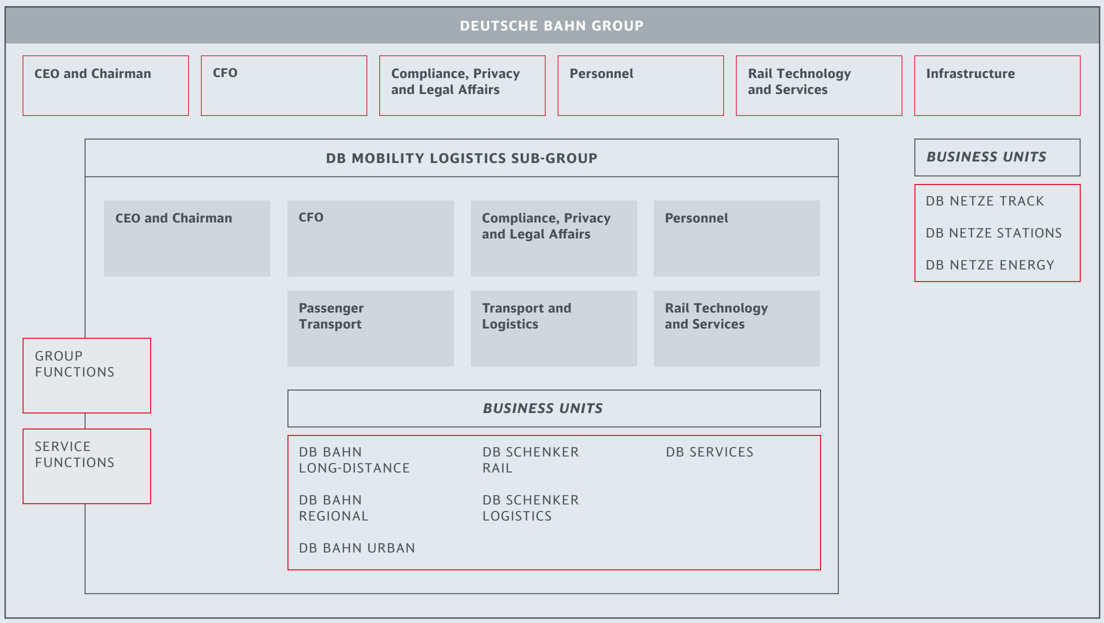
Mobility
Networks
Logistics

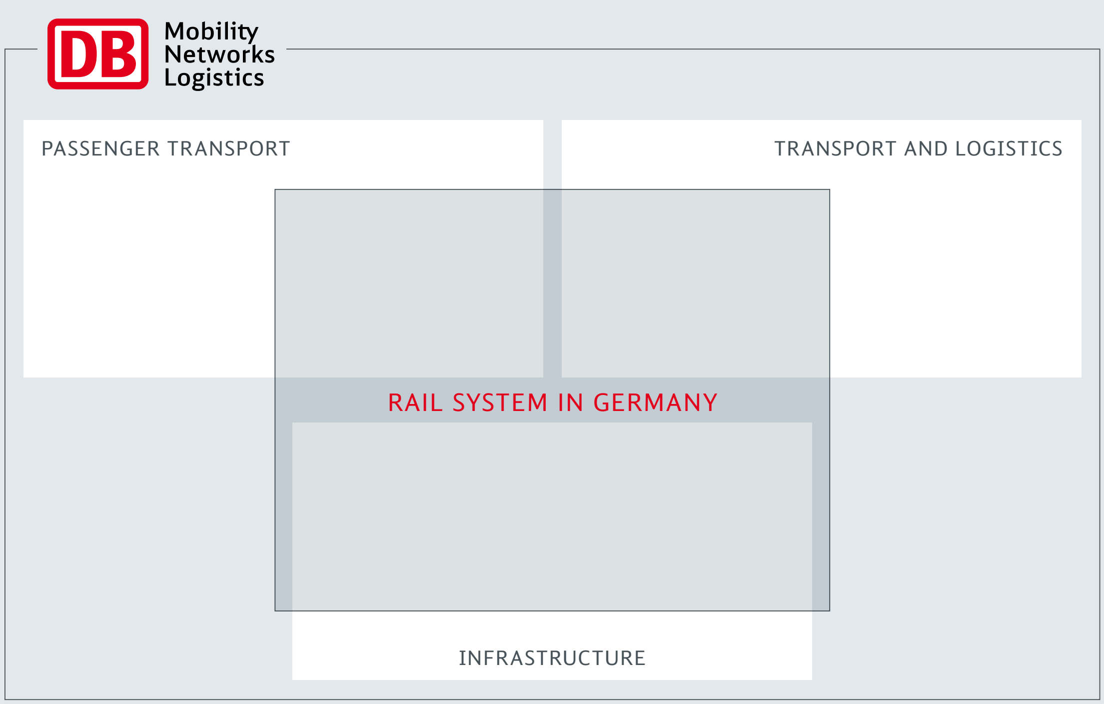
Deutsche Bahn AG

2009 Management Report and Financial Statements

Group structure



DB Group’s business approach



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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 in the year 2008, 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. Very tight coordination between the Management Boards of DB AG and DB ML AG is assured by the fact that the same persons serve on both boards in cross-Group divisions. Furthermore, an integration committee serves as a joint advisory and coordinating body to ensure extremely close collaboration between the Management Boards of DB AG and DB ML AG. This structure allows for 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 DB Group, that was notably affected by negative influences stemming from the global downturn in economic conditions caused by the economic and financial crisis. The crisis-driven drop in economic growth that began in the second half of 2008 pushed the global economy into a deep recession, which hit the export-oriented countries especially hard. At the same time, future economic development was surrounded by very deep uncertainty until the middle of 2009. This in turn caused great anxiety in the financial markets and among the customers of DB Group in the transport and logistics areas of business. DB Group responded to this situation at the beginning of 2009 by introducing a program to control costs and prioritize the capital expenditures.

This is why the year under review for DB Group as well as for DB AG was primarily influenced by the initiation of short- and mid-term countermeasures, which were mainly bundled together in the Group's reACT program. The goals of DB Group here are to improve the cost position, secure the competitiveness and exploit opportunities generated by the crisis.

Despite the difficult overall conditions, in general the year under review was satisfactory for DB AG. Although DB Group did not record improvements in revenues, operating results and key value management figures in comparison to the same year-ago levels, DB AG was able to further increase its result from ordinary activities due to measures taken to counteract the crisis, and due to special items.

BUSINESS AND OVERALL CONDITIONS

FEDERAL GOVERNMENT ADOPTS "PRINCIPLES OF GOOD CORPORATE GOVERNANCE" FOR COMPANIES IN WHICH IT HOLDS A STAKE

On July 1, 2009 the Federal Government adopted new Principles of Corporate Governance for use in the government sector; the principles also comprise the so-called Public Corporate Governance Code of the Federal Government (PCGK). This establishes standards of corporate governance, which are in part stricter that those of the German Corporate Governance Code. The recommendations and suggestions contained in the PCGK apply to non-listed companies in which the Federal Government holds a majority stake.

DB AG and DB ML AG have adjusted their rules in accordance with the requirements of the PCGK. The PCGK applies to companies within DB AG and DB ML AG to the extent that it is required and practical in light of the unique characteristics of a corporate structure.

Additional information regarding corporate governance may be found in the Corporate Governance Report in the Deutsche Bahn 2009 Annual Report or on the Internet at www.deutschebahn.com/cg.

CHANGES IN DB GROUP

Changes in the DB AG Management Board

In agreement with the Supervisory Board, Hartmut Mehdorn resigned his mandate as a member of the Management Board and Chairman of the Management Board of DB AG and DB ML AG effective April 30, 2009. The DB AG Supervisory Board appointed Dr. Rüdiger Grube member of the Management Board and Chairman of the Management Board of DB AG for a term of five years as of May 1, 2009. Dr. Rüdiger Grube concurrently assumed the corresponding mandate as member of the Management Board and Chairman of the Management Board of DB ML AG.

Mr. Ulrich Weber was appointed as member of the Management Board of DB AG responsible for Human Resources for a term of five years as of July 1, 2009. He succeeds Norbert Hansen who resigned his mandate as of May 31, 2009. In addition, Mr. Ulrich Weber is also the member of the Management Board responsible for Human Resources at DB ML AG.

On May 31, 2009 Dr. Otto Wiesheu resigned his mandate as member of the DB AG Management Board responsible for Economic and Political Affairs. The separate Board Division of Economic and Political Affairs was terminated as of December 31, 2009. Until that date it had been a part of the direct responsibilities of Dr. Rüdiger Grube. The activities within this area will report directly to the Chairman of the Management Board as of January 1, 2010.

In May 2009 the Supervisory Board of DB AG agreed to the creation of a new Management Board division: Compliance, Privacy and Legal Affairs. Mr. Gerd Becht was appointed head of this Board division as of October 16, 2009. Prior to this date the Board division had been a part of Dr. Rüdiger Grube's direct responsibilities. Mr. Gerd Becht was also appointed to the corresponding position on the Management Board of DB ML AG. His contract has a term of five years.

In September 2009 the Management Board of DB AG was expanded by the addition of a new division: Rail Technology and Services, which is headed by Dr. Volker Kefer as of September 9, 2009, the date he was appointed a member of the Management Boards of DB AG and DB ML AG. Prior to this date Dr. Volker Kefer was Chairman of the Management Board of DB Netz AG. His current contract has a term of three years. In December 2009 Diethelm Sack resigned his mandate as Chief financial Officer effective March 31, 2010. In addition, Mr. Stefan Garber, member of the Management Board responsible for Infrastructure, was released from his duties effective the end of the year under review. He will also step down as a member of the Management Board as of March 31, 2010.

M&A activities strictly focused

DB Group only engaged in M&A activities on a very selective basis during the year under review. Following the acquisitions made in previous years, the main focus during the year under review was on preparations for a new structure of DB Group's holdings, especially those outside of Germany. The goal here is to legally consolidate all of the Group's holdings within a country under one holding company for that country. These in turn should in principle be run as fully owned subsidiaries of DB ML AG. This will provide the holdings' structure with a higher level of transparency. In addition, this will also enhance the chances of realizing potential synergies. Responsibility for the business units remains unchanged independent of the legal status of the individual companies.

Acquisition of the logistics activities of PCC

At the end of January 2009, contracts were signed for the acquisition of the logistics activities of the Polish PCC Group. The acquisition was approved by the EU Commission in June 2009 and carried out in July 2009. As part of this transaction we acquired majority stakes in PCC Rail S.A. (today: DB Schenker Rail Polska S.A., Jaworzno/Poland), PCC Rail Rybnik S.A. (today: DB Schenker Rail Rybnik S.A., Rybnik/Poland), and in "TRAWIPOL" Sp. z o. o., Gliwice/Poland.

With about 5,800 employees, revenues of € 350 million, and about an 8 % share of market in 2008, DB Schenker Rail Polska S.A. is the largest privately-owned railway company in Poland. DB Schenker Rail Polska consists of several regionally operating companies which are mainly specialized in transporting coal, chemicals and construction materials. The company also offers top connections in all major Polish business centers. We want to integrate DB Schenker Rail Polska into the rail freight transport network of DB Group and then develop it further to make it the central pillar of our operations in Eastern Europe.

BUSINESS ENVIRONMENT

Driven by the effects of the global economic and financial crisis, the macro-economic environment significantly dampened business development in 2009. The globally oriented freight forwarding and logistics activities of DB Group, in particular, were heavily affected by sharp drops in investments and industrial production, as well as lower levels of global trade, which contracted by about 12 %. The vast majority of the business of DB Group in the passenger and rail freight transport is highly dependent on economic developments within the home market, Germany. The dominant sector within the passenger transport market, motorized individual transport, was stimulated by the strong increase in new car registrations generated by the German "cash for clunkers" program as well as the sharp year-over-year decrease in fuel prices, which stabilized the total market. Development seen in key industries like the coal, iron and steel (Montan) industry led to a never-before-experienced drop in the rail freight transport sector. As a result, on an overall basis, neither the rail passenger transport sector nor, above all, the rail freight transport sector was able to continue their successful growth noted in recent years and lost market share.

Development of GDP reflects economic and financial crisis

Change in gross domestic product (GDP) %	**2009**	2008
World [1]	-2.2	+1.6
USA	-2.4	+0.4
China	+8.7	+9.6
Japan	-5.1	-1.2
Eurozone	-4.0	+0.6
Germany	-5.0	+1.3

[1] Total selected industrial and emerging countries.

Data for 2009 is based on information and estimates available on February 23, 2010.

Source: Consensus Forecasts, FERI, Federal Statistical Office, Germany.

The sharp contraction in the global economy, which began in the fall of 2008 due to the crisis in the financial and property sectors, was followed by the start of a slow recovery in the summer of 2009, albeit from a very low level. The upturn was primarily driven by stabilizing financial markets following massive intervention by the world's central banks coupled with government stimulus programs and guarantees for the financial sector. These actions led to a greater willingness to invest. Concurrently, the favorable effects of government economic stimulus programs were becoming increasingly visible: economic growth was supported by expenditures for construction and public-sector consumption. Global trade, which had previously declined through to the spring of 2009, began to recover in the summer. Manufacturing picked up again as companies ended their pronounced rundown of inventory levels and began to restock. However, in 2009 global economic production figures were about 2.2% lower than the same year-ago figure.

During the course of the year economic activity in the USA received a boost from the government's economic stimulus program, the revival of global trade, as well as the end of inventory reduction measures. Consumer spending, on the other hand, remained almost unchanged due to rising unemployment figures, stagnating salary levels, and losses suffered due to the reduced value of financial and property assets. Investments for plant and equipment and within the construction sector did not generate any notable economic response due to higher levels of excess capacity and significantly tighter lending conditions. Economic recovery was hindered not lastly because the market continued to expect a political solution to clean up and regulate the financial sector. The market further anticipated that the crisis in the American banking sector would continue smoldering in 2010. Together, these factors led to a 2.4% decline in total GDP in the USA in 2009.

The pace of growth in China slowed down, but remained at a high level as GDP grew by 8.7%. Government programs to stimulate the economy strengthened domestic demand boosting imports and global trade.

In contrast, the Japanese economy did not begin to show signs of recovering from the deep recession before the end of 2009. The economic recovery was mainly based on increasing exports. However, GDP for the entire year was still 5.1% lower than the previous year's level.

The Eurozone's economic situation bottomed out towards the middle of 2009 as local economies were primarily supported by the effects of economic stimulus programs. However, as consumer spending barely rose and investments remained sluggish, the Eurozone's gross domestic product declined by 4.0% in 2009. The UK economy was hit particularly hard by the crisis in the financial and property sectors. This led to a notable cooling of the British economy, which showed little sign of recovering as the year ended. Development was mixed in the new EU member countries. While Poland recorded higher GDP, the Baltic nations, in particular, posted double-digit drops in GDP because of their dependence on foreign inflows of capital.

Due to its heavy emphasis on exports German GDP fell by 5.0 %, which was higher than the average figure noted for the Eurozone. Foreign trade and investments in plant and equipment and other facilities remained significantly below the previous year's level. In contrast, public sector expenditures for construction only declined moderately as the realization of the Federal Government's stimulus spending program gained momentum. Production in the manufacturing industry, especially the heavily export-dependent chemical, automotive and machine-making industries, posted double-digit declines for the whole year due to the sharp drop in orders seen in the first six months. Steel production recorded nearly a 29 % plunge due to the negative developments seen in the important customer industries. In fact, steel production for the year totaled just about 32.5 million tons, a level last seen in the Federal Republic of Germany at the start of the 1960s. The slight gain in consumer spending was mainly driven by the Federal Government's "cash for clunkers" stimulus program, which in turn boosted the number of cars bought by private households. Other measures within the Federal Government's economic stimulus program also generated favorable effects. The labor market was stabilized by the widespread use of short-time work arrangements. As a result, the average number of persons employed during the year declined by a comparatively minor 0.2 %. The cost of living was only slightly higher than in the previous year due to sharply lower costs for petroleum-based products while fuel prices were significantly lower than in 2008 (–11 %).

Energy prices begin to climb again during the course of the year

Following a notable drop at the beginning of the year, the price of energy began to rise again as of mid-February 2009. Prices for various primary sources of energy showed mixed development since the summer of 2009.

The price of crude oil was determined to a lesser extent by fundamental data in 2009 than by general sentiment in the capital markets. Negative opinions in the market at the start of 2009 were replaced over the course of the year by a feeling that the worst was over. Contrary moves in the euro/US dollar (USD) exchange rate were, however, able to dampen the effects of price increases within the Eurozone. During the first quarter the trading range for North Sea Brent oil was 40–50 USD/barrel (bbl), while in the final quarter of 2009 prices had risen to 70–80 USD/bbl, which was higher than the average price noted for the last five years (66 USD/bbl). The lower prices at the beginning of the year pulled the average price for 2009 down to 62 USD/bbl.

Prices for 50-hertz power (base load electricity) continued their downward movement noted in the second half of 2008 until March 2009 and hit their low for the year at nearly € 43/MWh, a level that was last recorded in 2005. The subsequent rise to € 55/MWh only lasted, however, until the middle of the year and remained significantly below the top price (€ 59/MWh) for the year seen in January. In December the contract was once again trading below € 45/MWh. The average annual price for futures contracts for base load electricity in 2009 was lower than prices noted during the previous three years. Spot prices for power remained at a lower level throughout the entire year: in more than 80 % of the cases the EEX daily index for base load electricity was below € 50/MWh (previous year: 8 %).

Coal markets developed similarly to the oil markets. Prices continually recovered after hitting the year's low at the end of March 2009, but were unable to set a new high for the year. The market for CO_2 emissions rights developed similarly. After hitting their low for the year of €10/t in February 2009, prices primarily moved between €12–16/t, which was below the previous year's lows of €15–16 €/t.

Euro rises again

After the euro fell from its record highs following the expected change in interest rates at the end of 2008, the euro posted continual gains against the US dollar during 2009. Development of the American budget situation generated increasing skepticism in the markets which in turn led to higher exchange rates for major currencies vis-à-vis the US dollar. In November 2009 the euro was again trading at over USD 1.50. At this point the major rating agencies began to take a critical look at some of the countries within the Eurozone which led to discussions concerning the creditworthiness of these countries. This in turn generated doubts and forced the euro down to USD 1.44 on December 31, 2009.

Bond markets reflect financial market crisis

The price of German Federal bonds (bunds) reached new highs at the start of 2009 as investors sought them as safe harbor investments during the financial crisis. This development forced yields for ten-year bunds to fall below 3.0%. In the interim the yield on five-year bunds fell to only 2.0%. At the same time investors were demanding very high premiums to hold higher risk paper. Corporate bonds as well as sovereign bonds issued by other countries had to offer substantial risk premiums to generate demand in the market. By mid-2009 financial markets had once again put their fears of a collapse behind them. Investors traded their German Federal Government bonds in for lower-rated bonds pushing the yield on German bunds up by over 0.5 percentage points while risk premiums for credit products fell sharply. Capital market interest rates, however, remained unchanged at a historically low level. Fears arose at the end of 2009 concerning a notable drop in the creditworthiness among others of Greece and Dubai, reversing previous moves in interest rates and premiums. At the end of the year ten-year bunds were yielding 3.4%.

The market for new euro-denominated corporate bonds was heavily influenced by the financial crisis in 2009. After the market for new issues had almost dried up in 2008, new corporate bonds with a total nominal value of about €300 billion were floated during the year under review. This figure is equal to the hitherto largest volume of transactions in the history of the common European currency, with more than two-thirds of total volume for the year already sold during the first half of 2009. This development was primarily driven by two factors directly related to the financial crisis. First, corporations had great interest in building up a liquidity cushion that would allow them to ride out a possible continuation of the crisis. Second, due to the crisis-driven consolidation activities in the banking sector, banks were unable to provide the volume of loans desired by borrowers. Thus, the bond market presented itself as a source of financing, especially because investors welcomed other borrowers as alternatives to financial institutions. While the market was initially tapped by investment grade corporations, issuers with weak or no ratings followed them towards the end of the year. These transactions were made possible by investors' reawakened appetite for riskier investments. Investors were initially able to demand and receive very high spreads due to the high levels of uncertainty prevailing at the beginning of the year and the greater liquidity-driven needs of corporations seeking financing via the capital market. These premiums were correspondingly reflected in the secondary market. During the course of the year these premiums contracted continually as the initial uncertainty at the start of the year was replaced by greater confidence that the economic recovery would continue, and by investors' greater willingness to invest. Corporate bonds posted very high performance in 2009 as spreads tightened over the course of the year. The iBoxx € Corporates and Non-financials overall index for euro-denominated corporate bonds rose by over 16 % (total return) in 2009. Due to the particularly higher premiums demanded for greater risk at the start of the year, bonds with weak ratings were able to profit from this trend to a greater-than-average extent.

POLITICAL ENVIRONMENT

A presentation covering regulatory issues and the further development of the European legal framework in the railway sector is also contained in the annual Competition Report of DB Group, that is available on the Internet at www.deutschebahn.com/competitionreport.

Regulatory environment for rail transport

During the year under review the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railroads (Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen; BNetzA), as well as the Federal Railways Agency (EBA) continued to regulate access to the railway infrastructure in Germany and monitor observance of guidelines regarding the unbundling of infrastructure and transport services within their respective areas of responsibility.

Automatic reduction of train-path prices in the event of infrastructure deficiencies

On December 13, 2009, the date the new train schedule took effect, DB Netz AG implemented a ruling by the Federal Network Agency dated April 6, 2009 requiring train operating companies (TOC) to automatically reduce prices for train-path usage in the event of delays due to deficiencies in the infrastructure. This ruling applies even if a claim for reduction has been submitted and even if DB Netz AG is not responsible for the deficiency. In expedited legal proceedings DB Netz AG defended itself against the ruling of the Federal Network Agency. However, the Higher Administrative Court in Münster confirmed the Agency's ruling. DB Netz AG is currently pursuing its interests further in formal court proceedings.

Federal Network Agency declares station price system invalid

With its ruling of December 10, 2009 the Federal Network Agency declared that fees paid for the usage of DB Station&Service AG's passenger stations were invalid and that the ruling would take effect as of May 1, 2010. DB Station&Service AG was ordered to prepare a new price list. The Federal Network Agency holds that the current station price system is discriminatory as prices for the use of same category stations vary from state to state. DB Station&Service AG submitted an objection to the ruling on December 11, 2009 and requested an expedited injunction against the Federal Network Agency's ruling on January 14, 2010.

Prices for traction current transmission lines are subject to energy industry law

On December 16, 2009 the Higher Regional Court in Düsseldorf in a landmark decision ruled that fees for the use of traction current transmission lines are to be regulated in accordance with energy industry legislation and not railway law. As a result of this decision DB Energie GmbH must have its prices approved by the Federal Network Agency prior to introducing them in the market whereby the Agency will apply the so-called incentive regulation when examining the prices. DB Energie GmbH submitted a legal protest against the decision on January 18, 2010.

Further development of the relevant legal framework

Expansion of passenger rights

Following passage of Regulation (EC) No. 1371/2007 on October 23, 2007 by European lawmakers covering the rights and obligations of railway transport passengers, the Federal Government passed a law on May 26, 2009 altering the terms of German railway regulations to meet the requirements of the EC regulation.

The German law took effect on July 29, 2009, while the EC Regulation became law on December 3, 2009. Both of the laws complement each other. The terms of the EC regulation state that train passengers must receive a refund of 25 % of the ticket price paid if their train has a delay of 60 minutes; a refund of 50 % of the ticket price is due if the delay is two hours. Furthermore, in the event of delays of over 60 minutes, passengers are also entitled to receive refreshments either on board the train or in the train station. Passengers are also entitled to a hotel stay or the cost of a taxi if the delay is such that the continuation of the travel by rail is no longer acceptable.

The German law grants customers additional rights in the local rail passenger transport segment: in the event of an expected delay of 20 minutes, passengers can take a different train, even a more expensive long-distance train. If the last local train of the day is cancelled or delayed so that the scheduled arrival of the passenger between midnight and 5 am is expected to be delayed by at least one hour, the passenger is also entitled to switch to another mode of transport, if necessary even a taxi, to reach his or her destination. Incurred expenses will be reimbursed up to € 80.

The mediation board foreseen by the German law to settle disputes between customers and carriers began its work on December 1, 2009. This body is solely financed by transport companies and its official name is Public Transport Mediation Board (Schlichtungsstelle für den öffentlichen Verkehr; söp). The söp is organized to function across all carriers and works in a neutral and independent way.

Liberalization of cross-border rail passenger transport

Directive 2007/58/EG obligated all EU member states to open their markets for cross-border rail passenger transport as of January 1, 2010, although the terms of the directive do, however, provide significant leeway to limit market access. For example, access will be solely permitted to national rail networks for the purpose of cross-border transport – including the right to board or discharge passengers at stops along the line to the final destination – and will not be permitted for the purpose of providing railway transport services along the entire domestic passenger transport network. This feature rules out purely domestic cabotage. The primary purpose of the transport service must be to cross national borders. Furthermore, the right of access for cross-border passenger transports may be limited by national regulations if, for example, the commercial balance of general public rail transport on these lines is threatened. In contrast to Germany, many EU member states, for example France, will take advantage of the possibilities to limit access to their national rail networks.

Regulation proposal for a European rail freight transport network

At the end of 2008 the European Parliament and the EU member states' transportation ministers gave their support to the European Commission proposal for an EU regulation to develop European rail corridors for 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. Current negotiations foresee three corridors through Germany for which internationally staffed corridor operators should be established within three to five years. Furthermore, participating infrastructure operators will prepare developmental plans for each of the corridors under the supervision of the member states. The intention here is to achieve closer cross-border coordination on investments and construction planning as well as improved capacity and transport management. Both terminal operators as well as representatives of the TOCs using the corridors will work together in planning these measures.

We are particularly critical of the Commission's proposals to reserve capacities for freight transport and to give freight transport priority over passenger transport.

New local transport directive approved

Regulation (EC) No. 1370/2007 governing local public transport took effect at the end of 2009. The Directive comprises rules covering the duration and mandatory content of transport contracts as well as rules defining how contracts should be awarded. In terms of awarding contracts the Directive allows local authorities to choose between a direct award or a more formal selection process. Direct awards mandate a shorter duration of the transport contract as well as stricter transparency requirements.

Contracts awarded to internal operators (operators that the contracting organization controls) may continue to take place directly. This so-called in-house award is not based on the principles of competition as only one operator is involved in the selection process.

Amendment to emissions trading directive takes effect

The amended version of EU Emissions Trading Directive 2003/87/EC, Directive 2009/29/EC, took effect in May 2009. The amended version foresees that in the future all sectors subject to emissions trading must obtain all of their certificates through an auction process. The rail sector is indirectly affected by trading in CO_2 emissions certificates, which will be auctioned for power generation purposes starting in 2013. This change will result in another significant increase in prices paid for traction current.

Other modes of transport are not, or only to a far lesser degree, affected by trading in CO_2 emissions: road and waterway freight carriers remain unaffected by CO_2 emissions trading. Only air transport within the EU, as well as flights to and from Europe, will be included in CO_2 emissions trading in the future per the terms of Directive 2008/101/EC. They will, however, only have to obtain 15 % of the CO_2 certificates via auction.

Uniform European railway command and control system

The European Rail Traffic Management System (ERTMS) is the European railway command and control system that should ultimately replace incompatible national railway control systems. ERTMS consists of two technical components: ETCS (European Train Control System) and GSM-R (Global System Communication – Rail). An expanded European implementation plan for ERTMS took effect on September 1, 2009. This plan replaces existing legal requirements related to the introduction of ERTMS and defines legally binding requirements that directly affect member states. The European implementation plan foresees the introduction of ERTMS along 24,000 km of track in Europe and sets two binding milestone dates: by 2015 member states are required to appropriately equip major segments of six freight transport corridors (total 9,000 km). Four of the six freight transport corridors run through Germany. These corridors have to be fully equipped by the year 2020 (additional 5,000 km), and a series of important freight distribution centers also have to be connected to the corridors (approximately 10,000 km). The German Federal Government is responsible for financing the conversion of equipment to ERTMS in Germany.

DEVELOPMENTS IN THE RELEVANT MARKETS

A detailed presentation covering the development of rail transport in Germany is contained in our annual Competition Report, that is available on the Internet at www.deutschebahn.com/competitionreport.

Passenger transport

German passenger transport market

German passenger transport market	Growth rates		Market share	
% BASED ON VOLUME SOLD	**2009**	2008	**2009**	2008
Rail passenger transport	-1.2	+4.4	9.9	10.0
DB Group	(-1.6)	(+3.0)	(9.2)	(9.3)
Non-Group railways	(+4.6)	(+27.0)	(0.7)	(0.7)
Public road passenger transport	-0.5	-0.5	9.7	9.8
DB Group	(+0.7)	(+1.0)	(1.1)	(1.1)
Motorized individual transport	0.0	-1.4	79.1	79.0
Air transport (domestic)	-3.6	+3.0	1.3	1.3
Total market	**-0.2**	**-0.7**	**100.0**	**100.0**

Data for 2008/2009 is based on information and estimates available on February 23, 2010; Growth rates 2009 for public road passenger transport, motorized individual transport and air transport rounded by one-half of a percentage point.

Following the declines noted in the previous years, the total German passenger transport market remained just below the previous year's level in 2009. Important overall economic factors for the passenger transport segment – an unexpectedly small contraction of employment figures, and stagnant real incomes – showed comparatively solid development. Total market development was supported by the stable transport performance noted for the dominant motorized individual transport segment. This segment benefited from the substantially lower average annual price for fuel, which was 11% less than the same year-ago figure, as well as from higher car sales due to the Federal Government's "cash for clunkers" stimulus program. The motorized individual transport segment was also able to slightly expand its share of market as the performance of other modes of transport remained below the levels seen in the previous year.

The rail passenger transport segment in Germany contracted slightly in comparison to the previous year. A look at the activities of DB Group reveals that our business was notably affected by the generally negative economic conditions and, above all, by limitations experienced on the supply side. Development of volume sold was burdened due to technical problems experienced in certain ICE series trains and the S-Bahn (metro) Berlin and fell by 1.6%. On the other hand, we estimate that non-Group railways were again able to record strong growth (+4.6%) thereby further expanding their share of the intra-modal market to 7.0% (previous year: 6.6%). This change is mainly due to these railways taking over additional services in regional transport. Total market share held by rail passenger transport, however, contracted slightly in 2009 following successful development recorded in recent years.

The public road passenger transport (ÖSPV) segment – buses, metros and streetcars – was also unable to hold its previous year's level as it contracted by 0.5%. However, despite lower numbers of schoolchildren and employed persons, scheduled transport was able to assert its position for reasons that included a shift of passengers away from S-Bahn (metro) Berlin to the Berliner Verkehrsbetriebe. In contrast, demand in the non-scheduled transport segment was dampened by weak development in the labor market and stagnating real income levels, and led to a slight decline in overall performance in the ÖSPV segment. Volume sold by the DB bus companies contrasted with the trend seen in 2009 and rose by a further 0.7%.

Due to the effects of the financial and economic crisis, demand noted in domestic air travel began to shrink during the second half of 2008 and initially continued to contract at a faster rate in 2009 with the business traveler segment, in particular, declining the most. The situation only began to show signs of stabilizing in the fall of 2009 leading to dampening effects on the decline rate supported by the effects from the weak performance in the comparable previous year's period. Despite a 3.6% reduction in demand noted for the entire year, domestic air transport's share of market remained stable.

Freight transport and logistics

German freight transport market

German freight transport market	Growth rates		Market share	
% BASED ON VOLUME SOLD	**2009**	2008	**2009**	2008
Rail freight transport	-17.3	+0.9	16.2	17.3
DB Group [1]	(-20.8)	(-1.0)	(12.3)	(13.7)
Non-Group railways	(-4.4)	(+8.6)	(4.0)	(3.7)
Road freight transport	-10.2	+1.2	71.9	70.7
Inland waterway transport	-16.2	-1.0	9.1	9.6
Long-distance pipelines	+2.6	-1.0	2.7	2.3
Total market	**-11.7**	**+0.9**	**100.0**	**100.0**

[1] DB Schenker Rail Deutschland AG and RBH Logistics GmbH.

Data for 2009 is based on information and estimates available on February 23, 2010.

The initial decline in the German freight transport market (rail, road, inland waterway transport and long-distance pipelines) that began in the last months of the previous year accelerated in 2009 and led to an unprecedented drop in volume sold across all modes of transport. Against the backdrop of very weak development of foreign trade figures, international transports were hit especially hard. Rail freight transport, which had posted the fastest average growth in recent years, declined the most in comparison to performance posted in the previous year and contracted by a corresponding 1.1 percentage points. In contrast to previous years, the market experienced significantly more intensive inter- and intramodal competition. Driven by surplus capacities caused by the drop in demand – even though extensive freight capacity had been previously removed from the market – aggressive price competition took place and also led to shifts in transport. The overall market only began to show signs of stabilizing at the end of the year, albeit at a low level, as the economy showed slight signs of a recovery.

After already posting a noticeable decline in the last months of the previous year, volume sold in the rail freight transport sector collapsed by up to approximately 30 % through to the summer months of 2009. The situation only improved towards the end of the year. Total volume sold dropped by 17.3 % in 2009 driven by sharp declines seen in key industries such as the iron and steel, automotive and chemicals industries. Moreover, even the previous years' growth drivers like container transports recorded heavy losses. Development of petroleum-based products, food and feed products was less depressed as was the construction industry, which was supported by economic stimulus programs. The only transport segment to surpass its previous year's level was agricultural products, although this segment had declined substantially in 2008.

In addition, transports were shifted among carriers as price competition worsened. Newly available truck capacity – including foreign capacities – entered the market cutting prices even further and in some cases with double-digit drops. This also had an immediate effect on single wagon transports, which compete directly with truck transports.

Volume sold of DB Group dropped by nearly 21 %, which was a significantly sharper drop than the decline recorded by non-Group freight railways. This is primarily due to the following facts:

- Non-Group freight railways have a different freight structure. For example, transports of coal/coking coal, ore, iron/steel are very important for us and together represent more than 30 % of total volume sold. In contrast, they only represent about 7 % of total volume sold for non-Group freight railways.
- International transports represent only a bit more than 30 % for non-Group freight railways; for Group freight railways, in contrast, these transports represent about 55 % of total performance.
- Non-Group freight railways are almost solely active in the block train segment and therefore less affected by the tougher competitive conditions in the single wagon transport segment.

Due to the fact that their business declined significantly less, non-Group railways were able to increase their share of the rail freight transport market by more than 3 percentage points to more than 24.5 % in 2009. This gain is even stronger if only the domestic market is used for comparison purposes. A look at the block train transport segment, in particular, reveals that intramodal competition intensified noticeably during the year under review. The related heavier pressure on freight prices is also due to the substantially increased activities of foreign state-owned railways, or their affiliates, coupled, in part, with aggressive pricing measures.

The road freight transport segment (German and foreign trucks – including cabotage transports in Germany) was also deeply affected by the economic crisis. However, the segment's total volume sold for 2009 developed once again more favorably than the figure for the overall transport market. While in previous years foreign trucks were able to grow at a faster rate than their German competitors, the situation reversed itself in 2009 because of the sharp drops in imports and exports. Due to the resulting high volumes of excess shipping space, competition in the road freight segment once again increased substantially and major pressure was put on prices. This in turn also affected intermodal competition and led to price-driven shifts of transport from rail to road. This effect was strengthened during the year under review by the noticeable reduction in the size of individual shipments, which made even classical rail transports attractive for shipment by truck. The decline in volume sold in this segment was significantly less than in the rail segment due, above all, to the different freight structure. The decrease was dampened by road transport's comparatively minor dependence on the iron and steel industry, the stable development noted in the food sector, which is quite important for truck transports, and by the positive effects of the economic stimulus programs in the construction sector. In light of these factors, road freight transport was able to improve its market position significantly in 2009.

Inland waterway transport contracted by 16.2 % in 2009, as its volume sold fell to approximately 54 billion tkm, a level last seen about twenty years ago. The segment's market share declined accordingly and was only just above 9 % in 2009. The crisis-driven collapse in shipping volumes was made worse by weather-related restrictions at the beginning of the year due to the severe winter and low water levels in the fall. It should be noted that total results for this segment were influenced by the Federal Statistical Office's new method to calculate transport distances within the inland waterway transport segment as of 2009. It is likely that the decline noted would have been even higher without this change in statistical methods. As was the case with the other carriers, developments recorded for inland waterways in Germany during the crisis year were marked by high levels of excess shipping space, substantially tougher competition and a related sharp drop in prices. At times basic loads declined by over 50 % on some routes in comparison to the same year-ago period.

European rail freight transport

Development noted for volume sold for the entire European rail freight transport market was comparable to the performance recorded for the German market as rail transport was hit about twice as hard as their road transport competitors. We estimate that the economy-driven collapse in demand, as well as the price-driven shift of shipments away from rail to road due to noticeably tougher competition, caused total volume sold by freight railways in Europe to contract by more than 20%. Single wagon transports lost disproportionately more because they compete directly against trucks. Container transports, which in recent years had served as growth drivers in many countries, also posted significantly weaker results in comparison to the same year-ago figure due to the extremely weak development of foreign trade. Furthermore, in almost all countries the heavy dependence of major railways on the iron, mining and steel industries proved to be a negative factor. Steel production was hit especially hard by the effects of the economic crisis as important customer industries, like the automotive industry, had to absorb heavy losses. The drop in production in the steel industry also led to a significant drop in demand for rail transports across Europe.

European land transport

The negative development in the European land transport market that was visible since the end of the previous year worsened in 2009 and drove demand for transport services accordingly lower. Triggered by lower production in various industries, transported freight volumes dropped sharply causing the European land transport market to contract by almost 10%. Reduced demand resulted in excess transport capacities which led a significant drop in freight prices in the fall of 2009, which in turn exacerbated an already aggressive price-driven competitive situation.

During the last months of 2009 even a slight increase in demand occasionally caused bottlenecks as existing freight space capacities in the market had contracted due to the reduced volume of available offers coupled with bankruptcies of smaller and mid-sized transport companies. This also had a corresponding effect on purchase prices. Furthermore, the already high operational costs, such as road tolls in most European countries, rose further adding pressure on slim margins along with the burden of lower freight prices. This effect was made even worse by a renewed increase in diesel fuel prices in the second half of 2009.

Due to the closely knit network, the total decline in shipping volumes for DB Schenker Logistics land transport operations amounted to about 7%, which was lower than the comparable figure noted for the entire industry.

Air freight

Following years of strong growth the air freight market had to record a 4% drop in freight ton kilometres in the previous year. An even sharper decline was seen through to the fall of 2009. According to the International Air Transport Association (IATA), performance fell by 13% in the first eleven months compared to the already weak figures posted in the previous year. The only region to record any growth was the Middle East with a gain of 1.6%. During the same period airlines removed massive amounts of capacity from the market, thereby deactivating about 10% of the global freight capacity in order to prevent prices from decreasing even further.

Transport volumes began to show signs of stabilizing in the middle of 2009. Favorable trends were noted, above all, in Asia. Total volumes shipped via air freight fell by about 10–12% in 2009 while total volumes shipped by DB Schenker declined by 16%.

Ocean freight

The downturn in container ocean freight began in the fall of 2008 and continued without interruption far into 2009. Shrinking market volumes coupled with additional cargo space brought on to the market led to a year-on-year decline in prices. Competition correspondingly intensified between freight forwarders and shipping companies forcing them to take stabilizing measures. As a result, shipping companies drastically reduced their capacities and pushed through massive price hikes since the middle of 2009. This was especially visible on the Asia-Europe route where, after the measures were implemented, demand for cargo space was greater than available capacities.

A decline of 15% was recorded for global container volumes at the middle of the year. The recovery that began in the last two quarters helped to reduce the total decline in 2009 to about 9%. Total declines for the year posted for key routes were: 18% (Asia–Europe), 20% (Asia–North America) and 5% (Intra-Asia). Volumes shipped via the DB Schenker network fell by about 2%, or less than the figure for the total market.

Contract Logistics

We estimate that the effects of the global recession caused the market for Contract Logistics/Supply Chain Management (SCM) services to shrink by about 8.5% in 2009. This was mainly due to the drop in sales in the automotive sector. Most of the manufacturers recorded lower volumes produced in the first two quarters of 2009 accompanied in part by temporary closures of factories. Production in the automotive industry bottomed out during the remainder of the year due mainly to government "cash for clunkers" stimulus programs in many countries that significantly boosted demand for cars. This favorable one-time effect, however, faded toward the end of the year. The high-tech industry, which also works closely with providers of logistical services to a great degree, also posted substantial declines in volumes shipped. In contrast, the consumer goods industry showed comparatively stable development. Logistics projects in the area of fast-moving consumer goods (daily-use goods), in particular, proved to be comparatively less affected by the economic situation.

Due to the crisis the number of outsourced orders and services in some business areas dropped sharply reflecting companies' efforts to fully utilize in-house capacities, although this should, however, be only a temporary countermeasure. The trend towards greater outsourcing will continue as markets increasingly regain stability. The intensity of competition has increased even further due to considerable pressure on margins caused by capacity utilization problems experienced at logistics locations around the world. In addition, risks related to customer bankruptcies have risen. A slight improvement was once again noted in the last quarter of 2009, especially in the Asian region.

DB Schenker network's revenues declined by 10 %, which was the level noted for the market.

Rail infrastructure in Germany

Selected key figures DB rail infrastructure in Germany	**2009**	2008	Change ABSOLUTE	 %
Train operating companies	353	340	+13	+3.8
DB Group	30	28	+2	+7.1
Non-Group railways	323	312	+11	+3.5
Train-path demand (million train-path km)	1, 002.6	1,043.3	-40.7	-3.9
DB Group	832.2	881.8	-49.6	-5.6
Non-Group railways	170.4	161.5	+8.9	+5.5
Station stops (million)	143.3	143.1	+0.2	+0.1
DB Group	123.3	125.2	-1.9	-1.5
Non-Group railways	20.0	17.9	+2.1	+11.7

Numerous TOCs have been using the rail infrastructure of DB Group in Germany since the market was first opened in 1994. The number of non-Group TOCs, in particular, increased further in comparison to the previous year's figure. No other country within the EU has such an intensely competitive rail transport sector as Germany.

Demand for train path in 2009 was primarily influenced by the economy-driven drop in demand for rail freight transport in comparison to the previous year, although rail passenger transport demand for train path did rise slightly. The number of station stops remained at the previous year's level. As in previous years, the total number of stops by non-Group railways rose again.

Due to the competitive situation facing goods and services offered in train stations vis-à-vis offers available in the total retail trade market, the development of revenues generated by retail trade and food stores is also of significant importance for the train stations of DB Group as both rental possibilities as well as the resulting revenues depend on the earnings situation of commercial space tenants. Total real retail trade revenues in Germany in 2009 decreased slightly. Nevertheless, rental income recorded by our stations rose during the year under review.

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

Changes in individual expense and income items can only be compared to the same year-ago figures on a limited basis due to special items and the transfer of a Group function, DB Training, to DB ML AG as of January 1, 2009.

Other operating income posted for the year under review rose substantially to € 1,813 million (previous year: € 1,316 million) despite the non-recurrence of a special item recorded in the previous year for the sale of our stake in Arcor AG & Co. KG amounting to € 243 million. The increase was mainly driven by income arising from the release of € 924 million (previous year: € 77 million) in provisions, which were primarily related to a reevaluation of risks arising from legacy ecological burdens. Income was also assisted by lower Group settlement charges and other expenses that fell from € 379 million to € 298 million during the year under review due to the transfer of a Group function, DB Training, to DB ML AG as of January 1, 2009.

The cost of materials was € 62 million, and lower than the same year-ago figure (previous year: € 72 million). The decline was mainly due to lower costs incurred for services purchased.

Personnel expenses declined slightly during the year under review to € 312 million (previous year: € 324 million). The lower figure was due to the lower annual average of employees due to the transfer of employees to DB ML AG as of January 1, 2009. In contrast, wage increases, as well as severance payments made to members of the Management Board and senior managers, had a negative effect.

Depreciation totaled € 7 million and was below the previous year's level (previous year: € 10 million). The change was particularly due to lower depreciation for other equipment, operating and office equipment.

Other operating expenses fell slightly to € 1,060 million (previous year: € 1,140 million). The decline was mainly driven by lower Group settlement charges and measures taken during the year under review to improve cost control, that led to reduced costs for consultants and other services provided by third parties.

The reduced figure for net investment income of € 1,168 million (previous year: € 1,698 million) is mainly due to the weaker development of results recorded by subsidiary companies in the DB Schenker Rail, DB Schenker Logistics, DB Bahn Long-Distance and DB Bahn Urban business units in comparison to the same year-ago figure arising from lower income from the transfer of profits. Higher profits at DB Netz AG had an opposite effect.

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 income posted in the year under review was € 54 million (previous year: € 74 million). The decline was mainly due to lower income from other securities and long-term loans.

In total, result from ordinary activities improved slightly to € 1,593 million (previous year: € 1,545 million). After consideration for a tax item of € 48 million (previous year: € –35 million), net profit for the year amounted to € 1,641 million (previous year: € 1,510 million). After carrying forward the profit from the previous year of € 1,510 million (previous year: € 1,564 million) the net retained profit totaled € 3,151 million (previous year: € 3,074 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, we first conduct 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 Group's financing company, Deutsche Bahn Finance B.V. (DB Finance), Amsterdam/the Netherlands. These funds are passed on to DB ML Group 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's Treasury. This concept enables us to pool risks and resources for the entire Group, as well as to consolidate our expertise, realize synergy effects, and minimize refinancing costs.

Our long-term debt issuance program was expanded during the year under review, from € 10 billion to € 15 billion. As of December 31, 2009, we tapped this program for a total of € 9.3 billion (by the end of 2008: € 7.2 billion).

With respect to short-term financing, as in the previous year, a multi-currency multi-issuer commercial paper program of € 2 billion was available at the end of the year and had not been tapped as of December 31, 2009. Furthermore, as of December 31, 2009 we also had a guaranteed unused credit facility of € 1.8 billion (€ 1.7 billion as of December 31, 2008). The credit facility serves as additional backup to secure the commercial paper program. In addition, credit facilities of € 1.3 billion were also available for our operational business as of the balance sheet date (€ 1.0 billion as of December 31, 2008). These credit facilities, which are available to our 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.

Ratings reconfirmed

DB AG ratings	First issued	Last change	Last confirmation	Current ratings Short-term	Long-term	Outlook
Moody's	May 16, 2000	–	Nov 10, 2009	P-1	Aa1	stable
Standard & Poor's	May 16, 2000	Credit Watch negative from April through December 2008	Feb 4, 2010	A-1+	AA	stable
Fitch	Feb 17, 2009	–	Nov 20, 2009	F1+	AA	stable

Information as of February 4, 2010

DB AG's creditworthiness is regularly examined by the rating agencies Standard&Poor's (S&P) and Moody's, as well as by Fitch as of the year under review. During the year under review, S&P and Moody's conducted their annual rating reviews and subsequently reconfirmed DB AG's very good credit ratings. These ratings have remained unchanged since they were first issued in 2000.

During the year under review, Fitch published its ratings for DB AG for the first time. Fitch's ratings for DB AG: long-term issuer default rating of "AA" and a short-term issuer default rating of "F1+," represent a very high credit rating. The outlook is "stable." The long-term rating for DB AG is thus only two levels below the highest possible rating (AAA). The short-term rating is the highest rating possible.

CAPITAL EXPENDITURES

Gross capital expenditures made by DB AG in tangible and intangible assets amounted to € 11 million, and were again at the comparatively low level posted in the previous year (previous year: € 14 million). Capital expenditures made did not concentrate on a particular area or category.

BALANCE SHEET

Balance sheet structure %	**Dec 31, 2009**	Dec 31, 2008
ASSET SIDE STRUCTURE		
Non-current assets	82.9	83.4
Current assets	17.1	16.6
Deferred income	0.0	0.0
Total assets	**100.0**	**100.0**
EQUITY AND LIABILITY SIDE STRUCTURE		
Equity capital	50.7	45.8
Reserves	15.7	19.0
Liabilities	33.5	35.1
thereof share of total assets represented by interest-bearing liabilities	(31.4)	(32.4)
Deferred expenses	0.1	0.1
Total assets	**100.0**	**100.0**
Total assets (€ million)	26,973	26,162

As of December 31, 2009 total assets rose slightly (+3.1%, or by € 811 million) in comparison to the figure noted at the end of the previous year. This change is primarily due to the increase in equity because of the net profit for the year.

As of December 31, 2009 fixed assets consisted almost solely, as was the case at the same year-ago date, of financial assets. The slight expansion in financial assets to € 22,327 million (as of December 31, 2008: € 21,774 million) is due to an increase in loans made to affiliated companies to € 9,263 million (as of December 31, 2008: € 8,737 million). Driven by an increase in cash and cash equivalents of € 643 million, current assets rose from € 4,338 million as of December 31, 2008 to € 4,612 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 € 12,005 million to € 13,646 million due to the net profit for the year under review. As a result the equity capital ratio improved further to 50.7 % (as of December 31, 2008: 45.8 %).

Provisions amounted to € 4,230 million and were lower than the same year-ago figure (as of December 31, 2008: € 4,974 million). The change was particularly caused by the release of provisions made for legacy ecological burdens (as of December 31, 2009: € 1,606 million following € 2,259 million as of December 31, 2008). The substantial drop in provisions as well as the increase in total assets led to a significant decline in the percentage of total assets represented by provisions from 19.0 % as of December 31, 2008 to 15.7 % as of December 31, 2009.

Liabilities declined slightly as of December 31, 2009 by € 84 million to € 9,079 million (as of December 31, 2008: € 9,163 million). The change was mainly driven by a decline in liabilities to companies in which a participating interest exists to € 7,868 million (as of December 31, 2008: € 7,181 million). These especially involve long and short-term Group financing and, in particular, funds that DB Finance has extended to DB AG in the form of loans. DB Finance issues bonds guaranteed by DB AG to refinance these loans. The share of total assets represented by liabilities fell significantly due to the decline.

STRATEGY

STRATEGIC LONG-TERM PREMISES REMAIN INTACT

DB Group's business portfolio is structured as an integrated Group. We view the linkage between the individual business units as a major factor driving the further successful development of DB AG. This linkage is also mirrored in the integrated approach we use for our strategy, organization and management, and which also enables us to realize synergies.

Following many years of growing income, DB Group was unable to avoid the effects of the economic and financial crisis and had to accept a substantial decline in Group income. The strategy of DB Group, however, proved itself to be comparatively solid – even during the crisis.

The strategic work of DB Group is based on the Strategic Management Process (SMP), which is closely linked to our mid-term planning process. Based on this approach, we examine our strategic guidelines, goals and programs once a year and compare the major planning premises with actual developments noted in long-term trends, economic conditions, social changes, as well as market and competition-related developments.

The current analyses show that long-term megatrends in the markets of DB Group – globalization, climate change and increasing scarcity of resources, as well as deregulation – remain intact as the foundation for the strategy of DB Group.

Globalization

The globalization of industrial structures involving far-reaching relocations of production sites has enabled the transport and logistics sector to grow at a faster pace than global GDP. This trend was interrupted by the financial and economic crisis as global trade flows contracted significantly. We anticipate, however, that the global division of labor will remain unchanged along with the rapid growth of the emerging nations. Based on this premise, we therefore expect that long-term demand for global transport and logistics solutions will grow strongly. We want to participate decisively in this growth.

Climate change and a scarcity of resources

Climate change and scarcer resources remain major challenges facing the markets that are relevant for DB Group. One of the biggest generators of climate-damaging carbon dioxide (CO_2), and thus global warming, is transport. This is why we anticipate that in the future, governments and customers in Germany and abroad will significantly increase their efforts to decrease CO_2 in the transport and mobility sector. We want to benefit from this trend and actively shape the market for climate-friendly mobility and transport offers. We will achieve this by supporting our customers in their efforts to reach their environmental targets with our environmentally friendly transport services, and further reduce our own CO_2 emissions.

Deregulation

Despite individually voiced fears that the crisis would lead to stronger protectionism and decelerate the pace of deregulation and market liberalization in the transport markets, these efforts actually progressed even further at both the European and national levels.

While the European rail freight transport market has already been completely liberalized since 2007, the market for cross-border rail passenger transport will be opened in 2010. This means that DB Group will enjoy similar benefits across Europe as those already enjoyed today by international rail companies in Germany. However, we do expect that this change will also lead to additional challenges in our home market.

In principle, competition generates important stimuli for growth – growth that we want to sustainably participate in. This is why the goal of DB Group is to play a major role in shaping rail transport networks in Europe while we benefit from, and further expand, our central position in the heart of Europe.

DB GROUP WANTS TO BECOME THE WORLD'S LEADING MOBILITY AND LOGISTICS COMPANY

DB Group has set itself the goal of becoming the world's leading mobility and logistics company. Following many successful years of strong growth we have achieved leading positions in many markets. This goal remains fully valid for DB Group in view of our evaluation of the megatrends.

The strategic guidelines to achieve the goal are optimization, expansion and integration: optimization of our existing business, expansion of transport networks, and realization of synergies through integration. This is the path we should take to continually increase the performance and further expand the very good market positions that DB Group has already achieved today.

Optimization of our existing business

The development of the global economy continues to face high risks. It will still take years for the global economy as well as the German economy to fully recover from the crisis.

Against this backdrop, the long-term goal of DB Group can only be achieved by decisive action. DB Group must consolidate its existing business over the short and medium term in order to create the prerequisites needed for future growth. In order to achieve this goal DB Group has bundled together all of the optimization activities in a single Group program: the reACT program.

REACT

The purpose of the DB Group-wide reACT program is to sustainably improve EBIT by € 2 billion between 2009 and 2013. Thirteen projects have been established to achieve this goal. reACT is a decisive response to the economic crisis and the structural changes in DB Group's markets. The most important goals of the program are to secure liquidity in the short term, and build competitive cost structures over the long term in the areas of administration and production. Furthermore, companies that have been acquired in recent years should be thoroughly integrated into DB Group's structures within the framework of the reACT program in order to realize synergies in the area of costs, and also to take better advantage of market opportunities.

Expanding our transport networks

The continuous expansion of the transport networks of DB Group to meet changing customer needs and general competitive conditions is of decisive importance in maintaining and expanding leading market positions of DB Group. Following the expansion of our transport networks in past years, which was mainly driven by acquisitions, we will place less emphasis on this in the near term.

In the future we will place greater importance on marketing our experience in the areas of planning, building, managing and operating transport systems. In addition to obtaining direct consulting, planning, training and management services, this approach should also lead to follow-up assignments to operate transport systems. Our participation in the Qatar Railways Development Company (QRDC) is one of the first steps in this direction.

Realizing synergies via integration

We intend to better coordinate the individual activities within DB Group so that we can provide the customers of DB Group with even more attractive offers and benefit from cross-selling possibilities, while we also realize opportunities to cut costs. For example, in the Passenger Transport division we plan to bundle all of the individual offers together in a single mobility platform and then add supplementary services to make “door-to-door” mobility possible across all of Germany, thereby creating a competitive alternative to traveling by car. We will focus more on realizing cross-selling opportunities in the Transport and Logistics division and offer integrated products. Our goal in the DB Services business unit is to achieve additional cost-cutting effects by further consolidating our services and volumes, in addition to optimizing processes.

A very important strategic aspect of how DB Group positions its transport networks to meet future challenges will be the approach to meet tomorrow’s ecological demands. DB Group has set itself the goal of reducing the CO_2 emitted by rail, road, air and waterway transports by 20% (in comparison to 2006) by 2020. In order to achieve this ambitious goal we bundled together the most important activities within DB Group into DB Eco Program during the year under review.

INTEGRATED MOBILITY IN GERMANY AND POSITIONING IN EUROPE

The individual business units within the Passenger Transport division will also continue to defend the market position of DB Group in Germany in the future. To achieve this we will further develop the business units as well as take additional measures to increase customer loyalty.

Beyond this, the goal of DB Group is to offer a comprehensive spectrum of mobility services and end-to-end travel chains to make “door-to-door” mobility a reality. We will achieve this by integrating our existing, new and supplementary services thereby offering travelers a competitive, ecologically advantageous alternative to individual traveling. Accordingly, we are accelerating the further development of our Internet site www.bahn.de to make it a comprehensive mobility booking platform presenting pan-European train connections, almost all local public transport connections, as well as supplementary offers for connecting mobility and overnight lodging. Special focus will be placed on offering customers innovative solutions in the areas of information, ticketing and payment.

DB Group wants to further expand its strong German transport network and strengthen the international position by entering into alliances and collaborative agreements.

Sales activities in the Passenger Transport division are consolidated in a service center. The main focus here is on self-service sales channels. Therefore, a pilot project is underway for the “Touch&Travel” project, a new, simpler and customer-friendlier sales channel. In addition the focus of the reACT project “Selling in the Future” is the further development of people-served sales channels in Germany. Plans call for top travel centers and DB agencies to either be better equipped or become closer connected so they can help win new customers and deepen customer loyalty in the coming years.

TOUCH&TRAVEL

Passengers use their mobile phones to register at the start and end of the journey, while automatic ticketing and settlement takes place in the background. The customer receives a statement at the end of the month detailing the services used during the billing period. Touch&Travel will be introduced in 2010 for many local and selected long-distance transport lines in, or to, the Ruhr region on the occasion of events celebrating Essen as the European Capital of Culture. The service may also be used as a ticket to various events, as well as a source of information.

DB Bahn Long-Distance business unit

The 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, we rely 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.

We have given priority to further improving our quality, service and price concepts as well as our customer loyalty tools, to enable us to expand our share of the intermodal market and increase the average capacity utilization rates of our trains.

In terms of the competitive situation, the defense of our strong position in our home market is our top strategic priority.

In addition, the European transport network is being further expanded. In the area of cross-border transport we are accelerating the Railteam alliance further to increase the attractiveness of European high-speed rail transport vis-à-vis air and car travel, by improving our offerings, quality and services. We base our decisions on widening our activities outside of Germany via the alliance or by means of competitive offers on a case-by-case basis within the framework of anti-trust laws.

In the future we plan to expand our successful CO_2-free travel offer for corporate customers by also offering CO_2-free travel to private customers as part of our efforts to attain the sustainability goals.

DB Bahn Regional business unit

The DB Bahn Regional business unit's goal is to provide attractively priced offers for smooth mobility across the country. In the coming years major portions of market volumes in the rail passenger local transport sector in Germany, as well as in other European states will be opened to competitive bids.

Our top priority is to maintain our strong market position in Germany over the long term. This requires us to continuously increase our productivity, quality and performance, which will also take place within the reACT program in addition to other measures. A further key measure is the strengthening of corporate responsibility at the local level as well as increasing local scope for flexibility.

At the same time we are looking closely at additional opportunities to grow in the European local transport markets. In addition to the expansion of the cross-border routes, our focus is on participating in international tenders.

DB Bahn Urban business unit

Currently, the German urban transport market is still highly fragmented and typically consists of municipal providers. The gradual opening of this market leads to expectations that it will experience a successive consolidation process in the coming years. The opportunities for collaboration within Germany are limited by the current interpretation of antitrust laws. Our primary goal in Germany is to sustainably secure our market share by making competitive offers.

The expansion of our international activities is a key focal point of our strategy. Major emphasis is being placed on participating in international tenders.

Another main area of strategic focus of the DB Bahn Urban business unit is the reduction of the unit's specific energy consumption and CO_2 emissions.

The short-term stabilization of operations at the S-Bahn (metro) Berlin is also an important goal of the DB Bahn Urban business unit.

HIGH-PERFORMANCE GLOBAL NETWORKS AND LOGISTICS COMPETENCE

DB Group has positioned itself under the DB Schenker brand name as one of the world's leading providers of transport and logistics services. We are capable of meeting customers' rising expectations regarding coverage of global transport flows, comprehensive multimodal transport offers, and supplemental logistical services.

DB Schenker's strategy consists of three main elements:

- the continual improvement of our core business,
- the further development of the transport networks, and
- the expansion of cross-business unit services and offers.

Furthermore, the transport sector is destined to play a key role in light of the increasing importance of climate change. DB Schenker has set itself the goal of becoming the leading providers of green logistical services, and decoupling transport growth from CO_2 emissions.

DB Schenker Logistics business unit

The DB Schenker Logistics business unit holds a leading market position in all of the market segments where it is active (European land transport, ocean and air freight, as well as contract logistics). We aim to further expand these positions in the coming years. An important prerequisite for this is the improvement of profitability by standardizing processes and wage structures, automating business processes and modernizing our overall IT capabilities.

DB Schenker Logistics is the market leader in the European land transport market and plans to further expand its European network, especially in Southern and Southeast Europe, as well as in the United Kingdom, within the framework of its “Market Leadership” program. Beyond this, we are accelerating the development of pan-European direct transports thereby further enlarging our product portfolio.

The focus in the air and ocean freight segment is on two targets: First, to expand our competitive positions. Following the substantially lower volume of shipments seen during the year under review, we anticipate that growth will pick up again in the coming years – growth that DB Schenker Logistics wants to disproportionately participate in. Second, to increase our profitability. This should be achieved primarily by standardizing and simplifying processes and introducing a new uniform IT system for all of our operations, which was launched during the year under review.

In the Contract Logistics/SCM business we initiated a global growth program, “Go for Growth.” The purpose of this program is to expand at a faster pace than the market thereby increasing profitability. The focus of “Go for Growth” is on four core industries (industrials, consumer, electronics, automotive). Individually standardized products are being offered to each of these sectors.

DB Schenker Rail business unit

The strategy of the DB Schenker Rail business unit is focused on the modernization of the national network and the expansion of the unit’s European offers. Central projects to implement these strategic goals will be advanced within the framework of the reACT program.

The negative development noted for the economy has further exacerbated the competitive situation. It is absolutely vital for a company to have competitive production and cost structures in place, as well as to continually improve quality, if it is to continue doing business in this environment. One key lever to accomplish this is to modernize the production system and intelligently link single wagon and block train transports together.

We are striving to create a European offer for our customers. This strategy includes the acquisition of stakes in companies, among others in England, Spain and Italy, as well as Poland, where we acquired a company during the year under review. This means that DB Schenker Rail is able to offer end-to-end transport services along the North-South corridor as well as the East-West corridor. This fact also means that DB Schenker Rail has a unique rail freight transport network in Europe at its disposal.

Plans call for hubs and access points (e.g. railports and terminals) to be further developed to improve access to, and utilization of, rail freight transport. The expansion of logistical services means that in the future it will be possible to increasingly offer integrated door-to-door solutions to customers. The increasing links between rail freight transport and DB Schenker Logistics’ land transport activities will further strengthen rail transport and enable us to make attractive offers to customers.

FIRST-CLASS ONE-STOP SERVICES

The DB Services business unit provides DB Group with high-value services in the areas of vehicle maintenance, information technology, telecommunication services, facility management, security services and fleet management. The DB Bahn Services business unit makes a major contribution to the future of DB Group by consistently lowering intra-Group costs for services while simultaneously ensuring marketable levels of quality and performance. In particular, this is achieved by further integrating our services into the customer’s value-added chain, and by using business with non-Group customers to ensure capacity utilization as well as setting benchmarks for quality and price.

The DB Services business unit is responding to the challenges of the crisis in the area of vehicle maintenance with the two reACT projects “Fitness Facilities” and “Process-Oriented Materials Management” thereby creating forward looking facilities as well as an optimized cross-Group process for procuring replacement parts for vehicles, and materials management.

GUARANTEEING A RELIABLE, ATTRACTIVE AND AFFORDABLE INFRASTRUCTURE

The key task of the business units within the Infrastructure division is to facilitate safe and reliable railway operations and to increase the competitiveness of rail transport over the long term. To achieve this the units tailor their services to meet the needs of TOCs. The services they offer and the related prices for using the infrastructure are non-discriminatory.

The Federal Government's economic stimulus programs to expand the infrastructure provide an additional opportunity to modernize our stations, lines and facilities and to align our performance capabilities with the projected mid-term expansion of transport flows. In this context, the reACT Project "Economic Programs and Infrastructure Expansion" coordinates both calling and employment of funds.

DB Netze Track business unit

Our "Netz 21" strategy forms the long-term basis for a high-quality, reliable and safe rail transport offering. Selected expansion and new construction measures take a targeted approach to eliminating bottlenecks and significantly increase efficiency and also ensure that sufficient capacity is available for future traffic developments. Another key focus is on the cost-effective and needs-based modernization and maintenance of the existing rail network. An integrated capital expenditure and maintenance plan, along with the bundling of 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 passenger and freight transport customers. Key concepts for these activities are developed in the strategic ProNetz program.

We have entered into a long-term, viable, modern infrastructure partnership agreement with the Federal Government to secure the long-term quality and availability of the rail network in Germany.

This agreement is being supplemented by funds from the Federal Government's economic stimulus programs within the framework of our reACT project "Economic Stimulus Programs and Infrastructure Expansion." A series of projects listed in the requirement plan and which have already been started – including the expansion and new construction of the Nuremberg–Erfurt line and the expanded Berlin–Cottbus line – will be reinforced. In addition, economic stimulus funds will be used to improve the quality of the infrastructure of the regional transport lines.

DB Netze Stations business unit

In the DB Netze Stations business unit, we are working in close partnership with the Federal Government and local authorities to continue our customer-oriented, needs-based modernization plan. A key focal point of collaboration is the "Station 11, 11 points in favor of train stations" ("Station 11, 11 Pluspunkte für die Bahnhöfe") program. With this program we use differentiated developmental concepts to systematically further develop and increase the attractiveness of our train stations based on a clearly focused portfolio strategy.

In addition to the capital expenditures already planned for stations, almost 3,000 individual measures at over 2,000 mostly small and mid-sized stations will take place within the framework of the reACT project "Economic Stimulus Programs and Infrastructure Expansion."

DB Netze Energy business unit

The goal of the DB Netze Energy business unit is to ensure the long-term provision of traction current and diesel fuel supplies at a very high level of reliability. This goal is being sustainably supported by replacing transformer facilities with modern power converters, as well as renewing traction current lines using funds from economic stimulus programs contained in the reACT Project "Economic Stimulus Programs and Infrastructure Expansion." An additional benefit of employing modern technology is the resulting higher level of efficiency, which means that we also reduce CO_2 emissions.

We use long-term secured purchasing advantages, as well as structured procurement and intelligent use of networks, to protect train operating companies against the negative effects of volatile commodity prices. The expansion of renewable energies in the energy procurement portfolio will be advanced on a sustained basis (taking into consideration the security of supplies and the economic impact of these energy sources) in order to realize DB Group's vision of having CO_2-free rail transport by the year 2050. To achieve this we have entered into a long-term contract with swb, a power company located in Bremen, to provide us with electricity that has been generated by the Märkisch Linden wind park. The contract runs for 19 years and states that we will purchase about 59 gigawatt hours (GWh) of power annually. Furthermore, we use our knowledge of structured energy procurement to successfully offer our energy services to the market.

SUSTAINABILITY

Sustainability secures the future. This applies not just to our society, but also to businesses and to DB Group in particular, since sustainability provides an important competitive advantage in the transport sector. Our climate-protection goal therefore includes the entire DB Group and all modes of transport – rail, road, ocean and air. We have developed service offerings that meet the constantly growing need for mobility and transport in an environmentally friendly way that conserves resources – in Germany, Europe and around the world. Our personnel management system creates attractive, family-friendly jobs, promotes diversity in the workforce, and enables us to always have excellently motivated and qualified employees despite demographic changes. Our sustainability management policy underscores our commitment to the principles of sustainable, forward-looking management in every major area of sustainability. DB Group presents complementary information on the subject of sustainability in its Sustainability Report, which was most recently published in 2009 and may be downloaded at 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 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 regular annual working time.

The number of employees at the end of the year under review was 3,549 (previous year: 4,467 employees). As part of this number of employees eight trainees were also employed (previous year: 180 trainees). The annual average number of DB AG employees was 3,589 (previous year: 4,471 employees). The notable decline in the number of employees was due to the transfer of Group management functions to DB ML AG.

ENVIRONMENT

Protecting the environment and the earth's climate is a fixed component of DB Group's corporate policy. During the year under review, we approved our new climate and energy strategy. In the future, three strategic directions will determine the climate-protection activities of DB Group:

- Using green products to reduce the burden on the environment
- Aiding climate protection through high energy efficiency in operations and production
- Reducing dependency on fossil fuels and increasing the proportion of renewable energy in the traction current mix

Environmentally friendly rail transport is the backbone of sustainable mobility, both in passenger and freight transport. The customers rely on this factor, in addition to technical safety, performance and service. DB Group is constantly working to expand the environmental friendliness of the travel and transport routes.

In addition to reducing CO_2 emissions, this also involves reducing air pollutants from diesel vehicles. While all new buses and trucks are fundamentally built to comply with the Euro V hazardous materials norms (or with the EEV standard), we aim to apply the new limits – which will not take effect until 2012 – for particulates and nitrogen oxides, when we acquire 130 new switching locomotives.

DB Group sees itself as a pioneer in the field of environmentally friendly and climate-friendly transport. Accordingly, during the year under review we formulated a vision for achieving CO_2-free rail transport by 2050.

As a step in that direction, DB Group set itself the goal to continuously decrease our specific energy usage and CO_2 emissions. We feel that a corporate policy that takes into account economic, ecological, and social factors is more than just a societal obligation. It is also the key to business success. The sustainability management approach, which we direct from the DB Environment Center, sets the parameters for the company's ambitious environmental goals. Additional information regarding environmental issues is available to download on the Internet at www.deutschebahn.com/environment.

SOCIAL COMMITMENT

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

We support numerous cultural, social and athletic establishments, initiatives and activities. Our major focus here is also on children and young people. In the knowledge society of today and tomorrow, education is the greatest asset. Providing education is the task of society as a whole, and DB Group plays an active role in this. Since 1996, DB Group has been working as a partner and member of the Reading Foundation (Stiftung Lesen) to strengthen Germany's reading and read-aloud culture.

The social integration of children and young people in need is the aim of the nationally active Off Road Kids Foundation. We have supported this organization since 1994 by enabling the Foundation's street outreach workers to travel throughout Germany. In addition, for the last three years we have jointly operated a one-week vacation camp for approximately 250 children and young people from children's homes.

Promoting sports is also a high priority for DB Group, since it provides joy in movement and promotes values like motivation and team spirit, fair play and social integration; it also provides role models who teach by example. This particularly applies to Youth Training for the Olympics (Jugend trainiert für Olympia). As a longstanding official mobility partner of this school sports event, the largest such event in the world, we organize low-cost transport for participants to and from the site as well as their accommodation. Since 2002 we have also been setting benchmarks in how we value sports through our close partnership with the German National Paralympic Committee (Deutscher Behindertensportverband). This partnership includes both our new involvement in Youth Training for the Paralympics (Jugend trainiert für Paralympics) and DB Schenker's transport of sporting goods and equipment for the Paralympics in Beijing in 2008 and in Vancouver in 2010.

The commitment and involvement of DB Group addresses the basis and thereby the future of the younger generation. By granting the DB Young Talent Award (DB-Nachwuchs-Förderpreis), we acknowledge the dedication of the many people who work with children and young people in the field of soccer. This experience of integration is just as important for the future of society as it is for creating a spirit of initiative and the sense of community that young people encounter in the DB soccer camps. It is important to DB AG to promote tolerance, team spirit, cultural skills and educational perspectives, and to make a contribution to our society. For our company, long-term commitment and involvement are synonymous with investing in young people.

TECHNOLOGY AND PROCUREMENT

The new Board division, Rail Technology and Services ensures the efficiency of the integrated rail system, and thus economical, environmentally friendly, and reliable railway operations in the future. The technical competence for the total railway system and procurement are bundled together in the integrated system rail (Systemverbund Bahn). Operational safety is at the forefront of these efforts.

TECHNOLOGY

The technological competence of DB Group is focused on achieving the best possible use of the overall rail system. Certain technological capacities are mandatory to maintain top quality operations of infrastructure and vehicles.

Engineering services and know-how are also offered to customers outside of DB Group. This is why DB Systemtechnik already began to sign master agreements with testing organizations and other providers in recent years and entered into partnerships with them. Collaboration with DEKRA and other testing organizations outside of Germany established the prerequisites needed to also conduct testing for third parties abroad.

PROCUREMENT

DB Group follows a Group-wide uniform procurement policy, thereby improving its competitiveness. The Group function “Procurement” of DB AG is responsible for defining standards in the purchasing process, procurement of construction and technical facilities, vehicles and vehicle replacement parts, as well as maintenance services. During the year under review Group-wide purchasing and optimization projects once again resulted in significant savings. The main focus of these activities was on the increased use of strategic and technical procurement levers in early procurement phases. Mixed teams consisting of technical specialists, buyers, users and other participants ensure a holistic approach to procurement. In 2009 the corresponding programs initially focused on renegotiating existing master agreements and major orders. The systematic lever used in these cases was value analysis, especially the methodical calculation of target prices. In a further step, topics requiring intensive coordination were addressed and all of the order categories underwent an analysis of potentials.

The search for the world’s best suppliers is a significant aspect of procurement policy. Group-wide standards for products with international procurement potential were defined during the year under review. The goal here was to ensure secure supplies, also over the mid-term, by further developing our portfolio of suppliers and alternative sources of supply. The standardization of products, as well as bundling global requirements, in particular, should allow us to realize the predicted potential offered by the international procurement market. During the year under review we began to streamline supplier management functions across the entire Group. In the future, the sustainable development of the portfolio will take place via a system-supported qualifying process that will evaluate and develop the suppliers. This procedure ensures that possible weaknesses in services provided will be recognized and subsequently eliminated.

The total volume of orders placed during the year under review amounted to € 19.2 billion and was below the level noted in the previous year (previous year: € 23.3 billion). In addition to the € 7.3 billion (previous year: € 10.2 billion) for freight and freight forwarding services purchased from carriers, the main emphasis was again on industrial products, with a procurement volume of € 3.5 billion (previous year: € 4.2 billion), as well as construction and engineering services with an order volume of € 4.0 billion, which was at the previous year’s level. Our procurement of third-party services amounted to € 2.3 billion and remained at about the previous year’s level. In the area of cable-and-pipe-bound power and fuel, total procurement volume declined slightly to € 2.1 billion (previous year: € 2.5 billion).

More than half of the procurement volume (excluding freight and shipping services), was allocated to small and mid-sized companies. In accordance with the main focus of the capital expenditures of DB Group, major purchases in the Infrastructure division, and purchases to further modernize our fleet of vehicles were undertaken.

ADDITIONAL INFORMATION

ADDITIONAL FEDERAL FUNDS FOR INFRASTRUCTURE FROM ECONOMIC STIMULUS PROGRAMS

The Federal Government has prepared an economic stimulus program of measures that will be realized by 2011 for the purpose of countering the effects of the economic crisis and to save jobs in Germany. The economic stimulus program contains € 620 million (Economic Stimulus Package I) and € 700 million (Economic Stimulus Package II) which are intended for railway investments over the years 2009 and 2010. An additional € 50 million is intended for transhipment terminals in combined rail/road transport.

A total of € 520 million is available for new and expansion measures in the rail network. An additional € 100 million is solely foreseen for existing regional transport lines. A total of € 300 million is foreseen for modernizing stations, and a further € 100 million has been set aside for noise abatement measures. In addition, € 100 million is earmarked for new energy facilities, as well as € 200 million for the European Train Control System (ETCS).

GREEN LIGHT FOR STUTTGART 21 AND NBS WENDLINGEN–ULM INFRASTRUCTURE PROJECTS

The financing agreements for the Stuttgart 21 project were signed on April 2, 2009. Stuttgart 21 will completely change the perception of rail transport in Stuttgart. A total of nearly 60 kilometers of new rail lines and three new stations will ensure a substantial increase in the performance of the entire rail hub. The most prominent highlight of the project will be the conversion of the Stuttgart central station from a railhead to an underground through station. A forward-looking station will be created featuring four platforms and eight through tracks, as well as sufficient capacities and reserves to handle additional transport requirements in the future. Most of the local service trains will no longer originate or end in Stuttgart, and instead will be linked to so-called “Diameter Lines” (Durchmesserlinien) that will intersect at the Stuttgart central station, thereby creating numerous connections that no longer require passengers to switch trains to reach their destinations.

Construction of the new 60-km-long Wendlingen – Ulm line is closely linked to Stuttgart 21. This line will cut travel time between Stuttgart and Ulm by half.

RISK MANAGEMENT

The business activities of DB Group involve opportunities as well as risks. The business policy of DB Group is simultaneously directed at seizing opportunities and actively controlling identified risks through our risk management system. The necessary information for this is prepared in our 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. During the year under review the Group-wide valid risk guidelines were revised and took effect. The purpose of the revision was to align the guidelines with current legal requirements. Based on our previous experience we also further developed the contents of the guidelines.

INTEGRATED RISK MANAGEMENT

The principles of risk policy are set by Group management and implemented within DB Group and its subsidiaries. Within the framework of our 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 our 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, fulfils all requirements of the KonTraG.

The risk management system of DB Group is supplemented by a Group-wide internal control system, which also includes accounting-related processes.

The internal control system is aligned with criteria defined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) publication: "Internal Control-Integrated Framework." The COSO model is a generally accepted theoretical framework that divides an internal control system into five levels and then individually evaluates each level. Based on this model the accounting-based internal control system is supported by fundamental mechanisms such as system-technical and manual coordination, separate and clearly defined functions, and the observance of guidelines that are applicable across the Group, and special work instructions.

In addition to the aforementioned instruments belonging to the accounting-based control mechanisms, as used in DB Group, a unified Group-wide reporting based on the standard software Hyperion Financial Management (HFM) at all consolidated subsidiaries, which are documented in our core corporate information system (Firmenstamminformationssystem; FIS), the systematic tracking of changes in accounting rules based on IFRS or HGB, the regular and comprehensive updating of all of the corresponding balance sheet guidelines and accounting-based systems, the uniform item number catalog as well as the supply of information to the persons responsible for the reports are used. Beyond this, the activities of the Group audit department, within the framework of their inventory of assets and reserves, of the audit committee respectively the Supervisory Board and of the auditor supplement our control mechanisms as process-independent tools.

Based on a binding schedule for closing the books, accounting materials are prepared by the decentralized bookkeeping departments in accordance with IFRS principles and primarily with SAP standard software, while observing valid uniform Group procedures. This information is then transmitted to the centrally managed HFM system.

The respective management of the companies included in the scope of consolidation and of our individual business units confirm the correctness of data that is relevant for the annual financial statements in a quarterly internal reporting process. The confirmation includes, in particular, that the financial data submitted by the reporting unit provides a fair and true presentation of their major areas of business as well as the unit's asset, financial and income situation. In addition, it also confirms that the responsible management has established the centrally defined internal control system for reporting and, if necessary, has supplemented this with its own internal control system.

No changes were made to DB Group's internal control system between the time when the balance sheet was prepared and when the Management Report was prepared.

ACTIVE RISK MANAGEMENT

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

General economic risks

Demand for the mobility services of DB Group, and especially the transport and logistics services, is also dependent on overall economic development. Economic growth drives the megatrends in our relevant markets, which in turn are key drivers of our corporate strategy of DB Group. For this reason, general economic shocks like the economic and financial crises can have a negative impact on our business.

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

The most critical factor in the rail freight transport business is freight demand for consumer goods, coal, iron and steel, oil products, chemical products and construction materials. These, on the one hand, are subject to cyclical fluctuations. On the other hand, we must consider structural changes in the production structures of our customers, who are frequently involved in global competition.

In the area of freight forwarding and logistics, demand for storage and transport services depends on the customers' economic development.

Market risks

In the passenger transport market we are engaged in tough intermodal and intramodal competition, especially with motorized private transport, which is still the dominant competitor. We are continuously improving our service performance in order to strengthen our competitive position. On the offer side we are optimizing the structure of our scheduled services as part of our regular schedule updates. We were able to offer more attractive connections on many routes after we completed measures to improve the infrastructure. We use numerous special offers and promotions as part of our efforts to notably improve our customers' perception of our prices. In addition, we regularly employ 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 ordered 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 an impact on the activities of DB Group. Among other measures, we work to offset reductions by increasing our farebox revenues. We have 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, we can see that contracting organizations are becoming increasingly aware of the negative consequences involved here. In addition, we are continuously optimizing our tender management and cost structures so we can submit attractive bids that make economic sense. Additional burdens in the area of personnel expenses, which only affect our subsidiary companies, make the competitive position of DB Group 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 we can see market risks arising from the necessity to adjust to the increasing intensity of intermodal competition and the resulting margin losses. We react to this with intensive measures to further improve our efficiency and reduce costs. Furthermore, we are optimizing our range of rail-related services and integrating rail freight transport into a comprehensive range of logistics services.

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

Due to the special nature of the business, our air freight 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, we strictly observe 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 we combat risks arising from changing customer demand or shifts in traffic flows with intensive market observation and by continuously upgrading our portfolio. In regard to market risks related to changing legal conditions at domestic or international levels, we actively submit our position into preliminary consultations and discussions.

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

Operating risks

In the rail transport sector DB Group operates a technologically complex, networked production system.

Risks arise for our rail activities due to service interruptions, in particular because of the resulting decline in punctuality. A substantial reduction in punctuality in long-distance transport diminishes the perceived quality of service and can lead to a loss of customers. Furthermore, in regional transport there is also the additional risk of incurring penalty fees levied by the responsible contracting organization in the event of train cancellations or insufficient punctuality. The availability of the vehicle fleet is an additional critical factor. Significant limitations can endanger scheduled operations. DB Group attempts to eliminate this risk by taking precautionary measures and in the case of occurrence to minimize the impact by, for example, providing substitute vehicles or organizing substitute transports.

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

We generally counter 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, we strive to limit the possible consequences.

Technology risks

The range and quality of the services offered depends greatly on the availability and reliability of the production resources used, procured preliminary work as well as the quality of our partners' performance. We engage in intensive quality dialogues with our relevant suppliers and business partners.

In addition, the technical production resources used in rail transport must fulfill applicable norms and requirements, which may change over time. As a consequence technical objections regarding vehicles could occur. The risk here is that individual model series or wagon categories cannot be used for operations, or may only be used on a restricted basis – for example, at lower speeds, shorter maintenance intervals, or lower wheel set loads. This will result in disturbances in operational processes as well as higher expenses.

Furthermore, possible changes in norms and the rail infrastructure are important elements of overall operating conditions. Here again, operations can be restricted or even prohibited in the event of deviations from the norm. In order to counter these risks we have consolidated the respective activities in DB Group and engage in an active dialogue with the responsible authorities.

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 frequently multiyear project terms can result in project risks that have a cross-business unit impact due to the networked production structures. Furthermore, increased prices for ordered services or construction measures can lead to negative effects.

We take such risks into account by intensively monitoring our projects. This particularly applies to our central major projects.

Infrastructure financing

A key element of the German Rail Reform Act 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 available funds. We signed the Service and Financing Agreement with the Federal Government, which covers financing of the existing network until 2013. However, in order to ensure the long-term competitiveness of the rail mode of transport, sufficient availability of funds is required to ensure the systematic expansion of the system and elimination of bottlenecks. Our long-term corporate plans assume Federal funding will be forthcoming for the successful execution of these capital expenditures, although a corresponding agreement could not yet have been concluded. Moreover, there is also the risk that the Federal Government may demand refunds due to an audit of how Federal funds were employed.

Financial risks

We counter risks associated with interest rates, foreign exchange and energy prices arising from our 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 its international business activities because cash flows are generated in different currencies. This applies, in particular, to the US dollar, the British pound and the Swedish krona.

A portion of our 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. These frequently stem from construction projects, real estate transactions, or environment-related issues. 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 we try 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 our current estimates.

Regulatory and political risks

DB Group provides rail transport service in a regulated market. Access to the German railway network has been available on a non-discriminatory basis since 1994. Regulatory measures also affect the individual components of DB Group's railway infrastructure companies such as their pricing systems and terms of use. In this area there is a risk that a complaint may be submitted to the regulatory authorities and that they may respond.

The structure of DB Group has potential exposure to regulatory risks. These risks could arise on both the national as well as the European level.

Political risks refer to, in particular, the tightening of existing norms and rules that apply to railway activities.

Personnel risks

The employees of DB Group and their skills are of key importance for our future success. Our remuneration system and personnel development programs and measures are aimed at enhancing the loyalty of our 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 raise the commitment and identification of employees with the Group. On the other hand, it shows the attractiveness of DB Group as an employer. Furthermore, we are faced with increasing competition for highly qualified specialists and executives. Among other measures we are taking, we are meeting this challenge by maintaining close contacts to universities, and through our recruiting measures. During the integration period for newly acquired companies we concentrate our efforts on raising the loyalty of employees in key positions.

Our personnel expenses in comparison to those of our competitors are of decisive importance to DB Group for asserting ourselves in our competitive environment. Additional one-sided burdens in this area, for example wage agreements that exceed our competitors' levels, worsen our competitive position significantly.

IT risks

Insufficient IT management can lead to serious interruptions of business operations. We employ a wide range of methods and means to minimize these risks. Ongoing monitoring of system architecture and the regular renewal of hardware platforms ensure that our 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, we use distributed and redundant systems for operations and data backup, fail-safe network coupling, together with partly outsourced tape backup and separate administrations. These measures safeguard critical business processes and IT processes, and prevent serious breakdowns. Our 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 the main emphasis of risk in the overall economic and market-related risks stemmed from the financial and economic crisis and the increasing intensity of competition. Regular in-depth analyses are carried out for this purpose.

Operational countermeasures include extensive business-unit-specific and Group-wide efficiency and rationalization programs including, in particular, the DB Group-wide reACT program. In addition, we are continuing to systematically develop our offers on a market-oriented basis in the business units.

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

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

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

CHANGES IN DB AG MANAGEMENT BOARD

Diethelm Sack will step down as of March 31, 2010 as member of the Management Boards of DB AG and DB ML AG responsible for Finance and Controlling. He will be succeeded by Dr. Richard Lutz, who was previously Head of Group Controlling. Dr. Lutz was appointed CFO for a term of three years by the Supervisory Board. He will assume his new duties as CFO of DB AG and DB ML AG as of April 1, 2010.

Effective January 1, 2010, Dr. Volker Kefer will also be the provisional head of the Infrastructure Board division until further notice. The previous Board member for Infrastructure, Stefan Garber, was released from his duties as of the above date and will step down from DB AG Management Board on March 31, 2010.

OUTLOOK

According to estimates available at the time this report was prepared, fundamental economic conditions will improve slightly in Germany due to the recovery of the global economy in 2010. Growth projections for the industrialized nations indicate that the economic recovery will continue. For this reason we anticipate that economic development in Germany and in the Eurozone will again have a slightly favorable influence on business in the 2010 financial year. Further favorable effects will also be generated by the continued recovery of the global economy and the revival of global trade.

ECONOMIC OUTLOOK

The following estimates regarding economic development in 2010 are based on the assumption of stable overall geopolitical development. Experience gained during previous periods of economic weakness have shown that in most cases recessions associated with banking and real estate crises are only overcome slowly. For this reason we anticipate that the pace of economic growth will be marginal. The correction of economic imbalances – the reduction of high trade balance deficits and getting accustomed to lower levels of wealth due to the effects of the real estate crisis – will still burden the economy for some time to come. Furthermore, problems that appeared in the international financial systems have not yet been fully overcome, and, together with the high levels of personal debt in important countries, limit the chances for a robust upswing. In addition, the favorable influence of lower energy prices on personal consumption and corporate profits in industrialized countries is likely to be reversed in 2010 as prices for crude oil rise. The effects of government economic stimulus programs will weaken in 2010. Moreover, employment figures have not yet fully adjusted to significantly reduced production levels. Therefore, we anticipate that unemployment will continue to increase for a while, even if production expands notably. This development will dampen disposable income and domestic demand. Uncertainties exist regarding the impact of these negative effects on the economy. If the impact is more severe than currently expected we could see significantly slower economic growth, or the economy might even slip back into a recession.

The recovery of the global economy that began in 2009 is likely to continue in 2010. Following the contraction of the overall economy in the USA, it will begin to grow again in 2010. Japan's GDP is also expected to expand in 2010 as the country recovers from the sharp recession it experienced in 2009. China's high rate of growth will continue in light of the country's expansive economic policy.

The majority of forecasts for the Eurozone anticipate that the economy will recover slowly and be supported by the revival of global trade. In addition, a number of countries within the Eurozone (including Spain, Ireland and Greece) are undergoing structural adjustment processes to correct macroeconomic imbalances including excessive building of new housing, unacceptably high levels of private- and public-sector debt, and reduced pricing competitiveness stemming from exaggerated wage increases. These conditions hinder the recovery of consumer demand and dampen production gains. For this reason the upswing in exports from the Eurozone is more likely to be moderate as demand in important customer countries is expected to be burdened by private-sector efforts to reduce excessive levels of debt. Fiscal policies had an expansive effect at the start of 2010 as the effectiveness of economic stimulus measures was still unfolding. However, it is anticipated that the impact of these measures will fade in the second half of 2010. It should be taken into particular consideration that after the end of the European versions of the American "cash for clunkers" program to stimulate new car purchases, and the subsequent restocking of inventories, we could see automotive production collapse yet again. Unemployment will continue to rise far into the coming year. In total, the real GDP figure for the Eurozone will only grow at a slow pace. Most of the countries in Central and Eastern Europe will see their exports and industrial production stabilize further in 2010. However, countries with economic imbalances still face the latent risk of a currency crisis. It is expected that the region's GDP will still be higher than the EU average.

Current forecasts foresee that in 2010 Germany will record similar development as in the overall Eurozone. We anticipate that the German economy will post a slight increase. Due to the revival of global trade, positive foreign factors should have a greater impact on the German economy and stimulate exports. Capital expenditures are expected to expand again in the coming years due to growing demand, especially from abroad. One of the results of the financial and economic crisis is that banks have seen their equity capital levels shrink significantly. This situation is not expected to improve by much because of the anticipated increase in the number of companies filing for bankruptcy. This will restrict banks' lending to corporate customers. Capital expenditures will expand moderately. Domestic demand will be negatively affected by weaker consumption by the public sector, in particular, as well as by the fragile development of personal incomes due to rising unemployment, which in turn will lead to anemic growth in private consumption levels.

ANTICIPATED DEVELOPMENTS IN THE RELEVANT MARKETS

Overall economic conditions anticipated for Germany in 2010 foresee a deteriorating employment situation and low real income levels. As a result, no favorable demand effects are anticipated for the passenger transport market. We therefore expect that total demand noted for the overall market will contract. Rail transport, however, is likely to expand slightly due to the expected favorable basis effects.

Following the sharp drop in performance seen in 2009, the German freight transport sector is expected to post strong growth in 2010. Even if the effects from the crisis will still be noticeable, and the recovery of the economy is more likely to be only moderate, economic effects will once again be favorable and lead to a commensurate increase in demand for transport, which will benefit all modes of transport. Due to the weak development registered in 2009, growth will be supported by a favorable basis effect. This especially applies to rail freight transport, which had to record the sharpest decline in 2009. The market will still be characterized by intense competition and high pricing pressures.

The effects of the crisis will also be felt for a long time in the European land transport sector. Neither the West European nor the East European markets will return to levels seen in previous years in 2010. Due to the anticipated increase in demand that is expected over the course of the year, we anticipate that capacity bottlenecks will be visible for all modes of transport and lead to higher demand for substitute resources. This in turn will, for example, lead to higher prices in the subcontractor market. Therefore, it is anticipated that sharply reduced capacities will only be adjusted on a delayed basis.

Forecasts for the development of the global air and ocean freight markets in 2010 are difficult to make. Experts expect, however, that after the collapse seen in 2009, these segments will grow at a moderate pace.

The contract logistics segment is expected to see a continuation of the slight upswing noted in 2009 through to and including the first quarter of 2010. The situation for the rest of the year remains uncertain. It is possible that the automotive industry, which is particularly important for the contract logistics business, will see a substantial drop in demand.

ANTICIPATED DEVELOPMENT OF THE PROCUREMENT AND CAPITAL MARKETS

We do not anticipate that we will encounter any major bottlenecks on the procurement side during the current financial year. The further development of energy prices will play a decisive role. In general, we anticipate that energy and commodity prices will rise, along with prices for construction work.

Situation in energy markets still marked by great uncertainty

During the year under review, commodity prices were influenced by expectations that emerging markets would drive a recovery of the global economy, as well as by a deluge of liquidity. An outlook for the current year is clouded by great uncertainty. Although the OECD countries are showing first signs of growth after stabilizing, and leading indicators in emerging markets point towards a strong upswing, leading economic institutions are, however, divided on the sustainability of these signals. It is also unknown how the global economy will react when central banks begin to tighten liquidity.

International demand for crude oil and refinery products will grow in 2010, however it will once again remain below demand levels seen in the years 2007 and 2008. Sustained and continuous growth in the emerging countries will again increase the mid-term risk of bottlenecks.

Prices for futures traded on the German European Energy Exchange (EEX) did not track the increase noted in the primary energy markets. Futures prices are likely to rise if the economic recovery advances further in 2010. Despite the price declines seen during the financial crisis, futures prices noted for the next five years still remain at a very high level; spreads between individual delivery years have widened further 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.

Heavy issuing activities in the capital markets

Although we expect issuing activities to remain heavy once again in 2010, we do not anticipate, however, that they will reach the record levels seen in 2009. We believe that new issues of corporate bonds in 2010 will still remain above the average level noted in recent years, however the volume of new issues will be significantly lower than the comparable volume registered in 2009. We expect that corporate bonds will offer certain risk premiums in comparison to sovereign bond issues in 2010. The strong demand for corporate bonds is likely to continue as long as the European Central Bank (ECB) does not alter its exceedingly expansive monetary policy. We anticipate that the ECB will initially signal its exit measures by gradually tightening its quantitative measures and will only begin to increase its key interest rate in the fourth quarter.

ANTICIPATED DEVELOPMENT OF IMPORTANT BUSINESS CONDITIONS

European lawmakers opened the market for international rail passenger transport, including carriage on solely national stretches of international lines, with the third railway package that took effect on January 1, 2010. This means that access rights will not be issued for providing rail transport services in the entire domestic passenger transport. Instead, railways will only be entitled to engage in cross-border passenger transport, including the right to board and discharge passengers at interim stops. We do not expect that this will have any major short-term effects. However, we fear that other EU member states may abuse existing possibilities to protect public routes and use them as a tool to wall-off their markets. This would further exacerbate imbalances that exist today whereby countries like Germany and Italy have opened their rail passenger transport markets to competitors, while others, like France, have not.

ANTICIPATED BUSINESS DEVELOPMENT

Uncertainties arising from the financial and economic crisis have not yet been overcome. Forecasts are still subject to substantial caveats regarding major uncertainties and reduced predictability. The following statements are subject to special reservations, especially statements regarding the overall development of business in the future.

The development of DB AG's business will again depend on the development of its subsidiary companies and thus the extent of investment income in the 2010 financial year. Achieving a further sustainable increase in earnings power is an overall goal within DB Group. In light of the favorable results expected for the Group companies, we anticipate that our net investment income will increase. We expect that the result from ordinary activities as well as the net profit for the 2010 financial year will reach, or even surpass, the respective figures noted for the year under review. Based on our expectations, DB Group will also be fully able to finance its operational financial requirements via internal financing measures in the 2010 financial year. Therefore, it is not expected that DB Group's business operations will lead to an increase in debt. For this reason we anticipate a further decline in our net financial debt.

OPPORTUNITIES REPORT

Our opportunity management efforts are mainly driven by our business units' targets and strategies. Operational management personnel in the business units are primarily responsible for the early and regular identification, analysis and management of opportunities. These activities are an integral element of the Group-wide planning and controlling system. We focus intensely on detailed analyses of our markets and competitors, relevant cost drivers and critical factors for success – including those within our political and regulatory environment. Concrete business-unit-specific opportunities are derived from these efforts and then analyzed.

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

We are seeing an increasing awareness of the changing climate and a more responsible approach to the environment in our markets, which is leading to rising demand for environmentally friendly products. As the biggest provider of rail transport services in Europe, and one of the world's leading freight forwarding and logistics companies, we are developing offers that reflect this rising awareness, along with climate-neutral products in various market segments.

The general conditions of the relevant macroeconomic environment could, in total, develop more favorably than anticipated. The resulting variations would have a positive impact on DB Group and its business units. This applies especially to the economic recovery process that is anticipated to take place in the coming years. We responded to the economic and financial crisis with reACT, a comprehensive program containing a series of short- and mid-term countermeasures. We view this not only as a chance to counter the current situation and weaken its related effects, we also see this as an opportunity to further improve our long-term competitive position.

Despite the very intensive competitive situation in our markets, we also see market-related opportunities arising from the foreseeable market consolidation, and we want to use our leading market position to actively shape the process. We want to realize the opportunities offered by the consolidation process, in particular, and the chances contained in the continuing globalization of the freight forwarding and logistics segments. We have positioned ourselves in such a way that we are well prepared to use the opportunities posed by open or opening markets in both the European rail freight sector as well as in the European rail passenger sector.

DB Group is very well positioned in total to benefit from opportunities arising from significant trends in our markets. In conjunction with these remarks, we invite the reader to review the remarks made in the “Strategy” chapter.

Favorable exchange rates and interest rate moves could have a potentially favorable impact on our financial results. The Group Treasury department is therefore 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, DB Group, its business units and individual companies. These forecasts are estimates we 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 Report – actually occur.

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

ANNUAL FINANCIAL STATEMENTS

Annual financial statements

BALANCE SHEET

ASSETS

As of December 31 € MILLION	Note	2009	2008
A. FIXED ASSETS			
Property, plant and equipment	(2)	34	40
Financial assets	(2)	22,327	21,774
		22,361	**21,814**
B. CURRENT ASSETS			
Inventories	(3)	5	5
Receivables and other assets	(4)	3,348	3,717
Securities		–	0
Cash and cash equivalents		1,259	616
		4,612	**4,338**
C. PREPAYMENTS AND ACCRUED INCOME	(5)	**0**	**10**
		26,973	**26,162**

EQUITY AND LIABILITIES

As of December 31 € MILLION	Note	2009	2008
A. EQUITY			
Subscribed capital	(6)	2,150	2,150
Capital reserves	(7)	5,310	5,310
Retained earnings	(8)	3,035	1,471
Net retained profit		3,151	3,074
		13,646	**12,005**
B. PROVISIONS	(9)	**4,230**	**4,974**
C. LIABILITIES	(10)	**9,079**	**9,163**
D. ACCRUED AND DEFERRED INCOME	(11)	**18**	**20**
		26,973	**26,162**

STATEMENT OF INCOME

January 1 through December 31 € MILLION	Note	**2009**	2008
Inventory changes		-1	2
Other internally produced and capitalized assets		0	1
Overall performance		-1	3
Other operating income	(15)	1,813	1,316
Cost of materials	(16)	-62	-72
Personnel expenses	(17)	-312	-324
Depreciation		-7	-10
Other operating expenses	(18)	-1,060	-1,140
		371	**-227**
Net investment income	(19)	1,168	1,698
Net interest income	(20)	54	74
Result from ordinary activities		**1,593**	**1,545**
Income taxes		48	**-35**
Net profit for the year		**1,641**	**1,510**
Profit carried forward[1]		1,510	**1,564**
Net retained profit		**3,151**	**3,074**

[1] From previous year.

STATEMENT OF CASH FLOWS

January 1 through December 31 € MILLION	Note	2009	2008
Profit before taxes on income		1,593	1,545
Depreciation on property, plant and equipment[1)]		7	10
Changes to pension provisions		10	7
Cash flow before taxes		1,610	1,562
Changes to other provisions		-755	-25
Gains/losses from disposal of property, plant and equipment[1)]		0	-1
Gains/losses from disposal of financial assets		0	-243
Changes to current assets (exclusive cash and cash equivalents)		694	-419
Changes to other liabilities (excluding financial debt)		-110	-669
Income taxes		48	-35
Cash flow from operating activities		**1,487**	**170**
Proceeds from the disposal of property, plant and equipment[1)]		10	7
Payments for purchases of property, plant and equipment[1)]		-11	-14
Proceeds from the disposal of financial assets		0	314
Payments for the purchase of financial assets		-27	-22
Cash flow from investing activities		**-28**	**285**
Proceeds/payments from long-term Group financing		-354	-123
Proceeds/payments from short-term Group financing		-410	-1,033
Repayment of bonds and (financial) loans and commercial paper		-52	-208
Cash flow from financing activities		-816	**-1,364**
Net change in cash and cash equivalents		643	-909
Cash and cash equivalents, beginning of year	(21)	616	1,525
Cash and cash equivalents, end of year	**(21)**	**1,259**	**616**

[1)] Including intangible assets.

FIXED ASSETS SCHEDULE

€ MILLION	Acquisitions and production costs					
	Balance at Jan 1, 2009	Transfers from/to Group companies	Additions	Transfers	Disposals	Balance at Dec 31, 2009
PROPERTY, PLANT AND EQUIPMENT						
1. Land, leasehold rights and buildings including buildings on land owned by others						
a) Land and leasehold rights	3	0	0	0	0	3
b) Commercial, official and other buildings	1	0	0	0	0	1
	4	**0**	**0**	**0**	**0**	**4**
2. Track infrastructure, signaling and control equipment	1	0	0	0	-1	0
3. Rolling stock for passenger and freight transport	1	1	0	0	0	2
4. Technical equipment and machinery and other than Nos. 2 and 3	23	-2	1	1	0	23
5. Other equipment, operating and office equipment	81	-35	3	0	-2	47
6. Advance payments and construction in progress	6	0	7	-1	0	12
	116	**-36**	**11**	**0**	**-3**	**88**
FINANCIAL ASSETS						
1. Investments in affiliated companies	12,992	0	55	0	-28	13,019
2. Loans to affiliated companies	8,737	0	3,154	0	-2,628	9,263
3. Investments in associated companies	42	0	0	0	0	42
4. Other loans	3	0	0	0	0	3
	21,774	**0**	**3,209**	**0**	**-2,656**	**22,327**
Total fixed assets	**21,890**	**-36**	**3,220**	**0**	**-2,659**	**22,415**

Accumulated depreciation						Book value	
Balance at Jan 1, 2009	**Transfers from/to Group companies**	**Depreciation 2009 financial year**	**Transfers**	**Disposals**	**Balance at Dec 31, 2009**	**Balance at Dec 31, 2009**	Balance at Dec 31, 2008
0	0	0	0	0	0	3	3
-1	0	0	0	0	-1	0	0
-1	**0**	**0**	**0**	**0**	**-1**	**3**	**3**
0	0	0	0	0	0	0	1
0	-1	-1	0	0	-2	0	1
-17	1	-1	0	0	-17	6	6
-58	26	-5	0	3	-34	13	23
0	0	0	0	0	0	12	6
-76	**26**	**-7**	**0**	**3**	**-54**	**34**	**40**
0	0	0	0	0	0	13,019	12,992
0	0	0	0	0	0	9,263	8,737
0	0	0	0	0	0	42	42
0	0	0	0	0	0	3	3
0	**0**	**0**	**0**	**0**	**0**	**22,327**	**21,774**
-76	**26**	**-7**	**0**	**3**	**-54**	**22,361**	**21,814**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE 2009 FINANCIAL YEAR

The annual financial statements of Deutsche Bahn AG (DB AG) have been prepared in accordance with the regulations of the German Commercial Code (Handelsgesetzbuch; HGB) and the Stock Corporation Act (Aktiengesetz; AktG) in the version of the law of April 3, 2009 adopted by the Bundesrat (BilMoG) and also in accordance with the regulations regarding the structure of the annual financial statements of transport companies (Verordnung über die Gliederung des Jahresabschlusses von Verkehrsunternehmen). 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.

The companies of the Deutsche Bahn Group (DB Group) have not taken advantage of the option of voluntary premature adoption of the regulations in the version of the BilMoG which are the subject of mandatory adoption for the first time after January 1, 2010 or for financial statements for the financial year commencing after December 31, 2009.

(1) Accounting and valuation measures

The accounting policies are the same as those used in the previous year.

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
Business, operating and other premises	5 - 50
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
Operating 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.

Financial assets 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 fixed 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 cost of purchase, 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.

Cash and cash equivalents as well as marketable securities are recognized at cost of purchase, unless a lower carrying amount is required in individual cases.

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, foreign currency liabilities as well as cash in hand, cash at banks and liabilities due to banks in foreign currency are translated using the euro reference rate or the exchange rate on the date of the entry or the lower or higher rate applicable on the reporting 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 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 52–53.

In the year under review, no impairments were recognized in relation to property, plant and equipment (previous year: € 1 million).

(3) Inventories

€ MILLION	**2009**	2008
Raw materials and manufacturing supplies	0	0
Unfinished products, work in progress	5	5
Total	**5**	**5**

(4) Receivables and other assets

€ MILLION	**2009**	thereof with a remaining term of more than 1 year	2008
Trade receivables	14	(0)	17
Receivables due from affiliated companies	3,161	(–)	3,448
Receivables due from companies in which a participating interest is held	0	(–)	0
Other assets	173	(27)	252
Total	**3,348**	**(27)**	**3,717**

The valuation adjustments on accounts receivable and other assets amount to € 2 million (previous year: € 3 million).

The accounts due from affiliated companies comprise receivables from cash-pooling (€ 1,429 million; previous year: € 1,112 million), financing (profit transfers, short-term loans and interest; a total of € 1,347 million; previous year: € 1,969 million), a single entity deemed to exist for VAT purposes (€ 246 million; previous year: € 161 million) as well as trade accounts receivable (€ 139 million; previous year: € 206 million).

The other assets mainly comprise accounts due from the financial authorities and the reinsurance claim as well as interest accruals; contrary to the arrangements in the previous year, interest receivables are netted with the interest liabilities from the swap transactions.

(5) Prepayments and accrued income

Prepayments and accrued income mainly comprise the advance payment of the contribution to the Railway Accident Fund (Eisenbahnunfallkasse). A payment of insurance premiums before the reporting date which was shown in the previous year was not repeated this financial year, as the billing modalities were changed by the DVA.

(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 other retained earnings in accordance with Section 266 (3) HGB amounted to € 3,035 million (previous year: € 1,471 million). Pursuant to a resolution of the Annual General Meeting of March 27, 2009, a figure of € 1,564 million was transferred from the net profit retained of the previous year into other retained earnings.

(9) Provisions

€ MILLION	**2009**	2008
Provisions for pensions and similar liabilities	143	133
Tax provisions	231	375
Other provisions	3,856	4,466
Total	**4,230**	**4,974**

In the 2009 financial year, a total of € 16 million was allocated to provisions for pensions and similar commitments (previous year: € 17 million). This figure includes an amount of € 2 million for employee-financed pension obligations (deferred compensation) (previous year: € 3 million).

Other provisions comprise the following:

€ MILLION	**2009**	2008
Personnel-related commitments	71	73
Restructuring charges	860	564
Inherited environmental liabilities	1,606	2,259
Reconveyance obligations	157	266
Provisions relating to the Aurelis agreement	344	399
Other risks	818	905
Total	**3,856**	**4,466**

The personnel-related commitments mainly comprise bonuses, severance payments as well as indirect retirement benefit obligations.

Provisions for restructuring measures are mainly attributable to a loss compensation obligation for 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. In the year under review, € 600 million of the provision was reversed as a result of the analysis of the development of individual risk groups by restoration management.

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

(10) Liabilities

€ MILLION	**2009**	thereof with a residual maturity of			2008
		up to 1 year	1 to 5 years	more than 5 years	
Bonds	67	–	67	–	67
Liabilities due to banks	–	–	–	–	52
Advance payments received for orders	0	0	–	–	–
Trade accounts payable	20	20	0	0	35
Liabilities to affiliated companies	7,868	1,944	2,870	3,054	7,181
Liabilities to companies in which a participating interest is held	963	10	953	–	1,631
Other liabilities	161	160	1	–	197
thereof tax liabilities	(58)	(58)	(–)	(–)	(9)
thereof social security liabilities	(0)	(0)	(–)	(–)	(0)
Total	**9,079**	**2,134**	**3,891**	**3,054**	**9,163**
thereof interest-bearing	(8,494)				(8,469)

The liabilities due to affiliated companies comprise loans due to Deutsche Bahn Finance B.V., Amsterdam/the Netherlands (DB Finance) of € 6,880 million (previous year: € 6,075 million), liabilities from cash-pooling of € 540 million (previous year: € 636 million), financing (profit transfers, further loans and interest) totaling € 236 million (previous year: € 296 million), a single entity deemed to exist for VAT purposes of € 147 million (previous year: € 107 million) as well as trade accounts payable of € 65 million (previous year: € 66 million).

Liabilities to companies in which a participating interest is held 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) (€ 953 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 in note (14).

(11) Accruals and deferred income

This item mainly comprises revenue accruals attributable to leasehold agreements and grants for construction costs.

(12) Contingencies

€ MILLION	**2009**	2008
Warranty and guarantee obligations	4,458	4,464

DB AG has issued an unconditional and irrevocable guarantee to 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, 2009.

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

(13) Other financial obligations

€ MILLION	**2009**	2008
Purchase order commitments for capital expenditures	1	2
Outstanding contributions	317	317
Commitments under rental, leasing and other external-party liabilities	1,665	1,570
thereof due to affiliated companies	(–)	(–)
Total	**1,983**	**1,889**

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, 2009), broken down according to maturities:

€ MILLION	Nominal value	**Present value**
Leasing installments		
due within 1 year	60	58
due within 1 and 5 years	166	146
due after 5 years	54	42
Total	**280**	**246**

Overall, leasing installments of € 60 million were paid in financial year 2009 (previous year: € 64 million).

€ MILLION	Nominal value	**Present value**
Rental and other third-party debtor obligations		
due within 1 year	190	186
due within 1 and 5 years	533	473
due after 5 years	662	446
Total	**1,385**	**1,105**

(14) Financial instruments

In its capacity as the Treasury Center of DB Group, DB AG is responsible for all financing and hedging transactions. 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 correspondingly 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 € 6,880 million to DB AG as of December 31, 2009. The loans are refinanced via bond issues, with a guarantee of DB AG.

In 2009, a bond of DB Finance for € 1,350 million which fell due as well as the corresponding loan of DB Finance to DB AG were repaid.

In the year under review, DB Finance issued three new listed bonds for € 1,000 million, € 600 million and € 500 million as well an unlisted bond for JPY 7,500 million (€ 54 million). The proceeds were forwarded to DB AG as a loan.

There are also long-term interest-bearing loans of EUROFIMA (€ 953 million; previous year: € 1,609 million).

As of December 31, 2009, 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 € 1,800 million; previous year: € 1,650 million). None of the back-up lines had been drawn down as of December 31, 2009.

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 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 rate 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." All interest rate swaps expired in 2009; in the case of the cross-currency swaps, new transactions and expiries balanced each other out.

Foreign currency risks are attributable to financing measures and operating activities. Currency forwards have been taken out, also for procuring diesel, in order to limit the risk of exchange rate fluctuations for future foreign currency payments. Holdings of currency swaps have declined as a result of expired forward start transactions. The hedging of the planned increase in capital of a foreign subsidiary resulted in an increase in the volume of foreign currency forwards.

Energy price risks occur mainly in relation to the purchasing of diesel fuel and power sourcing agreements linked to coal and heating oil prices. The volume of energy derivatives was virtually unchanged compared with the previous year; expiring transactions were replaced by new transactions.

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 the term structure of interest rates 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	**2009**	2008
Nominal volume with external parties	2,060	4,045
Fair value of the derivatives (external parties)	-111	-31
Nominal volume of mirror transactions	202	181
Fair value of the derivatives (mirror transactions)	-11	-21

On December 31, 2009, the interest rate derivative portfolio consisted mainly of 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 strengthening of the euro against the US dollar and Japanese yen. 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	**2009**	2008
Nominal volume with external parties	1,257	1,614
Fair value of the derivatives (external parties)	7	28
Nominal volume of mirror transactions	1,183	1,614[1)]
Fair value of the derivatives (mirror transactions)	-9	-28

[1)] thereof DB ML AG € 1,489 million

The currency hedging contracts in the portfolio as of December 31, 2009 mainly consisted of currency forwards with a remaining term of less than one year. Virtually all transactions with external counterparties have been transmitted to DB ML AG. The development in the value was attributable to the slight weakening of the euro against sterling, the Polish zloty and the Swedish krona.

Nominal and fair value of the energy derivatives:

Diesel fuel IN t	**2009**	2008
Nominal volume with external parties	525,000	552,000
Fair value of the derivatives (external parties)	-25	-116
Nominal volume of mirror transactions	525,000	552,000
Fair value of the derivatives (mirror transactions)	25	116

Gas, heating oil IN t	2009	2008
Nominal volume with external parties	162,000	120,000
Fair value of the derivatives (external parties)	5	- 8
Nominal volume of mirror transactions	162,000	120,000
Fair value of the derivatives (mirror transactions)	- 5	8

Coal, BAFA IN t HARD COAL EQUIVALENT	2009	2008
Nominal volume with external parties	1,603,000	1,702,000
Fair value of the derivatives (external parties)	- 62	- 39
Nominal volume of mirror transactions	1,603,000	1,702,000
Fair value of the derivatives (mirror transactions)	62	39

On December 31, 2009, the portfolio of energy price hedges consisted of hedges with a term of less than one year as well as hedges with longer terms. Most of the transactions were forwarded to DB Energie GmbH, and an insignificant part of the diesel hedges was forwarded directly to subsidiaries of DB ML AG. The development in the value of the external energy derivatives is mainly attributable to the expiry of legacy transactions with high hedging prices and also the decline in prices on the coal market.

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

€ MILLION	2009	2008
Credit risk of interest, currency and energy derivatives	62	160

The decrease 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 €14 million, and relates to a contract partner with a Moody's rating of A1. 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 A1.

NOTES TO THE STATEMENT OF INCOME

(15) Other operating income

€ MILLION	2009	2008
Group levies and other intra-Group cost allocation	287	379
Services for third parties and sales of materials	167	170
Rents and leases	260	250
Other operating income	174	194
Income from the disposal of fixed assets	0	245
Income from the release of provisions	924	77
Gains on the reversal/recovery of write-down/write-offs of receivables	1	1
Total	**1,813**	**1,316**
thereof attributable to other periods	(925)	(323)

Of the figure shown for income from the reversal of provisions, € 600 million is attributable to the provision for ecological legacy issues.

The income attributable to other periods mainly comprises income from the reversal of provisions.

In the previous year, the other operating income included a figure of € 243 million for the sale of the holding in Arcor AG & Co. KG.

(16) Cost of materials

€ MILLION	**2009**	2008
Costs of raw materials, consumables and supplies	5	4
Costs of purchased services	30	36
Maintenance expenses	27	32
Total	**62**	**72**

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

(17) Personnel expenses

€ MILLION	**2009**	2008
Wages and salaries		
for employees	234	235
for civil servants assigned		
Payment to the BEV in accordance with Art. 2 Section 21 (1) and (2) of the ENeuOG	20	27
Ancillary renumaration paid directly	1	1
	255	**263**
Social security and retirement pensions and benefits [1]		
for employees	53	55
for civil servants assigned payment to the BEV in accordance with Art. 2 Section 21 (1) and (2) of the ENeuOG	4	6
	57	**61**
thereof for retirement benefits	(23)	(22)
Total	**312**	**324**

[1] Including benefits payments, for instance to former employees and their surviving dependants.

(18) Other operating expenses

€ MILLION	2009	2008
Expenses for intra-Group offsets	181	243
Rents and leases	269	272
Contributions and fees	6	5
Consultancy and other third-party services	163	228
Sales promotion and advertising expenses	5	37
Insurance expenses	49	49
Other operating expenses	386	303
Losses from the disposal of fixed assets	0	2
Expenses relating to set-up of allowances for and write-off of accounts receivable	1	1
Total	**1,060**	**1,140**
thereof attributable to other periods	(1)	(2)

Of the figure shown for other operating expenses, € 2 million relates to "Other taxes" (previous year: € 0 million).

(19) Net income from investments

€ MILLION	2009	2008
Income from participating interests	3	1
thereof from affiliated companies	(2)	(-)
Income from associated companies	3	3
Income from profit transfer agreements	1,185	1,821
Transfer of losses	-23	-127
Total	**1,168**	**1,698**

(20) Net interest income

€ MILLION	2009	2008
Income from other securities and long-term loans	433	452
thereof from affiliated companies	(433)	(452)
Other interest and similar income	66	210
thereof from affiliated companies	(33)	(86)
Interest and similar expenses	-445	-588
thereof to affiliated companies	(-345)	(-406)
Total	**54**	**74**

NOTES ON THE STATEMENT OF CASH FLOWS

The structure of the statement of cash flows as attachment 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.

(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 according to Section 287 HGB.

As of December 31, 2009, the annual financial statements of the participations prepared in accordance with the uniform IFRS accounting principles of DB Group were for the first time used as the basis for the information concerning shareholders' equity and annual results included in the list of shareholdings.

(23) Employees

FULL-TIME EMPLOYEES	At year end		Annual average	
	2009	2008	**2009**	2008
Employees	3,063	3,627	3,101	3,712
Civil servants	478	660	482	616
Subtotal	3,541	4,287	3,583	4,328
Trainees	8	180	6	143
Total	**3,549**	**4,467**	**3,589**	**4,471**

The number of employees within DB Group is calculated on the basis of full-time employee (FTE) positions to permit better comparability. Temporary employees are accordingly converted into full-time employees in proportion to the extent to which their working hours are related to the standard annual working hours agreed under collective bargaining.

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	2009	2008
Total Management Board emoluments	6,908	7,456
thereof fixed component	(3,170)	(3,100)
thereof performance-based component	(3,738)	(4,356)
Emoluments of former Management Board members	12,566	2,116
Pension provisions for former Management Board members	28,820	18,298
Total Supervisory Board emoluments	586	831

Management Board

Dr. Rüdiger Grube
Chief Executive Officer and Chairman of the Management Board,
Chief Executive Officer and Chairman of the Management Board of DB Mobility Logistics AG,
Gechingen
– since May 1, 2009 –
a) DB Netz AG (Chairman) [1)]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
b) Deutsche Bank AG
(Advisory Board operating region Stuttgart)

Hartmut Mehdorn
Chief Executive Officer and Chairman of the Management Board,
Chief Executive Officer and Chairman of the Management Board of DB Mobility Logistics AG,
Berlin
– up to April 30, 2009 –
a) DB Netz AG (Chairman) [1)]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
Dresdner Bank AG
SAP AG
b) Allianz Deutschland AG (Advisory Board)

Gerd Becht
Compliance, Privacy and Legal Affairs,
Member of the Management Board of DB Mobility Logistics AG,
Bad Homburg
– since October 16, 2009 –
a) DB Schenker Rail Deutschland AG [1)]
DB International GmbH [1)]
DB Sicherheit GmbH [1)]
b) DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
(Advisory Board)

Stefan Garber
Infrastructure,
Bad Homburg
– up to March 31, 2010 –
a) DB Station&Service AG (Chairman) [1)]
DB Energie GmbH (Chairman) [1)]
DB ProjektBau GmbH (Chairman) [1)]
Sparda-Bank Baden-Württemberg eG
b) IDUNA Lebensversicherung a.G.
Signal Iduna Gruppe (Advisory Board)

Norbert Hansen
Personnel,
Hamburg
– up to May 31, 2009 –
a) DB Gastronomie GmbH (Chairman) [1)]
DB JobService GmbH (Chairman) [1)]
b) DB Zeitarbeit GmbH (Advisory Board, Chairman) [1)]

Dr. Volker Kefer
Rail Technology and Services,
Member of the Management Board
of DB Mobility Logistics AG,
Erlangen
– since September 9, 2009 –
a) DB International GmbH (Chairman)[1)]
b) DB Dienstleistungen GmbH
(Advisory Board, Chairman)[1)]
DEKRA e.V. (Advisory Board)
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
(Advisory Board)

Diethelm Sack
Chief Financial Officer,
Member of the Management Board
of DB Mobility Logistics AG,
Frankfurt am Main
– up to March 31, 2010 –
a) DB Services Immobilien GmbH (Chairman)[1)]
b) DVA Deutsche Verkehrs-Assekuranz-Vermittlungs-GmbH (Chairman)[1)]

Ulrich Weber
Personnel,
Member of the Management Board
of DB Mobility Logistics AG,
Krefeld
– since July 1, 2009 –
a) DB Regio AG[1)]
DB Schenker Rail Deutschland AG[1)]
Schenker AG[1)]
DB Gastronomie GmbH (Chairman)[1)]
DB JobService GmbH (Chairman)[1)]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
HDI-Gerling Industrie Versicherung AG
HDI-Gerling Sach Serviceholding AG
b) DB Dienstleistungen GmbH (Advisory Board)[1)]
DB Zeitarbeit GmbH (Advisory Board, Chairman)[1)]
RAG BILDUNG GmbH (Advisory Board, Chairman)

Dr. Otto Wiesheu
Economic and Political Affairs,
Zolling
– up to May 31, 2009 –
a) DB International GmbH (Chairman)[1)]
DB Sicherheit GmbH[1)]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
b) 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, 2009 or the time of leaving the services of the company in 2009. If appointed after December 31, 2009, the time of appointment is used.

Supervisory Board

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)
b) Stadler Rail AG, Bussnang/Switzerland
(Administrative Board)

Alexander Kirchner*
Deputy Chairman of the Supervisory Board
(since February 18, 2009),
Chairman of the TRANSNET trade union,
Runkel
– since February 9, 2009 –
a) DB Mobility Logistics AG
DB JobService GmbH
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (Chairman)
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (Chairman)
DEVK Rückversicherungs- und Beteiligungs-Aktiengesellschaft (Chairman)

Lothar Krauß*
Deputy Chairman of the Supervisory Board,
Director of the Education and Development
Institution of the TRANSNET trade union,
Rodenbach
– up to January 31, 2009 –
a) DB Mobility Logistics AG
DBV-Winterthur Holding AG
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn (Chairman)
Sparda-Bank Baden-Württemberg eG (Chairman)

Jörg Asmussen
State Secretary in the Federal Ministry
of Finance,
Berlin
– between April 1 and November 30, 2009 –
a) DB Mobility Logistics AG
Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH
Deutsche Telekom AG

Georg Brunnhuber
Member of the German Bundestag (retired),
Oberkochen

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 Saving 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)]
E.ON Energy Trading SE [1)]
b) E.ON Nordic AB, Malmö/Sweden [1)]
E.ON Sverige AB, Malmö/Sweden [1)]

Achim Großmann
Parliamentary State Secretary (retired) in the Federal
Ministry for Transport, Building and Urban Affairs,
Würselen
– up to November 11, 2009 –
a) DB Mobility Logistics AG

Dr. Ing. Dr. E.h. Jürgen Großmann
Chairman of the Management Board of RWE AG,
Hamburg
a) Amprion GmbH (Chairman)
BATIG Gesellschaft für Beteiligungen mbH
British American Tobacco (Germany) GmbH
British American Tobacco (Industrie) GmbH
SURTECO SE (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. Betriebliche Sozialeinrichtung der Deutschen Bahn
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn

Dr. Bernhard Heitzer
State Secretary in the Federal Ministry
of Economics and Technological Affairs,
Alfter
– since December 2, 2009 –
a) DB Mobility Logistics AG

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. Betriebliche Sozialeinrichtung der Deutschen Bahn
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
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. Betriebliche Sozialeinrichtung der Deutschen Bahn
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G. Betriebliche Sozialeinrichtung der Deutschen Bahn
DEVK Pensionsfonds-AG
DEVK Vermögensvorsorge- und Beteiligungs-AG (Chairman)

Helmut Kleindienst*
Chairman of the Branch Works Council
of the Services Business Unit of DB 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
b) Peek & Cloppenburg KG (Advisory Board)

Vitus Miller*
Chairman of the Central Works Council Regional/Urban
Transport of the Deutsche Bahn Group,
Stuttgart
a) DB Regio AG
DB Vertrieb GmbH
b) DB GesundheitsService GmbH (Advisory Board)

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. Betriebliche Sozialeinrichtung der Deutschen Bahn (Advisory Board)

Dr. Axel Nawrath
State Secretary (retired) in the Federal
Ministry of Finance,
Berlin
– up to March 31, 2009 –
a) DB Mobility Logistics AG

Dr. Walther Otremba
State Secretary in the Federal Ministry of Finance,
St. Augustin
a) DB Mobility Logistics AG

Ute Plambeck*
Management Representative Deutsche Bahn AG
for the Federal States of Hamburg/Schleswig-Holstein,
Hamburg
a) Autokraft GmbH
S-Bahn Hamburg GmbH
Sparda-Bank Hamburg eG

Regina Rusch-Ziemba*
Deputy Chairwoman of the TRANSNET trade union,
Hamburg
a) DB Station&Service AG
DB Fahrwegdienste GmbH
DB ProjektBau GmbH
DEVK Allgemeine Lebensversicherungs-AG (Chairwoman)
DEVK Allgemeine Versicherungs-AG
DEVK Pensionsfonds-AG
b) DGB Rechtschutz GmbH

Prof. Klaus-Dieter Scheurle
State Secretary, Federal Ministry of
Transport, Building and Urban Affairs,
Bonn
– since November 12, 2009 –
a) DB Mobility Logistics AG

Dr.-Ing. E.h. Dipl.-Ing. Heinrich Weiss
Chairman of the Management Board of SMS GmbH,
Hilchenbach-Dahlbruch
a) DB Mobility Logistics AG
SMS Siemag AG (Chairman) [1)]
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, 2009 or the time of leaving the services of the company in 2009. If appointed after December 31, 2009, the time of appointment is used.

Supervisory Board committees

Executive Committee
Dr. Werner Müller (Chairman)
Alexander Kirchner (since February 18, 2009)
State Secretary Prof. Klaus-Dieter Scheurle
(since November 16, 2009)
Günter Kirchheim
Parliamentary State Secretary Achim Großmann
(since November 11, 2009)
Lothar Krauß (up to January 31, 2009)

Audit and Compliance Committee
Dr. Jürgen Krumnow (Chairman)
State Secretary Prof. Klaus-Dieter Scheurle
(since November 16, 2009)
Regina Rusch-Ziemba
Helmut Kleindienst
Parliamentary State Secretary Achim Großmann
(since November 11, 2009)

Personnel Committee
Dr. Werner Müller (Chairman)
Alexander Kirchner (since February 18, 2009)
State Secretary Prof. Klaus-Dieter Scheurle
(since November 16, 2009)
Günter Kirchheim
Parliamentary State Secretary Achim Großmann
(since November 11, 2009)
Lothar Krauß (up to January 31, 2009)

Members of the Mediation Committee in accordance with section 27 (3) MitbestG
Dr. Werner Müller (Chairman)
Alexander Kirchner (since February 18, 2009)
State Secretary Prof. Klaus-Dieter Scheurle
(since November 16, 2009)
Günter Kirchheim
Parliamentary State Secretary Achim Großmann
(since November 11, 2009)
Lothar Krauß (up to January 31, 2009)

(25) Auditor's fees

Details of the fees of the company's auditor have not been disclosed because such information is included in the consolidated financial statements of DB AG.

(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 € 3,150,738,779.71 shown as of December 31, 2009 should be carried forward to the new account.

Frankfurt, February 23, 2010

Deutsche Bahn Aktiengesellschaft
The Management Board

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 accounting system, and the management report of the Deutsche Bahn Aktiengesellschaft, Berlin, for the business year from January 1 to December 31, 2009. 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 accounting 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 25, 2010

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.

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 in particular 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. Significant 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. No member of the Supervisory Board attended fewer than half of the meetings of the Supervisory Board.

MEETINGS OF THE SUPERVISORY BOARD

In the year under review, the Supervisory Board held four ordinary and four extraordinary meetings. In two cases, resolutions were adopted on the basis of written procedures. The meetings of the Supervisory Board were prepared by meetings of the Executive Committee, the Personnel Committee, the Compliance Committee and the Audit and Compliance Committee (formerly 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 the year under review, the Supervisory Board also intensively deliberated the allegations in connection with the unlawful use of staff data and the investigations in connection with combating corruption. The Supervisory Board also arranged to be provided with comprehensive information in the year under review concerning the rolling stock problems which affected the ICE fleet and the rolling stock of S-Bahn Berlin, the resultant operational and financial effects as well as the status of negotiations regarding potential claims for damages against the manufacturers. In several meetings, the Supervisory Board also considered the make-up of the Management Board and the related changes in the allocation of duties. It also devoted considerable attention to the newly introduced Public Corporate Governance Code of the Federal Government and the resultant adjustments to the internal rules of DB AG.

In its extraordinary meeting held on February 18, 2009, the Supervisory Board deliberated the allegations in connection with the unlawful use of staff data and the investigations in connection with combating corruption and any resultant statutory violations. The Supervisory Board engaged KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) to carry out a comprehensive and independent investigation of the measures which have been carried out at DB AG since the mid-1990s with regard to combating corruption and also with regard to the unlawful use of staff data. The lawyers Prof. Herta Däubler-Gmelin and Mr. Gerhart Baum have also been engaged to support the investigations and to perform the legal evaluation of the results of the investigations. A temporary Compliance Committee has been set up for the duration of the ongoing investigations with regard to the combating of corruption and with regard to the unlawful use of staff data, and rules of procedure have been adopted for this committee.

The Supervisory Board has also considered the acquisition of the PCC Logistics Group in Poland and the framework program for the refinancing of DB Group 2009. The Supervisory Board has agreed for the debt issuance program to be topped up from € 10 billion to € 15 billion.

In its meeting on March 27, 2009, the Supervisory Board audited the annual financial statements 2008 and the management report of DB AG as well as the consolidated financial statements 2008 and the Group management report of DB AG. It approved the annual financial statements of DB AG for the financial year 2008. In addition, it notified KPMG, which was engaged in February by the Supervisory Board, of the provisional result of the independent special investigations with regard to the combating of corruption and with regard to the unlawful use of staff data.

In its extraordinary meeting held on April 25, 2009, the Supervisory Board considered the termination of the position of Mr. Hartmut Mehdorn on the Management Board, and approved the premature termination of his appointment as a member of the Management Board and as Chairman of the Management Board of DB AG as of the end of April 30, 2009. As his successor, Dr. Rüdiger Grube was appointed as a member of the Management Board of DB AG for a period of five years with effect from May 1, 2009, and was nominated as the Chairman of the Management Board and CEO of DB AG at the beginning of his activity. The Supervisory Board also agreed that Dr. Rüdiger Grube would be appointed as a member as well as Chairman of the Management Board and CEO of DB ML AG.

Mr. Norbert Hansen and Dr. Otto Wiesheu also offered to prematurely terminate their positions on the Management Board, and the Supervisory Board approved the premature termination of the positions of Mr. Norbert Hansen and Dr. Otto Wiesheu in its extraordinary meeting held on May 13, 2009. As the successor of Mr. Norbert Hansen, in the extraordinary meeting of the Supervisory Board held on May 25, 2009, Mr. Ulrich Weber was appointed as a member of the Management Board and Labor Director of DB AG for a period of five years with effect from July 1, 2009. The Supervisory Board also agreed that Mr. Ulrich Weber would assume the corresponding position as a member of the Management Board of DB ML AG.

In its December meeting in 2008, the Supervisory Board agreed that the definitive corporate planning for the years 2009 to 2013 should only be presented after the results for the first quarter of 2009 were available in view of the uncertainty surrounding the general economic situation; in its extraordinary Supervisory Board meeting held on May 13, 2009, the Supervisory Board then approved the budget of DB Group for the 2009 financial year, and noted the medium-term planning (2010–2013) as well as the long-term strategic objectives. In addition, the Supervisory Board noted the final report prepared by

KPMG concerning the investigations into the measures of DB AG with regard to the combating of corruption and the related comments of Prof. Herta Däubler-Gmelin and Mr. Gerhart Baum, and decided to hand over the reports of the special investigators without delay to the Public Prosecutor as well as the State Data Protection Officer of Berlin and the Federal Data Protection Officer. The Supervisory Board also adopted a resolution for an external audit to be carried out by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (PwC) with regard to the possible responsibility of the Management Board under German stock corporation law, on the grounds of neglecting the duty to guarantee legal conformity in accordance with Section 93 AktG. The Management Board was also instructed to draw the organizational and personnel consequences from the findings which were made, to notify these consequences to the Supervisory Board or, where necessary, to submit these consequences to the Supervisory Board to enable a resolution to be adopted.

As one of the consequences of the final report of the special investigator KPMG and the final report of the lawyers Prof. Herta Däubler-Gmelin and Mr. Gerhart Baum, the Supervisory Board approved the establishment of a Compliance, Privacy and Legal Affairs Board division in its extraordinary Supervisory Board meeting held on May 25, 2009. The rules of procedure for the Management Board have been adjusted accordingly. In this connection, the Supervisory Board appointed Mr. Gerd Becht to the Management Board of DB AG for a period of five years with effect from October 16, 2009, with responsibility for the Compliance, Privacy and Legal Affairs Board division, and also agreed that Mr. Gerd Becht would take up a corresponding position on the Management Board of DB ML AG.

In its meeting held on June 24, 2009, the Supervisory Board noted the verbal report of PwC with regard to the review of the legal conformity in accordance with Section 93 AktG. The Supervisory Board also arranged to be notified by the Management Board of the economic development of DB Group and the countermeasures taken in response to the economic and financial crisis. The Supervisory Board also arranged to be notified by the Management Board of the implementation status of integrated compliance management in DB Group. In addition, the Supervisory Board was concerned with the decision for engaging the auditor for auditing the financial statements 2009–2014 after a Europe-wide tender process. Following the extensive report of the Chairman of the Audit Committee responsible for preparing the award process, the Supervisory Board decided to propose to the Annual General Meeting of DB AG that PwC should be appointed as auditors for the year 2009.

After the Public Corporate Governance Code of the Federal Government was adopted on July 1, 2009, the Supervisory Board considered this issue extensively in its meeting held on September 9, 2009. The Supervisory Board approved the changes to the articles of incorporation and the rules of procedure for the Supervisory Board and the Management Board of DB AG which are necessary in accordance with the regulations of the Public Corporate Governance Code. The Compliance Committee which was set up temporarily in order to deal with the data protection issues has been dissolved, and its tasks have been transferred to the Audit Committee which in this connection has been renamed as the "Audit and Compliance Committee."

In view of the extremely complex nature of the railway system and the related considerable technical challenges, the Supervisory Board decided to set up a Rail Technology and Services Board division. Dr. Volker Kefer was appointed as a member of the Management Board of DB AG for a period of three years with effect from September 9, 2009, with responsibility for the Rail Technology and Services Board division. The Supervisory Board also agreed that Dr. Volker Kefer would take up a corresponding position as a member of the Management Board of DB ML AG.

The Supervisory Board also noted the comments of the Management Board regarding the economic conditions and also the report concerning the countermeasure program reACT. The Supervisory Board also noted the comments of the Management Board concerning the form of the Compliance, Privacy and Legal Affairs Board division as well as the form of the Rail Technology and Services Board division. In connection with the assessment of the possible responsibility under German stock corporation law of the present and former members of the Management Board of DB AG on the grounds of neglecting the duty to guarantee legal conformity in the period from January 1, 1995 to February 9, 2009, the Supervisory Board noted the final report of PwC and then determined that no legal action has to be taken in this matter against the present or former members of the Management Board on the basis of the final report. In addition, the Supervisory Board considered the investment projects planned within the framework of the economic stimulus programs and also considered new investment projects which are not considered in the adopted investment planning.

In its meeting held on December 9, 2009, the Supervisory Board arranged to be informed of the results of the efficiency audit carried out in relation to the work of the Supervisory Board of DB AG and its committees. At the request of Mr. Diethelm Sack, the Supervisory Board approved the premature termination of the position of Mr. Diethelm Sack on the Management Board as of March 31, 2010 as well as the associated departure agreement. Dr. Richard Lutz was appointed as his successor for a period of three years with effect from April 1, 2010. The Supervisory Board also agreed that Dr. Richard Lutz would additionally be appointed as a member of the Management Board of DB ML AG.

The Supervisory Board also decided to release Mr. Stefan Garber from his duties with effect from December 9, 2009.

The Supervisory Board followed the recommendations of the Personnel Committee, and approved the target agreements for the members of the Management Board for the 2010 financial year, the success of the members of the Management Board in meeting targets for the 2009 financial year, the introduction of a long-term incentive and the related changes to the contracts of the members of the Management Board.

The Supervisory Board also extensively considered the medium-term planning 2010 to 2014 for DB Group, and approved the budget of DB Group for the 2010 financial year as well as the new and amended investment projects. The Supervisory Board also arranged to be notified of the results of the draft planning of the project Stuttgart 21, and approved the inclusion of the project in the investment planning. The Supervisory Board also noted the procedure proposed by the Management Board with regard to applying the principles of the Public Corporate Governance Code in DB Group.

There were no conflicts of interest of members of the Management Board and Supervisory Board which have to be disclosed to the Supervisory Board.

MEETINGS OF THE SUPERVISORY BOARD COMMITTEES

The Supervisory Board has created four permanent committees in order to enable it to carry out its duties efficiently. In connection with the investigations into the unlawful use of staff data and the allegations of possible statutory violations raised in connection with the combating of corruption, the Supervisory Board established a Compliance Committee for the ongoing investigations. After the investigations were concluded, these tasks were transferred to the Audit and Compliance Committee.

In 2008, the Executive Committee of the Supervisory Board met in a total of eight 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 Audit and Compliance Committee, which held six 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 relevant review results as well as the six-month review of major investment projects. Further key issues were the forecast for 2009 and the medium-term planning 2010 to 2013 for DB Group. The Audit and Compliance Committee also considered issues of accounting and risk management, improving corporate governance by way of adopting the Public Corporate Governance Code and the Accounting Law Modernization Act as well as the resultant changes to the rules of procedure for the Audit and Compliance

Committee. It also considered the privacy violations in connection with the unlawful use of staff data. The Audit and Compliance Committee also considered the economic developments of acquisitions, the ongoing development of accounting principles as well as the process of placing the audit engagement with the auditor, and arranged to be notified of the results of internal audit and investigations in the field of compliance.

The Chairman of the Audit and Compliance Committee maintained regular contact with the CFO and the auditor, and regularly and extensively reported to the plenary body regarding the work of the committee.

The temporarily established Compliance Committee held four meetings and three telephone conferences in the year under review, and extensively considered the investigations with regard to clarifying the allegations made against DB AG in connection with the unlawful use of staff data.

In eight meetings held in the year under review, the Personnel Committee prepared the personnel decisions of the Supervisory Board and processed the contractual affairs of the Management Board – and in particular the modification of the contracts of the members of the Management Board with regard to the introduction of a long-term incentive, on behalf of the Supervisory Board.

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. With the Cabinet resolution of July 1, 2009, the Federal Government adopted the Public Corporate Governance Code of the Federal Government. The Public Corporate Governance Code of the Federal Government comprises major regulations of prevailing law regarding the management and monitoring of unlisted companies in which the Federal Republic of Germany owns a majority stake as well as internationally and nationally recognized standards of good and responsible management. In this context, the Supervisory Board approved the adjustment of the internal rules of DB AG to the Public Corporate Governance Code in its meeting held on September 9, 2009.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements and the management report of DB AG prepared by the Management Board as well as the consolidated financial statements and Group management report for the period ending December 31, 2009 have been audited by PwC, which had been elected as the auditor by the Annual General Meeting, and were awarded an unqualified auditor's report. In addition, the auditor also audited the risk management system as part of the process of auditing the financial statements, and did not raise any objections.

On March 22, 2010, the report of the auditor was the subject of the meeting of the Audit and Compliance Committee, and was extensively deliberated in the accounts meeting of the Supervisory Board on March 24, 2010 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 2009 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 also 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

Mr. Christoph Dänzer-Vanotti was appointed as a member of the Supervisory Board with effect from February 1, 2009. He has succeeded Dr. Eggert Voscherau, who laid down his position on the Supervisory Board with effect from December 31, 2008. Mr. Lothar Krauß laid down his Supervisory Board mandate with effect from January 31, 2009. He has been succeeded by Mr. Alexander Kirchner, who was a court appointment as a member of the Supervisory Board with effect from February 9, 2009, and who was elected as the Deputy Chairman on February 18, 2009. Secretary of State Jörg Asmussen was seconded to the Supervisory Board with effect from April 1, 2009, as the successor to Secretary of State Dr. Axel Nawrath, who laid down his position on the Supervisory Board as of March 31, 2009. Parliamentary Secretary of State Achim Großmann stepped down from the Supervisory Board with effect from November 11, 2009. As his successor, Secretary of State Professor Klaus-Dieter Scheurle was seconded to the Supervisory Board with effect from November 12, 2009. Secretary of State Jörg Asmussen laid down his mandate with effect from November 30, 2009. He was succeeded by Secretary of State Dr. Bernhard Heitzer, who was seconded to the Supervisory Board with effect from December 2, 2009. Secretary of State Dr. Walther Otremba laid down his mandate with effect from March 8, 2010.

Dr. Rüdiger Grube was elected as a member of the Management Board and as the new Chairman of the Management Board with effect from May 1, 2009. He has succeeded Mr. Hartmut Mehdorn, who laid down his position as Chairman of the Management Board as of April 30, 2009.

Mr. Norbert Hansen laid down his mandate as a member of the Management Board with effect from May 31, 2009. As his successor, Mr. Ulrich Weber was appointed as Personnel and Labor Director with effect from July 1, 2009.

Dr. Otto Wiesheu laid down his position as a member of the Management Board, responsible for the Economics and Political Affairs Board division, with effect from May 31, 2009. No successor was appointed to this position, and the division was dissolved as of December 9, 2009.

With effect from September 9, 2009, Dr. Volker Kefer was appointed as a member of the Management Board of DB AG, with responsibility for the Rail Technology and Services Board division.

With effect from October 16, 2009, Mr. Gerd Becht was appointed as a member of the Management Board, with responsibility for the newly created Compliance, Privacy and Legal Affairs Board division.

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 2010
For the Supervisory Board

Dr. Werner Müller
Chairman

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

This Report, the Annual Reports of Deutsche Bahn 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 Report of the Competition Officer and the Sustainability Report can be requested from Corporate Communications:

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Germany

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DB SERVICE NUMBER

Our service number +49-18 05-99 66 33 gives you direct access to all of our telephone services. The access includes information regarding general information, booking of train tickets, finding train times, our customer dialogue and our frequent traveler system (BahnCard).

Calls will be charged as follows: calls from the German fixed-line network cost 14 ct/min. Charges from the German cell phone network cost 42 ct/min at most.

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