 1, 2008	Depreciation 2008 financial year	Transfers	Disposals	Balance at Dec 31, 2008	Balance at Dec 31, 2008	Balance at Dec 31, 2007
0	0	0	0	0	0	0	0
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**
3	0	0	0	0	0	3	7
1	-1	0	0	0	-1	0	0
0	0	0	0	0	0	0	0
4	**-1**	**0**	**0**	**0**	**-1**	**3**	**7**
1	0	0	0	0	0	1	1
1	0	0	0	0	0	1	1
23	-17	-1	0	1	-17	6	5
81	-57	-8	0	7	-58	23	28
6	0	-1	0	1	0	6	5
116	**-75**	**-10**	**0**	**9**	**-76**	**40**	**47**
12,992	0	0	0	0	0	12,992	16,265
8,737	0	0	0	0	0	8,737	9,750
42	-345	0	0	345	0	42	149
0	0	0	0	0	0	0	2
3	0	0	0	0	0	3	3
21,774	**-345**	**0**	**0**	**345**	**0**	**21,774**	**26,169**
21,890	**-420**	**-10**	**0**	**354**	**-76**	**21,814**	**26,216**

Notes to the annual financial statements
FOR THE 2008 FINANCIAL YEAR

The annual financial statements of Deutsche Bahn AG (DB AG) have been prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch; HGB), the German Stock Corporation Act (Aktiengesetz; AktG) and the ordinance relating to the structure of the financial statements of transport companies. In order to improve the clarity of presentation, legally required items have been grouped together in the balance sheet and the income statement. The notes to the annual financial statements contain the necessary details and explanations.

With the spin-off and transfer agreement of May 16, 2008 between itself as the transferring company and DB Mobility Logistics AG (DB ML AG) as the receiving company, and in preparation for the initial public offering of DB ML AG, DB AG transferred, as a single entity, the equity participations of the business units DB Bahn Long-Distance, DB Bahn Regional, DB Bahn Urban, DB Services and other selected equity participations of DB AG, as well as contractually further designated group functions with the assets described in Sections 5 to 11 of the agreement, the contractual and other legal arrangements by way of a spin-off arrangement for inclusion in an existing company in accordance with Section 123 (3) No. 1 German Transformation Act (Umwandlungsgesetz; UmwG). January 1, 2008 was defined with retroactive effect as the reference date of the spin-off.

As part of this spin-off arrangement, DB AG transferred financial assets of € 4,743, million other assets of € 14 million, provisions of € 284 million, Group financing liabilities of € 3,000 million as well as other liabilities of € 60 million as of January 1, 2008. The total carrying amount of the net assets to be spun off is € 1,413 million. The carrying amount of DB ML AG shown in the accounts of DB AG has been increased by this amount. The share capital of DB ML AG was increased by € 800 million to € 1,000 million. The difference of € 613 million was entered in the capital reserves of DB ML AG (Section 272 (2) No. 1 HGB).

With regard to the above-mentioned items of the balance sheet and the income statement, the 2008 financial statements of DB AG are not comparable, or are only comparable to a limited extent, with those of the previous year.

(1) ACCOUNTING AND VALUATION METHODS

With the exception of software that constitutes a low-value asset, intangible assets acquired for monetary consideration are recognized at their cost of acquisition less amortization taken on a straight-line basis. Each item of software acquired for monetary consideration that constitutes a low-value asset is fully expensed in the year of acquisition.

Property, plant and equipment is recognized at acquisition or production cost, less depreciation, where applicable.

Fair value impairments are similarly taken where applicable.

Production cost comprises individual costs as well as cost of materials, production overheads and depreciation. Overheads and depreciation charges are calculated on the basis of the costs incurred by normal use and under economic conditions. Neither interest on borrowed funds nor administrative overhead is included in production cost.

Depreciation is taken to the income statement on a straight-line basis over the expected useful life of the asset. Depreciation is normally calculated in accordance with the tax depreciation tables and taken on a pro rata basis. The following table shows the useful lives of the main groups of property, plant and equipment:

	Years
Software, other licenses	3–5
Business, operating and other premises	5–50
Permanent way structures, bridges	75
Track infrastructure	20–25
Buildings and other constructions	10–50
Signaling equipment	20
Telecommunications equipment	5–20
Rolling stock	10–30
Machinery and plant	8–15
Technical equipment, machinery and vehicles	5–25
Factory and office equipment	2–20

Low-value assets with individual values of less than € 2,000 are expensed in full in the year of acquisition and shown as disposals.

Investments are carried at acquisition cost less impairments, where applicable.

Inventories are stated at acquisition or production cost; the average method is applied when valuing raw materials and supplies (please refer to the description of non-current assets for the components of production cost).

Valuation adjustments are taken for inventory risks arising from a decline in economic usefulness, long storage periods, price changes in the market or any other decline in value.

Accounts receivable and other assets are stated at their nominal or face value, unless a lower carrying amount is required in individual cases. Individual and global individual allowances have been taken to cover identifiable insolvency- or rating-related risks. General valuation adjustments are formed at 1% of the net amount receivable.

Marketable securities are recognized at cost of purchase.

Compliant with Section 6a of the German Income Tax Act (Einkommensteuergesetz; EstG), pension provisions are carried as liabilities at their going-concern value. The 2005 G mortality tables of Prof. Dr. Klaus Heubeck are used as the basis for the calculations in the annual financial statements. The amount of the provisions is calculated in accordance with actuarial methods applying an unchanged discount rate of 6 % p.a.

By way of analogy with the pension provisions, other personnel provisions are created in accordance with actuarial principles using the 2005 G mortality tables of Prof. Dr. Klaus Heubeck. The discount rate to be used is 6 % p.a. for early retirement and death benefit provisions, and 5.5 % p.a. for semi-retirement and service anniversary provisions.

All other provisions are stated at the amount required, based on sound business judgment. The provisions cover all identifiable risks requiring disclosure; in addition, accruals are recognized for actual risks, where required, in accordance with Section 249 (2) HGB. The remaining provisions are determined at full cost. Provisions for pending claims and litigation are not normally recognized unless the probability of occurrence exceeds 50 %.

Liabilities are carried at the amount to be repaid.

Foreign currency receivables and payables are converted using the euro reference date for the exchange rate applicable on the date of the entry or the lower or higher rate applicable on the balance sheet date.

As part of group financing arrangements, interest and currency risks attributable to open foreign currency positions are hedged by means of derivative financial instruments.

The activity of civil servants in Deutsche Bahn Group (DB Group) is based on the statutory assignment within the framework of Section 2 (12) of the German Rail Restructuring Act (Eisenbahnneuordnungsgesetz; ENeuOG). For the work of the assigned civil servants, DB AG reimburses to the Federal Railroad Fund (Bundeseisenbahnvermögen; BEV) those costs which would be incurred if a person subject to collective bargaining agreements were to be employed as an employee instead of the assigned civil servants (pro-forma settlement). Consequently, the personnel expenses reimbursed to the BEV for the assigned civil servants are shown under personnel expenses due to the economic approach.

Contrary to the structure of the income statement prescribed in Section 275 (2) HGB, the other taxes are not shown under the specified item No. 19 because the taxes involved relate to costs. These are shown under other operating expenses.

NOTES TO THE BALANCE SHEET

(2) FIXED ASSETS

A fixed asset schedule is shown on pages 54 – 55.

In the year under review, impairments of € 1 million were recognized in relation to property, plant and equipment (previous year: € 0 million).

(3) INVENTORIES

€ MILLION	2008	2007
Raw materials and manufacturing supplies	0	0
Unfinished products, work in progress	5	3
Total	**5**	**3**

(4) RECEIVABLES AND OTHER ASSETS

€ MILLION	2008	thereof with a remaining term of more than 1 year	2007
Trade receivables	17	(-)	10
Receivables due from affiliated companies	3,448	(-)	4,333
Receivables due from companies in which a participating interest is held	0	(-)	1
Other interests	252	(23)	203
Total	**3,717**	**(23)**	**4,547**

The valuation adjustments on accounts receivable and other assets amount to € 3 million (previous year: € 4 million).

The accounts due from affiliated companies mainly comprise receivables arising from short-term Group financing, mainly cash pooling receivables (€ 1,112 million; previous year: € 1,947 million) as well as profit transfers (€ 1,821 million; previous year: € 1,355 million).

The other assets mainly comprise accounts due from the financial authorities and the reinsurance claim as well as interest accruals.

(5) SECURITIES

Marketable securities are shown unchanged at € 27,441.29.

(6) SUBSCRIBED CAPITAL

The subscribed capital of DB AG is € 2,150 million, consisting of 430,000,000 no-par value bearer shares. All shares are held by the Federal Republic of Germany.

(7) CAPITAL RESERVES

The capital reserves amount to € 5,310 million (unchanged).

(8) RETAINED EARNINGS

The retained earnings amount to € 1,471 million (unchanged).

(9) PROVISIONS

€ MILLION	2008	2007
Provisions for pensions and similar liabilities	133	151
Tax provisions	375	481
Other provisions	4,466	4,645
Total	**4,974**	**5,277**

In the 2008 financial year, a total of € 17 million was allocated to provisions for pensions and similar commitments (previous year: € 26 million). This figure includes an amount of € 3 million for employee-financed pension obligations (deferred compensation) (previous year: € 7 million).

Other provisions comprise the following:

€ MILLION	2008	2007
Personnel-related commitments	73	136
Restructuring charges	564	606
Inherited environmental liabilities	2,259	2,312
Reconveyance obligations	266	268
Provisions relating to the Aurelis agreement	399	436
Other risks	905	887
Total	**4,466**	**4,645**

Personnel obligations mainly comprise directors' fees, vacation entitlements as well as indirect retirement obligations.

Provisions for restructuring measures are mainly attributable to a loss compensation obligation for employees of DB JobService GmbH.

The provisions for ecological legacy issues are mainly attributable to the remedial action taken with regard to these issues which occurred before July 1, 1990 on the grounds of the former Deutsche Reichsbahn. A corresponding provision of € 2.9 billion had previously been included in the opening balance sheet of Deutsche Reichsbahn, and was transferred unchanged to the opening balance sheet of DB AG. Provisions for potential return obligations were created for risks attributable to restitution claims for land of the former Deutsche Reichsbahn.

Other risks combine all other uncertain liabilities. This mainly include provisions for:

/// Recultivation and decommissioning measures (plant closures)
/// Failure to carry out maintenance (also comprises subsequent measures relating to sold/transferred land)
/// Obligations arising from the implementation of real estate reclassification
/// Uncertain obligations attributable to deliveries and services which have not yet been billed
/// The statutory requirement to keep business documents for the main group companies (archiving costs)
/// Litigation risks
/// Liability risks for foreign taxes on income

(10) LIABILITIES

€ MILLION	2008	thereof with a residual maturity of			2007
		up to 1 year	1 to 5years	more than 5 years	
Bonds	67	–	67	–	67
Liabilities due to banks	52	52	0	–	260
Advance payments received for orders	–	–	–	–	–
Trade accounts payable	35	35	0	0	64
Liabilities to affiliated companies	7,181	2,435	3,416	1,330	14,265
Liabilities to companies in which a participating interest is held	1,631	678	434	519	1,643
Other liabilities	197	197	–	–	248
thereof tax liabilities	(9)	(9)	(–)	(–)	(33)
thereof social security liabilities	(0)	(0)	(–)	(–)	(0)
Total	**9,163**	**3,397**	**3,917**	**1,849**	**16,547**
thereof interest-bearing	(8,469)				(15,108)

The amounts payable to affiliated companies mainly comprise long- and short-term Group financing and loss absorption.

Amounts payable to other companies include long-term interest-bearing loans of the European Company for the Financing of Railroad Rolling Stock, Basel/Switzerland (Europäische Gesellschaft für die Finanzierung von Eisenbahnmaterial; EUROFIMA)

(€ 1,609 million; previous year: € 1,609 million). Due to statutory considerations of EUROFIMA, these loans have to be secured by the transfer of ownership of rolling stock. This was achieved by transferring ownership of rolling stock of the subsidiaries DB Fernverkehr AG, DB Regio AG and DB Schenker Rail Deutschland AG.

Other liabilities are not secured.

A summary of the financial liabilities and further explanations are set out under point (14).

(11) ACCRUALS AND DEFERRED INCOME

This item mainly comprises revenue accruals attributable to leasehold agreements.

(12) CONTINGENCIES

€ MILLION	2008	2007
Warranty and guarantee obligations	4,464	917[1]

[1] Previous year adjusted

DB AG has issued an unconditional and irrevocable guarantee to Deutsche Bahn Finance B.V., Amsterdam/the Netherlands (DB Finance) for a multi-currency commercial paper program with a maximum volume of € 2 billion issued in conjunction with the latter; as was the case in the prior year, this was stated as € 0 million as of December 31, 2008.

In addition, DB AG has provided a guarantee to DB Finance for DB ML AG for repayment of loans totaling € 3,000 million.

(13) OTHER FINANCIAL OBLIGATIONS

€ MILLION	2008	2007
Purchase order commitments for capital expenditures	2	1
Outstanding contributions	317	284
Commitments under rental, leasing and other external-party liabilities	1,570	1,467
thereof due to affiliated companies	(–)	(–)
Total	**1,889**	**1,752**

The outstanding contributions relate to EUROFIMA.

The obligations arising from rental, leasing and other external debt arrangements are shown with their nominal amounts. The two following tables set out a list of nominal and present values for these obligations (as of December 31, 2008), broken down according to maturities:

€ MILLION	Nominal value	Present value
Leasing installments		
due within 1 year	60	58
due within 1 and 5 years	191	164
due after 5 years	90	65
Total	**341**	**287**

Overall, leasing installments of € 64 million were paid in financial 2008 (previous year: € 68 million).

€ MILLION	Nominal value	Present value
Rental and other third-party debtor obligations		
due within 1 year	186	182
due within 1 and 5 years	537	468
due after 5 years	506	329
Total	**1,229**	**979**

(14) FINANCIAL INSTRUMENTS

In its capacity as the Treasury Center of the DB Group, DB AG is responsible for all financing and hedging transactions. For this purpose, it uses the services of DB ML AG. In the procedure organization, there is a clear functional and organizational segregation between scheduling and trading on the one hand (front office) as well as settlement and monitoring on the other (back office). Treasury operates on the financial markets using the minimum requirements applicable for risk management (Mindestanforderungen an das Risikomanagement; MaRisk) of the banks prepared by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin) and is subject to regular internal audits.

A. Non-derivative financial instruments

DB Finance had extended loans totaling € 6,075 million to DB AG as of December 31, 2008. The loans are refinanced via bond issues, with a guarantee of DB AG.

The 2008 financial year saw the repayment of a total of six bonds of DB Finance which became due, namely for DEM 1,500 million, CHF 250 million, USD 75 million, DKK 400 million, NOK 400 million and SEK 400 million.

No new bonds were issued in the 2008 financial year.

There are also long-term interest-bearing loans of EUROFIMA (€ 1,609 million; previous year: € 1,609 million).

As of December 31, 2008, DB AG had access to guaranteed credit facilities as back-up lines for the € 2 billion commercial paper program of DB AG and DB Finance (with a total volume of € 1,650 million; previous year: € 2,100 million). None of the back-up lines had been drawn down as of December 31, 2008.

B. Derivative financial instruments

Derivative financial instruments are used for hedging interest, currency and energy price risks. All individual transactions correspond to on-balance-sheet or anticipated underlyings (e.g. bonds, commercial paper and planned energy requirement). Speculation is not permitted. The use, processing and monitoring of derivative financial transactions are subject to internal guidelines. Ongoing market and risk assessment takes place as part of risk management. Valuation units are always created if the conditions are satisfied.

All hedging requirement within the DB Group is handled via DB AG, and is arranged externally by DB AG. A distinction is therefore made between transactions of DB AG with external counterparties (banks) and the forwarding of such external transactions within the overall group (mirror transactions).

Interest swaps and cross-currency swaps have been taken out to hedge interest rate risks. The resulting interest difference has been shown in the appropriate periods. Future interest differences are not shown as pending transactions. Because the company has also arranged refinancing in currencies outside the Eurozone, these positions have been converted directly into euro liabilities by means of cross-currency swaps in order to eliminate exchange rate risks. Because of their interest hedging nature (fixing of euro interest), the transactions carried out in this connection are shown under the heading "Interest rate risks." Some transactions expired in 2008, and the new transactions which were taken out did not fully compensate for the volume which expired.

Foreign currency risks are attributable to financing measures and operating activities. Currency futures have been taken out, also for procuring diesel, in order to limit the risk of exchange rate fluctuations for future foreign currency payments. The considerable increase in the currency hedging holdings was attributable to an increase in the volume of short-term funding at foreign DB ML subsidiaries and also, in particular, to the hedging of SEK funding for Schenker International AB.

Energy price risks are attributable mainly to the purchasing of diesel fuel and power. The volume of energy derivatives has increased because the correction of raw material prices which started at the beginning of the year was utilized in order to replace expiring hedges and to extend the hedging horizon. In particular, the volume of hedges for coal power generation was significantly increased.

The nominal volume of the hedges detailed in the following represents the sum of all purchases and sales underlying the transactions. The tonnage is specified for transactions based on diesel, coal or gas. The size of the nominal volume permits conclusions to be drawn in relation to the extent to which derivative financial instruments are utilized; however, it does not reflect the risk attributable to the utilization of derivatives.

The market value of a financial derivative reflects the price for liquidating or replacing the transaction. Present-value models or Monte Carlo simulations based on market rate structure curves have been used for measuring the value of the derivatives. The market data to be used for this purpose were taken from market information systems such as Reuters or Bloomberg. Opposite developments in value from the corresponding underlyings were not taken into consideration. The corresponding derivatives were also not reflected for recognizing the underlyings (no hedge accounting).

Credit risk is defined as possible asset losses due to non-fulfilment by the contracting parties (default risk). It represents the replacement cost (market values) of the transactions for which we have claims against the contracting parties. The default risk is actively managed by way of strict requirements relating to the creditworthiness of the counterparty at the point at which the transactions are concluded and also throughout the entire life of the transactions, and also by way of defining risk limits. The following information relating to the credit risk reflects the simple sum of all individual risks, and relates to external counterparties.

Nominal and fair value of the interest derivatives:

€ MILLION	2008	2007
Nominal volume with external parties	4,045	4,367
Fair value of the derivatives (external parties)	- 31	- 265
Nominal volume of mirror transactions	181	0
Fair value of the derivatives (mirror transactions)	- 21	0

On December 31, 2008, the interest derivative portfolio consisted mainly of swaps (interest swaps or cross-currency swaps) with a remaining term of more than one year. The decline in the negative market value of the derivatives and the change in the value of the underlyings were essentially attributable to currency factors, and in particular the weakening of the euro against the US dollar, Swiss franc and Japanese yen or the strengthening of the euro against the Swedish krona. It was not necessary for a provision to be created for potential losses, because the unrealized losses attributable to the valuation units which have been created are opposed by corresponding unrealised profits from the underlyings.

Nominal and fair value of the currency derivatives:

€ MILLION	2008	2007
Nominal volume with external parties	1,614	675
Fair value of the derivatives (external parties)	28	11
Nominal volume of mirror transactions [1]	1,614	0
Fair value of the derivatives (mirror transactions)	- 28	0

[1] thereof DB ML AG € 1,489 million

The currency hedging contracts in the portfolio as of December 31, 2008 mainly consisted of currency futures with a remaining term of less than one year. The transactions with external counterparties were mainly passed on to DB ML AG. The development in the value was attributable to the strengthening of the euro against sterling and the Swedish krona.

Nominal and fair value of the energy derivatives:

DIESEL FUEL IN T	2008	2007
Nominal volume with external parties	552,000	396,000
Fair value of the derivatives (external parties)	- 116	37
Nominal volume of mirror transactions	552,000	396,000
Fair value of the derivatives (mirror transactions)	116	- 37

GAS, HEATING OIL IN T	2008	2007
Nominal volume with external parties	120,000	200,400
Fair value of the derivatives (external parties)	- 8	9
Nominal volume of mirror transactions	120,000	200,400
Fair value of the derivatives (mirror transactions)	8	- 9

COAL, BAFA IN T HARD COAL EQUIVALENT	2008	2007
Nominal volume with external parties	1,702,000	252,000
Fair value of the derivatives (external parties)	- 39	5
Nominal volume of mirror transactions	1,702,000	252,000
Fair value of the derivatives (mirror transactions)	39	- 5

On December 31, 2008, the energy price hedging portfolio consisted mainly of hedges with a term of less than one year; however, hedges had also been taken out for significant volumes for longer maturities. Most of the transactions were passed on to DB Energie GmbH. Because prices on the energy markets continued to decline until the end of the year, a negative market value was shown for the external transactions at the end of the year.

Credit risk of interest, currency and energy derivatives with external parties:

€ MILLION	2008	2007
Credit risk of interest, currency and energy derivatives	160	69

The increase in the credit risks compared with the previous year is due to the development in the value of the derivative portfolio. The maximum single risk – default risk in relation to individual counterparties – is € 55 million, and relates to a contract partner with a Moody's rating of Aa3. For transactions with terms of more than one year, all contract partners with which there is a credit risk have a Moody's rating of at least Aa3.

NOTES TO THE INCOME STATEMENT

(15) OTHER OPERATING INCOME

€ MILLION	2008	2007
Group levies and other intra-Group cost allocation	379	740
Services for third parties and sales of materials	170	189
Rents and leases	250	231
Other operating income	194	114
Income from the disposal of non-current assets	245	1,030
Income from the release of provisions	77	41
Gains on the reversal/recovery of write-down/write-offs of receivables	1	1
Total	**1,316**	**2,346**
thereof attributable to other periods	(323)	(1,072)

The income from the disposal of non-current assets mainly comprises income from the sale of the holding in Arcor AG & Co. KG (€ 243 million).

In the previous year, the other operating income included a figure of € 717 million for the sale of Scandlines AG and a figure of € 303 million for the sale of Aurelis GmbH & Co. KG.

(16) COST OF MATERIALS

€ MILLION	2008	2007
Costs of raw materials, consumables and supplies	4	5
Costs of purchased services	36	38
Maintenance expenses	32	39
Total	**72**	**82**

Deliveries and services purchased for assets produced in-house are included in cost of materials. Other capitalized own work is used for capitalization in non-current assets.

(17) PERSONNEL EXPENSES

€ MILLION	2008	2007
Wages and salaries		
for employees	235	346
for civil servants assigned		
Payment to the BEV in accordance with Art. 2 Section 21 (1) and (2) of the ENeuOG	27	35
Ancillary renumaration paid directly	1	2
	263	**383**
Social security and retirement pensions and benefits		
for employees	55	83
for civil servants assigned		
Payment to the BEV in accordance with Art. 2 Section 21 (1) and (2) of the ENeuOG	6	8
	61	**91**
thereof for retirement benefits	(22)	(32)
Total	**324**	**474**

(18) OTHER OPERATING EXPENSES

€ MILLION	2008	2007
Expenses for intra-Group offsets	243	177
Rents and leases	272	285
Contributions and fees	5	8
Consultancy and other third-party services	228	164
Sales promotion and advertising expenses	37	147
Insurance expenses	49	66
Other operating expenses	303	231
Losses from the disposal of non-current assets	2	1
Expenses relating to set-up of allowances for and write-off of accounts receivable	1	4
Total	**1,140**	**1,083**
thereof attributable to other periods	(2)	(1)

Of the figure shown for other operating expenses, € 0 million relates to “Other taxes” (previous year: € 0 million).

(19) INCOME FROM INVESTMENTS

€ MILLION	2008	2007
Income from participating interests	1	0
thereof from affiliated companies	(–)	(–)
Income from associated companies	3	3
Income from profit transfer agreements	1,821	1,348
Transfer of losses	–127	–170
Total	**1,698**	**1,181**

(20) NET INTEREST

€ MILLION	2008	2007
Income from other securities and long-term loans	452	491
thereof from affiliated companies	(452)	(491)
Other interest and similar income	210	186
thereof from affiliated companies	(86)	(120)
Interest and similar expenses	- 588	- 817
thereof to affiliated companies	(- 406)	(- 642)
Total	**74**	**- 140**

NOTES ON THE CASH FLOW STATEMENT

The structure of the cash flow statement on page 53 is consistent with the German Accounting Standard No. 2 (Deutscher Rechnungslegungsstandard Nr. 2; DRS 2) developed by the German Accounting Standards Board (Deutscher Standardisierungsrat) of the German Accounting Standards Committee (Deutsches Rechnungslegungs Standards Committee e.V.;DRSC).

The cash flow statement shows a breakdown of cash flows by operating activities, investing activities and financing activities. Cash flow before taxes is shown in cash flow from operating activities.

Of the overall figure shown in the financial year for contributions to the capital reserve of subsidiaries, € 1,413 million was attributable to non-cash contributions relating to the spinning-off of assets and liabilities to DB ML AG.

(21) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the cash and cash equivalents shown in the balance sheet (cash in hand, cash at banks and checks).

OTHER INFORMATION

(22) PARTICIPATIONS

The complete list of all participations pursuant to Section 285 No. 11 HGB is published in the electronic Federal Gazette.

(23) EMPLOYEES

Full-time employee	2008		2007	
	Annual average	At year end	Annual average	At year end
Employees	3,712	3,627	5,265	5,351
Civil servants assigned	616	660	965	977
Subtotal	**4,328**	**4,287**	**6,230**	**6,328**
Trainees	143	180	140	165
Total	**4,471**	**4,467**	**6,370**	**6,493**

The civil servants employed at DB AG have generally been assigned to DB AG with the entry of the company in accordance with Art. 2 Section 12 of the ENeuOG ("assigned civil servants"). They work for DB AG, their employer is the BEV.

(24) MEMBERS AND TOTAL EMOLUMENTS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

€ THOUSAND	2008	2007
Total Management Board emoluments	7,456	14,260
thereof fixed component	(3,100)	(4,070)
thereof performance-based component	(4,356)	(10,190)
Emoluments of former Management Board members	2,116	1,570
Pension provisions for former Management Board members	18,298	17,992
Total Supervisory Board emoluments	831	873
Emoluments of former Supervisory Board members	–	–
Loans to Management Board members	–	–
Loans to Supervisory Board members	–	–

The following persons served as members of the Supervisory Board in the 2008 financial year:

Dr. Günther Saßmannshausen
Honorary Chairman of the Supervisory Board,
Hanover

Dr. Werner Müller
Chairman of the Supervisory Board,
Mülheim an der Ruhr

a) DB Mobility Logistics AG (Chairman)
EVONIK Degussa GmbH (Chairman) [1)]
EVONIK Immobilien AG [1)]
EVONIK STEAG AG (Chairman) [1)]
b) g.e.b.b. Gesellschaft für Entwicklung,
Beschaffung und Betrieb mbH (Chairman)
Stadler Rail AG (Administrative Board)

Alexander Kirchner*
Deputy Chairman of the Supervisory Board
– since February 18, 2009 –
Chairman of TRANSNET Gewerkschaft,
Runkel
– since February 9, 2009 –

a) DB Fahrzeuginstandhaltung GmbH
DB JobService GmbH
DB Sicherheit GmbH
DB Systel GmbH
b) DB Dienstleistungen GmbH
(Advisory Board)
DB Zeitarbeit GmbH (Advisory Board)

Lothar Krauß*
Deputy Chairman of the Supervisory Board
– from May 16, 2008 to January 31, 2009 –
Deputy Chairman of TRANSNET Gewerkschaft,
Rodenbach
– up to January 31, 2009 –

a) DB Mobility Logistics AG
DBV-Winterthur Holding AG
Sparda-Bank Baden-Württemberg eG
(Chairman)
b) DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
(Advisory Board, Chairman)

Norbert Hansen
Deputy Chairman of the Supervisory Board,
Chairman of TRANSNET Gewerkschaft,
Hamburg
– up to May 15, 2008 –

a) Arcor Verwaltungs-Aktiengesellschaft
DEVK Allgemeine Versicherungs-AG
(Chairman)
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a.G. (Chairman)
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
(Chairman)
DEVK Rückversicherungs- und
Beteiligungs-Aktiengesellschaft (Chairman)
DEVK Vermögensvorsorge- und
Beteiligungs-AG
b) Verband der Sparda-Banken e.V.
(Advisory Board)

Georg Brunnhuber
Member of the German Bundestag,
Oberkochen

b) Kreissparkasse Ostalb
(Administrative Board)

Niels Lund Chrestensen
General Manager of N.L. Chrestensen
Samenzucht und Produktion GmbH,
Erfurt

a) Funkwerk AG
b) Landesbank Hessen-Thüringen
(Advisory Board public sector companies/
institutions, municipalities and savings
banks)
Thüringer Aufbaubank
(Administrative Board)

Christoph Dänzer-Vanotti
Member of the Management Board of E.ON AG,
Essen
– since February 1, 2009 –

a) E.ON Energie AG [1)]
b) E.ON Nordic AB, Malmö/Sweden [1)]
E.ON Sverige AB, Malmö/Sweden [1)]

Achim Großmann
Parliamentary State Secretary,
Federal Ministry of Transport, Building
and Urban Affairs,
Würselen
– since November 19, 2008 –

a) DB Mobility Logistics AG
b) ÖPP Deutschland AG

Dr. Ing. Dr. E.h. Jürgen Großmann
Chairman of the Management Board
of RWE AG,
Hamburg

a) BATIG Gesellschaft für Beteiligungen mbH
British American Tobacco (Germany) GmbH
British American Tobacco (Industrie) GmbH
SURTECO Aktiengesellschaft (Chairman)
VOLKSWAGEN AG
b) Hanover Acceptances Limited, London/UK

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 Hennerkes
State Secretary (retired), Federal Ministry
of Transport, Building and Urban Affairs,
Berlin
– up to January 31, 2008 –

Jörg Hensel*
Chairman of the Central Works Council
of DB Schenker Rail Deutschland AG,
Chairman of the Branch Works Council
of DB Mobility Logistics AG,
Hamm

a) DB Mobility Logistics AG
DB Schenker Rail Deutschland AG
b) DEVK Pensionsfonds-AG (Advisory Board)

Klaus-Dieter Hommel*
Federal Chairman of the GDBA Transport
Workers' Union,
Frankfurt am Main

a) DB Schenker Rail Deutschland AG
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a.G.
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
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) 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 (Chairman)

Helmut Kleindienst*
Chairman of the Branch Works Council
of the Services Business Unit of Deutsche
Bahn Group,
Chairman of the Works Council
of DB Dienstleistungen GmbH,
Eppstein/Taunus

b) DB Dienstleistungen GmbH
(Advisory Board)

Dr. Jürgen Krumnow
Former member of the Management Board
of Deutsche Bank AG,
Königstein/Taunus

a) DB Mobility Logistics AG
Hapag-Lloyd AG
Lenze AG
TUI AG (Chairman)
b) Peek & Cloppenburg KG (Advisory Board)

Vitus Miller*
Chairman of the Central Works Council
Regional/Urban Transport of Deutsche
Bahn Group,
Stuttgart

a) DB Regio AG
DB Vertrieb GmbH

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)

Dr. Axel Nawrath
State Secretary in the Federal Ministry
of Finance,
Berlin

a) DB Mobility Logistics AG

Dr. Walther Otremba
State Secretary in the Federal Ministry
of Economics and Technological Affairs,
St. Augustin
– since February 1, 2008 –

a) DB Mobility Logistics AG

Dr. Bernd Pfaffenbach
State Secretary in the Federal Ministry
of Economics and Technological Affairs,
Wachtberg-Pech
– up to January 31, 2008 –

a) Deutsche Postbank AG
KfW IPEX Bank GmbH
Lufthansa Cargo AG

Ute Plambeck
Management Representative Deutsche Bahn AG for
the Federal States of Hamburg/Schleswig-Holstein,
Hamburg

a) Autokraft GmbH
S-Bahn Hamburg GmbH

Regina Rusch-Ziemba*
Deputy Chairwoman of TRANSNET Gewerkschaft,
Hamburg
– since June 5, 2008 –

a) DB Fahrwegdienste GmbH
DB ProjektBau GmbH
DB Station & Service AG
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a.G.
(Chairwoman)
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.

Matthias von Randow
State Secretary (retired),
Berlin
– from February 1 to November 19, 2008 –

a) DB Mobility Logistics AG
Fraport AG

Dr. h.c. Eggert Voscherau
Wachenheim
– up to December 31, 2008 –

a) Carl Zeiss AG (Chairman)
CropEnergies AG
HDI Haftpflichtverband
der Deutschen Industrie VVaG
SCHOTT AG
Talanx AG
b) Nord Stream AG (Shareholders' Committee)
ZEW (Zentrum für Europäische
Wirtschaftsforschung) GmbH

Dr.-Ing. E.h. Dipl.-Ing. Heinrich Weiss
Chairman of the Management Board
of SMS GmbH,
Hilchenbach-Dahlbruch

a) DB Mobility Logistics AG
SMS Demag AG (Chairman) [1)]
COMMERZBANK AG
Voith AG
b) Bombardier Inc., Montreal/Canada
Thyssen-Bornemisza Group, Monaco

* Employees' representative on the Supervisory Board
[1)] Mandate within the Group
a) Membership in other supervisory boards required by law
b) Membership in comparable domestic and foreign corporate control committees of business enterprises

Information relating to December 31, 2008 or the time of leaving the services of the company in 2008. If appointed after December 31, 2008, the time of appointment is used.

Supervisory Board Committees

Executive Committee
Dr. Werner Müller (Chairman)
Norbert Hansen – up to May 15, 2008 –
Lothar Krauß
– from May 16, 2008 to January 31, 2009 –
State Secretary (retired) Jörg Hennerkes
– up to January 31, 2008 –
State Secretary (retired) Matthias von Randow
– from February 1, 2008 to November 19, 2008 –
Parliamentary State Secretary
Achim Großmann – since December 1, 2008 –
Günter Kirchheim

Audit Committee
Dr. Jürgen Krumnow (Chairman)
State Secretary (retired) Jörg Hennerkes
– up to January 31, 2008 –
State Secretary (retired) Matthias von Randow – from February 1, 2008 to November 19, 2008 –
Parliamentary State Secretary
Achim Großmann – since December 1, 2008 –
Lothar Krauß – up to June 24, 2008 –
Regina Rusch-Ziemba – since June 25, 2008 –
Helmut Kleindienst

Personnel Committee
Dr. Werner Müller (Chairman)
State Secretary (retired) Jörg Hennerkes
– up to January 31, 2008 –
State Secretary (retired) Matthias von Randow – from February 1, 2008 to November 19, 2008 –
Parliamentary State Secretary
Achim Großmann – since December 1, 2008 –
Norbert Hansen – up to May 15, 2008 –
Lothar Krauß
– from May 16, 2008 to January 31, 2009 –
Günter Kirchheim

Members of the Mediation Committee in accordance with article 27 section (3) MitbestG
Dr. Werner Müller (Chairman)
State Secretary (retired) Jörg Hennerkes
– up to January 31, 2008 –
State Secretary (retired) Matthias von Randow – from February 1, 2008 to November 19, 2008 –
Parliamentary State Secretary
Achim Großmann – since December 1, 2008 –
Norbert Hansen – up to May 15, 2008 –
Lothar Krauß
– from May 16, 2008 to January 31, 2009 –
Günter Kirchheim

The following persons served on the Management Board in the 2008 financial year:

Hartmut Mehdorn
Chief Executive Officer (CEO),
Chief Executive Officer (CEO) of
DB Mobility Logistics AG,
Berlin

a) DB Netz 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
b) Allianz Deutschland AG (Advisory Board)

Dr. Norbert Bensel
Transport and Logistics,
Berlin
– up to May 31, 2008 –

a) DB Fernverkehr AG [1)]
DB Regio AG [1)]
DB Schenker Rail Deutschland AG (Chairman) [1)]
Schenker AG (Chairman) [1)]
DB Services Immobilien GmbH [1)]
Schenker Deutschland AG (Chairman) [1)]
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G.
DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft
Praktiker Bau- und Heimwerkermärkte AG
Praktiker Bau- und Heimwerkermärkte Holding AG
Sparda-Bank Berlin eG
b) BLG LOGISTICS GROUP AG & Co. KG (Advisory Board)
IAS Institut für Arbeits- und Sozialhygiene Stiftung (Advisory Board)

Stefan Garber
Infrastructure and Services,
Bad Homburg

a) DB Station & Service AG (Chairman) [1)]
DB Energie GmbH (Chairman) [1)]
DB ProjektBau GmbH (Chairman) [1)]
IDUNA Lebensversicherung a.G.
Sparda-Bank Baden-Württemberg eG
b) Signal Iduna Group (Advisory Board)

Norbert Hansen
Personnel,
Hamburg
– since June 1, 2008 –

a) DB Gastronomie GmbH (Chairman) [1)]
DB JobService GmbH (Chairman) [1)]
DEVK Allgemeine Versicherungs-AG (Chairman)
DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft (Chairman)
DEVK Vermögensvorsorge- und Beteiligungs-AG
b) DB Zeitarbeit GmbH (Advisory Board, Chairman) [1)]
Verband der Sparda-Banken e.V. (Advisory Board)

Dr. Karl-Friedrich Rausch
Passenger Transport,
Weiterstadt
– up to May 31, 2008 –

a) DB Fernverkehr AG (Chairman) [1)]
DB Regio AG (Chairman) [1)]
Schenker AG [1)]
DB Vertrieb GmbH (Chairman) [1)]
S-Bahn Berlin GmbH (Chairman) [1)]
DEVK Allgemeine Versicherungs-AG
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G.
b) DB Zwölfte Vermögensverwaltungs AG (Chairman) [1)]

Diethelm Sack
Chief Financial Officer (CFO),
Member of the Management Board of DB Mobility Logistics AG,
Frankfurt am Main

a) DB Services Immobilien GmbH (Chairman) [1)]
DVA Deutsche Verkehrs-Assekuranz-Vermittlungs-GmbH (Chairman) [1)]

Margret Suckale
Personnel and Legal,
Berlin
– up to May 31, 2008 –

a) Schenker AG [1)]
DB Gastronomie GmbH (Chairwoman) [1)]
DB JobService GmbH (Chairwoman) [1)]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G.
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G.
Sparda-Bank Hamburg eG
b) DB International GmbH [1)]
DB Zeitarbeit GmbH (Advisory Board, Chairwoman) [1)]
Verband der Sparda-Banken e.V. (Advisory Board)

Dr. Otto Wiesheu
Economic and Political Affairs,
Zolling

a) DB Sicherheit GmbH [1)]
b) DB International GmbH (Chairman) [1)]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G.
INA-Holding Schaeffler KG (Advisory Board)
Märker Holding GmbH (Advisory Board)

[1)] Mandate within the Group
a) Membership in other supervisory boards required by law
b) Membership in comparable domestic and foreign corporate control committees of business enterprises

Information relating to December 31, 2008 or the time of leaving the services of the company in 2008. If appointed after December 31, 2008, the time of appointment is used.

(25) AUDITOR'S FEES

The following auditor's fees were recognized in the financial year:

€ THOUSAND	2008	2007
Audit of financial statements	839	582
Other audit or attestation services	2,694	3,455
Tax consultancy services	17	–
Other services	6,821	2,394
Total	**10,371**	**6,431**

(26) EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date are detailed in the management report.

(27) PROPOSED APPROPRIATION OF RESULTS

It is proposed that the cumulative profit of € 3,073,862,258.17 shown as of December 31, 2008 should be carried forward to the new account.

Berlin, February 24, 2009

Deutsche Bahn AG
The Management Board

DR. WERNER MÜLLER
Chairman of the Supervisory Board
of Deutsche Bahn AG

REPORT OF THE SUPERVISORY BOARD

In the year under review, the Supervisory Board exercised great care in carrying out all duties which it is required to perform in accordance with the law, articles of association, and rules of procedure. It extensively advised and monitored the Management Board in the management of the company and also managing operations. The Management Board informed the Supervisory Board regularly, promptly and extensively with regard to corporate planning and the economic, strategic and financial development of Deutsche Bahn AG (DB AG) and its subsidiaries. All major transactions were discussed in the plenary body and the relevant committees on the basis of the reports of the Management Board. Any variances relating to the overall development of business were explained in detail by the Management Board and reviewed by the Supervisory Board. The chairman of the Supervisory Board constantly maintained close contact with the chairman of the Management Board, and was regularly informed by the chairman of the Management Board of the current development of business of DB AG, the entrepreneurial decisions which were about to be taken as well as risk management. The Supervisory Board was involved in all decisions which were of crucial importance for DB AG. One member of the Supervisory Board was only able to attend less than half the Supervisory Board meetings as a result of ill health.

Meetings of the Supervisory Board

In the year under review, the Supervisory Board held four ordinary and one extraordinary meetings. In three cases, resolutions were adopted on the basis of written documents. The meetings of the Supervisory Board were prepared by meetings of the Executive Committee, the Personnel Committee and the Audit Committee. The deliberations in the plenary body focused on the development in revenues, results and employment of the company as well as major investment, equity participation and disinvestment projects. In addition, in the year under review, the Supervisory Board also deliberated intensively the partial privatization of DB Mobility Logistics AG (DB ML AG) and the associated changes in the Group structure, the composition of the Management Board as well as the adjustments to the rules of procedure of the Management Board of DB AG.

There were no conflicts of interest of members of the Management Board or Supervisory Board which have to be disclosed without delay to the Supervisory Board.

In its meeting on March 28, 2008, the Supervisory Board considered the annual financial statements 2007 as well as the Group management report and the consolidated financial statements 2008 of DB AG. In addition, the Corporate Governance principles of DB AG were adapted and brought into line with the changes of the German Corporate Governance Code, the German Stock Corporation Act (Aktiengesetz) as well as the Securities Trading Act (Wertpapierhandelsgesetz). The Management Board informed the Supervisory Board extensively of the imminent reorganization of the Group structure. The Supervisory Board also approved the acquisition of 100 % of the shares in WBN Waggonbau Niesky GmbH by DB Fahrzeuginstandhaltung GmbH as well as the modernization of the main station in Essen.

In its extraordinary meeting held on May 15, 2008, the Supervisory Board approved the reorganization of the company and Group structure. The Management Boards of DB AG and DB ML AG were also partially restructured in connection with this action, and the rules of procedure for the Management Board of DB AG were adapted and brought into line with the changed Group structure. In addition, the Supervisory Board meeting also considered the sale of 18.17 % of shares held by DB AG in Arcor AG & Co. KG and 18.15 % of shares held by DB AG in Arcor Verwaltungs AG to Mannesmann Beteiligungs GmbH & Co KG. Following extensive deliberations, the Supervisory Board approved these sales.

As part of the process of preparing the planned partial privatization of DB ML AG, the Supervisory Board, in its meeting of June 25, 2008, approved the participation agreement between the Federal Republic of Germany, DB AG and DB ML AG, and again revised the rules of procedure for the Management Board. In addition, the Supervisory Board also approved the procurement of further rolling stock for rail freight transport, and also approved the immediate programs “Port hinterland transport Duisburg” and “Port hinterland transport Hamburg.” In addition, the holding of DB Schenker Rail Deutschland AG in the share capital of BLS Cargo AG, Switzerland, was increased by 25 % to 45 %.

In its meeting held on September 10, 2008, the Supervisory Board considered the acquisition of up to 100 % of the shares in the Romanian freight forwarding company Romtrans. With regard to the IPO of DB ML AG envisaged for the fourth quarter, the Supervisory Board approved the placing of up to 24.9 % of the share capital of DB ML AG on the open capital market and also approved a share capital increase of DB ML AG, and also delegated responsibility for all equity participation rights and approval conditions to the Executive Committee in accordance with the articles of association.

In the Supervisory Board meeting on December 10, 2008, the Supervisory Board noted the corporate planning scenarios which had been prepared for the year 2009 and the medium-term horizon until 2013. As a result of the uncertainty relating to overall economic conditions, the Supervisory Board agreed that the final corporate planning for the year 2009 will be submitted for adoption after the results for the first quarter of 2009 are available and that the medium-term horizon until 2013 is noted. After the negotiations with the federal government regarding the service and financing agreement were completed in November, the Supervisory Board pronounced its approval in this meeting and thus placed the current system for financing the existing track infrastructure capital expenditures on a long-term and plannable entrepreneurial basis. In addition, the Supervisory Board also approved the signing of the joint declaration regarding the implementation of the projects "Stuttgart 21" and the "new build line Wendlingen–Ulm." In order to be able to survive in the increasingly fierce competitive environment of international transport, the Supervisory Board approved the procurement of 15 high-speed trains with multi-system capability. In view of the increasing internationalization of business in rail freight transport, the form of this operating segment DB Schenker Rail was adjusted accordingly. In addition, the Supervisory Board approved the setting up of a joint venture for creating a joint production company between DB Schenker Rail Deutschland AG and the Belgian SNCB as well as the sale of 20 % of shares in ECR France to SNCB and the disposal of non-essential land of DB Netz AG and DB Station & Service AG in Aachen to the Federal State of Northrhine-Westphalia.

The subject of the written resolutions which were adopted were the acquisition of 100 % of the shares in Laing Rail Limited, London/UK, the election of State Secretary Matthias von Randow in January 2008 and the Parliamentary State Secretary Achim Großmann in November 2008 as members of the Executive Committee, the Mediation Committee, the Audit Committee and the Personnel Committee, and the approval of the Supervisory Board in accordance with Section 32 of the law on codetermination (Mitbestimmungsgesetz) with regard to changes in the Supervisory Board of DB Netz AG, DB Projektbau GmbH and also in the Supervisory Board of DB ML AG.

Meetings of the Supervisory Board committees

The Supervisory Board has created four committees in order to enable it to carry out its duties efficiently. In 2008, the Executive Committee of the Supervisory Board met in a total of six meetings, and maintained constant contact with the Management Board with regard to all major issues of business policy. In particular, the various key issues of the meetings of the Supervisory Board were prepared in this way. The Executive Committee also arranged to be regularly informed of the status of the partial privatization of DB ML AG.

The Audit Committee, which held four meetings and two telephone conferences in the year under review, dealt in particular with the quarterly financial statements, the six-month financial statements and the review results. Further key audit issues were the forecast for 2008 and the medium-term planning 2009–2013 for the DB Group. The chairman of the Audit Committee maintained regular contact with the Chief Financial Officer and the auditor. The Audit Committee also dealt with matters of accounting and risk management, the further development of corporate governance as well as the process of placing the audit engagement with the auditor, and arranged to be notified of the results of internal audits.

In the year under review, the Personnel Committee prepared the personnel decisions of the Supervisory Board in five meetings and definitively regulated the contract matters of the Management Board on behalf of the Supervisory Board.

The chairman of the Audit Committee reported regularly to the plenary body and also reported extensively on the work of the Audit Committee.

The Mediation Committee set up in accordance with Section 27 (3) MitbestG did not have to meet in the year under review, and also did not adopt any resolutions.

Corporate Governance

In the year under review, the Management Board and Supervisory Board again considered the further development of the Corporate Governance principles of DB AG. In its meeting held on March 28, 2008, the Supervisory Board approved the adjustment of the Corporate Governance principles of DB AG to bring them into line with the changes of the German Corporate Governance Code, the German Stock Corporation Act and the Securities Trading Act.

For detailed comments on Corporate Governance in DB AG, please refer to the Corporate Governance report.

Annual financial statements

The annual financial statements of DB AG prepared by the Management Board and the management report of DB AG as well as the consolidated financial statements and Group management report for the period ending December 31, 2008 have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PwC), Berlin, which had been elected as the auditor by the shareholders' meeting, and were awarded an unqualified auditor's report. In addition, as part of the process of auditing the annual financial statements, the auditor also audited the risk management system in accordance with the German Control and Transparency Act in the Corporate Sector (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich), and did not express any reservations.

On March 25, 2009, the report of the auditor was the subject of the meeting of the Audit Committee, and was extensively deliberated in the accounts meeting of the Supervisory Board on March 27, 2009 in the presence of the auditor who signed the auditor's report. The auditor reported on the key results of the audit and was available for answering questions. The Supervisory Board approved the result of the audit.

The Supervisory Board has reviewed the annual financial statements and the management report of DB AG as well as the consolidated financial statements and the Group management report for the year under review as well as the proposal for the appropriation of profits, and has not expressed any reservations. The annual financial statements of DB AG for the 2008 financial year were approved, and are thus adopted.

The auditor also audited the report prepared by the Management Board with regard to relations with affiliated companies. The auditor has issued an unqualified auditor's report, and reported on the result of the audit.

The Supervisory Board has also reviewed this report, and did not express any reservations against the closing statement of the Management Board included in the report and the result of the audit by PwC.

Changes in the make-up of the Supervisory Board and Management Board

State Secretary Jörg Hennerkes stepped down from the Supervisory Board as of January 31, 2008. State Secretary Matthias von Randow was appointed to be his successor on the Supervisory Board with effect from February 1, 2008. State Secretary Matthias von Randow stepped down from the Supervisory Board with effect from November 19, 2008. Parliamentary State Secretary Achim Großmann was appointed to be his successor on the Supervisory Board with effect from November 20, 2008.

State Secretary Bernd Pfaffenbach stepped down from the Supervisory Board as of January 31, 2008. State Secretary Dr. Walther Otremba was appointed to be his successor with effect from February 1, 2008.

Dr. Eggert Voscherau laid down his Supervisory Board mandate with effect from December 31, 2008. Mr. Christoph Dänzer-Vanotti was appointed to be his successor on the Supervisory Board of DB AG with effect from February 1, 2009.

Mr. Lothar Krauß laid down his Supervisory Board mandate with effect from January 31, 2009. His successor was Mr. Alexander Kirchner, who was appointed by the court as a member of the Supervisory Board with effect from February 9, 2009.

Mrs. Margret Suckale, Dr. Norbert Bensel and Dr. Karl-Friedrich Rausch stepped down from the Management Board of DB AG with effect from May 31, 2008.

Mr. Norbert Hansen was appointed as a member of the Management Board responsible for the Personnel division with effect from June 1, 2008.

At this point, the Supervisory Board would again like to thank the former members of the Management Board and Supervisory Board for their committed and constructive support for the benefit of the company.

The Supervisory Board would like to thank the Management Board, all employees as well as the employees' representatives of DB AG and its affiliated companies for their work in the year under review.

Berlin, March 2009
For the Supervisory Board

Ihr Werner Müller

Dr. Werner Müller
Chairman

CONTACTS

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This Report, the Annual Report of DB Group and DB Mobility Logistics Group and additional information are available on the Internet.

This Report, as well as the Annual Report of DB Group and DB Mobility Logistics Group are published in German and English. In case of any discrepancy, the German version shall prevail.

CORPORATE COMMUNICATIONS

Corporate publications, the Competition Report and the Sustainability Report can be requested from Corporate Communications:

Fax: +49-30-297-61919
E-mail: presse@deutschebahn.com
Internet: www.deutschebahn.com/presse

DB SERVICE NUMBER

Our service number gives you direct access to all of our telephone services. Just dial +49-1805-996-633 and you will be automatically asked to select the service you require by responding verbally or by using your phone's keyboard, for example to book train tickets, find train times, service for handicapped travelers or the bicycle hotline. Frequent travelers can access their individual personal service site by entering short commands or passwords.

Calls will be charged as follows: calls from the German fixed-line network cost 14 cents/min. Charges will vary for calls from cell phone networks.

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Investor Relations

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Studio Delhi,
Mainz

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Koch Lichtsatz und Scan,
Wiesbaden

PROOFREADING
AdverTEXT,
Düsseldorf

PHOTOGRAPHY AND CONSULTING
Max Lautenschläger,
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PHOTOGRAPHY
Max Lautenschläger (title)
Olaf Döring (p. 76)

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