Deutsche Bahn

Interim Report January – June 2016

More quality, more customers, more success

AT A GLANCE

Selected key figures	H1 2016	H1 2015	Change absolute	Change %
KEY FINANCIAL FIGURES (€ MILLION)				
Revenues adjusted	20,033	20,000	+33	+0.2
Revenues comparable	20,212	20,000	+212	+1.1
Profit before taxes on income	563	358	+205	+57.3
Net profit (after taxes)	603	391	+212	+54.2
EBITDA adjusted	2,415	2,374	+41	+1.7
EBIT adjusted	1,007	890	+117	+13.1
Non-current assets as of Jun 30, 2016/Dec 31, 2015	45,028	45,199	-171	-0.4
Current assets as of Jun 30, 2016/Dec 31, 2015	10,491	10,860	-369	-3.4
Equity as of Jun 30, 2016/Dec 31, 2015	12,060	13,445	-1,385	-10.3
Net financial debt as of Jun 30, 2016/Dec 31, 2015	18,159	17,491	+668	+3.8
Total assets as of Jun 30, 2016/Dec 31, 2015	55,519	56,059	-540	-1.0
Capital employed as of Jun 30	33,462	35,035	-1,573	-4.5
Return on capital employed (ROCE) (%)	6.0	5.1	–	–
Redemption coverage (%)	17.7	18.2	–	–
Gearing (%)	151	115	–	–
Net financial debt/EBITDA	3.8	3.7	–	–
Gross capital expenditures	3,472	3,366	+106	+3.1
Net capital expenditures	1,346	1,633	-287	-17.6
Cash flow from operating activities	1,523	1,338	+185	+13.8
KEY PERFORMANCE FIGURES				
Passengers (million)	2,190	2,141	+49	+2.3
RAIL PASSENGER TRANSPORT				
Punctuality passenger transport (rail) in Germany (%)	94.8	94.6	–	–
Passengers (million)	1,151	1,098	+53	+4.8
thereof in Germany	1,006	985	+21	+2.1
Volume sold (million pkm)	44,037	42,159	+1,878	+4.5
Volume produced (million train-path km)	377.3	368.4	+8.9	+2.4
RAIL FREIGHT TRANSPORT				
Freight carried (million t)	140.2	150.9	-10.7	-7.1
Volume sold (million tkm)	47,830	48,912	-1,082	-2.2
RAIL INFRASTRUCTURE				
Punctuality DB Group (rail) in Germany (%)	94.6	94.4	–	–
Train kilometers on track infrastructure (million train-path km)	531.4	517.9	+13.5	+2.6
thereof non-Group railways	158.4	141.5	+16.9	+11.9
Share of non-Group railways (%)	29.8	27.3	–	–
Station stops (million)	75.9	74.3	+1.6	+2.2
thereof non-Group railways	17.4	15.5	+1.9	+12.3
BUS TRANSPORT				
Passengers (million)	1,040	1,043	-3	-0.3
thereof long-distance bus	0.8	0.7	+0.1	+14.3
Volume sold [1] (million bus km)	4,087	4,091	-4	-0.1
thereof long-distance bus	227.9	176.5	+51.4	+29.1
Volume produced (million bus km)	823.1	808.2	+14.9	+1.8
FREIGHT FORWARDING AND LOGISTICS				
Shipments in European land transport (thousand)	50,712	50,862	-150	-0.3
Air freight volume (export) (thousand t)	550.6	545.8	+4.8	+0.9
Ocean freight volume (export) (thousand TEU)	976.3	953.8	+22.5	+2.4
OTHER KEY FIGURES				
Order book passenger transport as of Jun 30, 2016/Dec 31, 2015 (€ billion)	94.4	92.8	+1.6	+1.7
Rating Moody's/S&P Global Ratings	Aa1/AA-	Aa1/AA	–	–
Employees as of Jun 30, 2016/Dec 31, 2015 (FTE)	302,692	297,202	+5,490	+1.8

[1] *Excluding DB Arriva.*

DB2020+ STRATEGY

Our customers benefit from first-class and environmentally friendly mobility and logistics solutions driven by dedicated employees and digital expertise.

› **WE DRIVE PROGRESS AND SHAPE THE FUTURE**

› **Culture of quality**
Operational excellence and customer focus

› **Digital expertise**
Innovative solutions in our core and new businesses

› **High performance**
Shared responsibility and strong performance

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› 25TH ANNIVERSARY OF THE ICE – MODERN MOBILITY ON THE RAILS

A new era in rail transport in Germany began 25 years ago. The successful track record of high-speed rail transport commenced on June 2, 1991, when the first scheduled ICE 1 (first train from the left) left Hamburg-Altona bound for Munich. The high-point of the celebrations to mark the 25th anniversary at the DB facility in Berlin-Grunewald was a line-up of all four ICE generations. The youngest member of the fleet – the ICE 4 (fourth train from the left) – is particularly environmentally friendly and a model of innovative engineering. The ICE 4 will commence trial operation in fall 2016.

CHAIRMAN'S LETTER

Dear ladies and gentlemen,

During the first half of 2016, Deutsche Bahn continued to improve punctuality and customer quality, and achieved progress with digitalization and the Group restructuring. First successes have made their appearance and can be seen in the results of the first half of the year. We managed to raise Group operating profit by around 13 percent.

Particularly pleasing: the number of passengers in long-distance rail transport grew to 66.7 million, representing an increase of 10.6 percent. This also means that we were able to achieve a new passenger record in our ICE and IC/EC trains. We plan to significantly expand our long-distance transport portfolio. By 2030, we are aiming for 180 million passengers a year. To make sure we achieve this goal, we are focusing more strongly than ever on a sustainable improvement of our quality. These efforts are also reflected in the adjustments we made in the first half of 2016 in our DB2020+ strategy – with the objectives PROFITABLE QUALITY LEADER, TOP EMPLOYER and ECO-PIONEER.

In addition, our Railway of the Future program for quality enhancement has already resulted in improvements in departure punctuality, passenger information, and the cleanliness of our trains and stations. However, this alone does not satisfy us. Our 2016 target for the full year is 80 percent punctuality in long-distance transport. Additionally, free WiFi in the 2nd class cars of our ICE fleet will also be available by the end of 2016.

"This also means that we were able to achieve a new passenger record in our ICE and IC/EC trains."

As an international provider of mobility and logistics services, we are not only having to face increasingly fierce competition. In the wake of geopolitical developments new challenges are emerging, such as the flood of refugees, the Brexit decision and volatility on the financial markets. DB Group cannot escape their consequences – not least because we are one of the largest foreign employers in Great Britain.

This is why it is now all the more important that we continue to focus on our strengths and drive digitalization. The strategic importance of developing DB 4.0 is enormous. We are investing much effort into the three core areas of digitalization: customized offers at the interface to our customers, improving our in-house processes – such as switch diagnostics – and developing new, data-based business models.

In order to make the mobility services offered by DB Group even more reliable and closely interlinked, we want to lead the way in fully automatic driving on rail, and even take on the challenge of autonomous driving on the road.

We have set the right course through our Group restructuring: our core business – the railway in Germany – is at the center. At the same time, we are also working hard on the digital mobility and logistics of the 21st century to further improve quality and customer satisfaction in all of our business units.

Sincerely yours,

Dr. Rüdiger Grube
CEO and Chairman
of the Management Board
of Deutsche Bahn AG

INTERIM GROUP MANAGEMENT REPORT (UNAUDITED)

OVERVIEW

- **Climate protection target for 2020 raised**
- **Group restructuring is making good progress**
- **Operating profits developing positively**

Profitable quality leader

- **Implementation of Railway of the Future Zukunft Bahn successfully launched**
- **Punctuality improved**
- **Persistently intense competitive environment**
- **Financial indicators with predominantly positive development**

Performance by Deutsche Bahn Group (DB Group) in the first half of 2016 was overall in line with our expectations.

With the Group restructuring, we achieved good results. The optimization of the Group structure is in the finishing straights. Implementation of our RAILWAY OF THE FUTURE Zukunft Bahn program, which forms the core of the Group restructuring, commenced in January 2016. The improvements we have put in place have already largely produced tangible effects for our customers.

Trends in the ECONOMIC ENVIRONMENT [PAGE 005 FF.] were mixed and did not provide any great stimulus for our business.

Our MARKET AND COMPETITIVE ENVIRONMENTS [PAGE 006 FF.] remained challenging. Overall, performance differed among the business units as a result. Contract logistics continued to grow dynamically in our international transport and logistics business.

The conditions affecting the business environment had a corresponding impact on the ECONOMIC DEVELOPMENT [PAGE 014 FF. AND 025 FF.]. We were nevertheless able to improve operating profit. Market and competitive burdens were more than compensated, in particular, by the performance of our Infrastructure business units, and by the omission of strike effects. Apart from ROCE, all VALUE MANAGEMENT FIGURES [PAGE 017 F.] have deteriorated.

In the first half of 2016, our PUNCTUALITY [PAGE 012] in rail passenger transport in Germany improved slightly. We have put numerous measures in place to further increase punctuality and to improve our performance quality, and we are planning even more.

Top employer

- **Continuation of employer branding campaign**
- **Continued implementation of "Working Environments 4.0"**

In the first half of 2016, we made progress toward our target of becoming TOP EMPLOYER. In order to improve our employer attractiveness, we have continued our EMPLOYER BRANDING CAMPAIGN [PAGE 022] "A job like no other" that focuses on school students, skilled workers and engineers as our target groups.

"WORKING ENVIRONMENTS 4.0" [PAGE 021] is our initiative to retain focus on digitalization in our strategy and actively shape the future working environment.

Eco-pioneer

- **Climate protection target for 2020 raised**
- **Refitting of freight cars with quiet brake shoes accelerated**
- **Last of the total order of seven TRAXX diesel locomotives delivered**

As ECO-PIONEER, we want our products to set standards for the efficient use of available resources. We want to expand our leading environmental position by increasing material and resource efficiency and reducing CO_2 emissions and noise.

In April, we raised our CLIMATE PROTECTION TARGETS [PAGE 023] for 2020. We had managed to meet our initial targets six years earlier than planned.

We will further intensify our noise reduction activities and considerably speed up the process of refitting our freight cars with quiet BRAKE SHOES [PAGE 023] in 2016.

DB GROUP

- **Merger of DB ML AG with DB AG**
- **Further development of the corporate strategy DB2020 into DB2020+**
- **Rollout of new Group programs**

Changes in DB Group

CHANGES IN THE EXECUTIVE BODIES

In the first half of 2016, no changes took place in the composition of the Management Board or Supervisory Board of Deutsche Bahn AG (DB AG) or DB Mobility Logistics AG (DB ML AG).

MERGER OF DB ML AG WITH DB AG

In its meeting on May 4, 2016, the Supervisory Board of DB AG approved the merger of DB ML AG with DB AG. The merger will take place in the second half of 2016 and will be retroactive to January 1, 2016.

REORGANIZATION OF INTERNAL SERVICE PROVIDERS

In the future, the business success of the service providers will be aligned more clearly than before to the success of the Group. To this end, the internal service providers have been reorganized with the aim of strengthening their business relationships with the business units and thus improving overall performance by DB Group for its customers. The internal service providers are now strictly allocated to their main internal customers (management responsibility) to achieve this goal. For example, DB Fahrzeuginstandhaltung GmbH (vehicle maintenance) and DB FuhrparkService GmbH (fleet management), including DB Rent GmbH (vehicle rental), are now part of the Traffic and Transport division.

Further development of the corporate strategy DB2020 into DB2020+

Since 2012, widespread communication and various instruments have ensured the successful establishment of the DB2020 strategy within DB Group.

Today, however, DB Group – and especially the integrated rail system – are facing severe challenges, both externally and internally, which necessitate further development of the strategic orientation. Externally, pressure is primarily exerted by the fierce competition in passenger and freight transport as well as a higher cost dynamic for personnel and energy costs. Internally, action urgently needs to be taken to improve quality, primarily in respect of punctuality, passenger information, customer services in passenger transport, and keeping our promises to rail freight customers. Although initial key steps have already been taken toward digital transformation, we still need to work faster and push harder to match the speed of change that is needed. We have made great progress with respect to our culture, and now hope to reap the benefits through stronger performance.

Consequently, the strategic adjustments are related to the vision of DB Group, the requirements and goals of the DB2020 strategy, and addressing the most urgent needs for action by rolling out centralized change processes in the areas of quality, digitalization and strong er performance. In doing so, we continue to be guided by the concept of sustainability, which provides the strategic framework for bringing the economic, social and environmental dimensions in harmony.

Mobility and logistics form the basis for a modern society and sustainable economy – in Germany, Europe, and around the globe. Accordingly, DB Group is committed to drive progress and shape the future. DB Group customers will benefit from first-class and environmentally-friendly mobility and logistics solutions driven by dedicated employees and digital expertise.

The previous orientation of DB Group was built on the assumption that business success is primarily driven by economies of scale, meaning size and quantitative growth. As the world changes in the digital era with its enormous transparency of provider performance, it is quality – above all – that matters. Quality is the key to the customer and thus the key to commercial success. Accordingly, we have adjusted our aim in the economic dimension of the DB2020 strategy – from PROFITABLE MARKET LEADER to PROFITABLE QUALITY LEADER. Our other goals, TOP EMPLOYER and ECO-PIONEER have not changed. We have also sharpened our focus on specific issues and, in doing so, reduced our target system to eight top targets.

In order to achieve its targets, DB Group has three central fields of action:

- establishing a new culture of quality that is clearly aligned to our customers – that is, striving for operational excellence and customer focus,
- building digital expertise to enable both development of innovative solutions for our core business, and generation of new business, and
- enhancing our own performance capabilities, with focus on embracing responsibility and stronger performance.

Operational implementation will be driven by intra-Group (explained in more detail below) and business-related programs. Our stronger focus on quality, coupled with the three to be addressed fields of action, are collectively the main features of our advanced DB2020+ strategy.

IMPLEMENTATION OF RAILWAY OF THE FUTURE

In summer 2015, we announced the most far-reaching Group restructuring since the German rail reform in 1994. At the heart of these efforts is our RAILWAY OF THE FUTURE PROGRAM Zukunft Bahn [INTEGRATED REPORT 2015, PAGE 69 FF.] with its strict focus on the needs of our customers and the quality of our products. The first step involved developing actions to optimize our products and services for customers, improve our performance quality, and assure economic sustainability. Implementation of the program commenced in January 2016. Focus in 2016 is on eliminating the major sources of customer annoyances in the short term relating to the five main topics of punctuality, passenger information, vehicle quality, station quality and WiFi@DB.

Implementation of the improvements planned for 2016 has already produced widespread tangible effects for customers. Our efforts to raise punctuality will be strengthened even further in the second half of the year, with absolute focus on “building and driving,” which is a critical success factor for reaching our targets in 2016.

MORE DETAILS PAGE 012 F.

ROLLOUT OF NEW GROUP PROGRAMS

Autonomous driving on the road (drive)

We plan to use self-driving vehicles for mobility and logistics purposes. The key issue in this respect is how DB Group can use autonomous vehicles to create new products and services for customers, and to make its operations more efficient. Appropriate usage must be examined, for example, using self-driving cars and buses to enhance mobility in regional and urban areas, or linking self-driving trucks on highways and in convoys (“platooning”) to save fuel.

Fully automatic driving on rail

We continuously drive the automation of our trains to defend and extend the competiveness of the rail – especially in light of autonomous driving on the road. The key issue in this respect is whether a greater degree of automation will make DB Group trains more efficient, punctual and reliable, and which professions will thereby emerge or require development.

New data-based business models

We are creating structures to enable successful implementation of new business models.

The key issue in this respect involves the general conditions that need to be in place for DB Group to successfully develop new business models. Initial concepts for new business models also need to be developed.

BUSINESS AND OVERALL CONDITIONS

- **Divergent economic development**
- **Stable economic development in Europe in particular**
- **Burdens from the regulatory environment**

Economic environment

The developments as described below are based on provisional data or data not relating to the same time period, as complete information relating to developments over the first half of 2016 was not yet available at the time this report was prepared.

ASSESSMENT OF THE ECONOMIC CLIMATE BY THE MANAGEMENT BOARD

- Global economic development weaker than expected so far this year. North and South America particularly affected, but Asia and Europe as well.
- Projected economic growth in most countries stable, especially in Europe.
- Vote on the withdrawal of Great Britain (Brexit) from the European Union (EU) has, however, increased political and economic uncertainty.
- Weaker development in China is posing further global economic risks.
- Low fuel prices are benefiting road business in particular.
- Robust labor market and growing disposable incomes are good for the German passenger transport market.
- Supply-side measures are increasing demand for rail, public road transport and air travel services.
- Freight transport market growth falls short of expectations.
- Rail business burdened by weak performance of key sectors.

GLOBAL ECONOMY WITHOUT MOMENTUM

Global economic growth has been disappointing so far this year. Global trade labored under low commodity prices and the resulting modest investments in this key sector. Emerging markets such as Brazil and Russia are still deep in recession. Year on year, growth in the USA is weakening, due not least to negative trends in the oil and gas sector. By contrast, growth in China is relatively stable thanks to state support programs. Surplus capacities are having a damping effect on investments. In Europe, the economies in Great Britain, Poland and Sweden are continuing their solid growth, though the pace of growth slowed in Great Britain in the run-up to the Brexit referendum as uncertainty increased. By contrast, economic growth in the Eurozone has picked up pace as this year has progressed, helped by Spain, Italy and France, among others. The German economy is being helped by domestic demand. European trade growth was relative stable by international comparison.

ENERGY MARKETS EMERGE FROM LOWEST PRICES

The central hedging policy of DB Group is based on the principle of minimizing energy price fluctuations. Our activities are therefore not exposed to the full impact of changes in market prices.

Unscheduled shutdowns impact oil prices

Brent crude oil [USD/bbl]	H1 2016	2015	absolute	%
Average price	41.2	53.6	-12.4	-23.1
Highest price	52.9	69.6	-	-
Lowest price	27.1	36.0	-	-
Period-end price as of Jun 30, 2016/Dec 31, 2015	49.7	37.3	+12.4	+33.2

Source: Thomson Reuters

- After economic development got off to a weak start and the sanctions against Iran were lifted, the price of Brent crude oil dropped in January to its lowest level since November 2003. In their fight for market share, discussions among OPEC members about capping production caused strong price fluctuations.
- With production declining in the US shale oil industry as a result of price developments, and following unscheduled shutdowns in Canada, Nigeria and Venezuela, the oil market witnessed a surprising slight shortage of supply in May.
- After expanding its refinery capacities and easing import terms and conditions, China's crude oil imports climbed to new all-time highs.
- Financial investors were very active in the oil market, betting on rising prices.
- At the beginning of June, Brent crude oil reached its highest price since October 2015 in the wake of lower production. The pressure exerted by the Brexit vote on the oil market was only temporary.

Electricity market completes turnaround

Developments in energy prices	H1 2016	2015	absolute	%
BASE LOAD POWER (FOLLOWING YEAR) (€/MWH)				
Average price	23.9	30.9	-7.0	-22.7
Highest price	28.8	34.1	-	-
Lowest price	20.7	26.6	-	-
Period-end price as of Jun 30, 2016/Dec 31, 2015	26.3	26.6	-0.3	-1.1
EMISSIONS CERTIFICATES (€/TON CO_2)				
Average price	5.7	7.7	-2.0	-26.0
Highest price	8.3	8.7	-	-
Lowest price	4.3	6.3	-	-
Period-end price as of Jun 30, 2016/Dec 31, 2015	4.5	8.3	-3.8	-45.8

Source: Thomson Reuters

- Massive growth in renewable energy capacities is increasingly resulting, not just in negative prices being quoted on the German spot market for individual hours, but also daily prices occasionally being listed with a minus prefix.
- At the beginning of February, the electricity futures market dropped to new all-time lows in the wake of the poor economic forecasts. As primary energy prices increased, and concerns about economic growth dissipated, the base load contract for the following year reached its highest level thus far this year in the second half of June.
- After prices slipped at the beginning of the year, France's plans to set a floor on the price of emissions rights caused them to climb above the € 7 mark. The Brexit vote raised concerns about the ability of the emissions trading system to survive, and caused prices to slump again.

EURO DEVALUATION TREND STOPPED

The devaluation trend of the euro against a number of other currencies in recent years did not continue in the first half of 2016. On the contrary, the strong depreciation witnessed last year was followed by a moderate recovery.

The improved stability of the euro is primarily due to the solid economic development in the Eurozone by international comparison. Despite the European Central Bank (ECB) continuing its expansionary monetary policy, this trend is attracting more international investors back to Europe.

Increased risk perception as a result of the Brexit vote in June dampened the trend of euro appreciation against other currencies that had been observable since the start of the year.

REVENUE DEVELOPMENT [PAGE 014] of DB Group was also affected by exchange rate effects. These effects amounted to € –279 in the first half of 2016 and resulted mainly from the development of the British pound against the euro. The British pound came under devaluation pressure following the Bank of England's (BoE) announcement that it was in no hurry to raise base rates, plus the Brexit decision. Apart from the British pound the following developments had an impact on our foreign currency bonds:

- After appreciating strongly last year, the Swiss franc is also demonstrating much greater stability.
- Pressure remains on the Norwegian krone to devalue given that the interest rate spread to the euro has virtually disappeared following multiple reductions in base rates by Norway's central bank and that oil prices are only expected to recover slowly.

DEVELOPMENTS IN BOND MARKETS

The bond markets continued their trend of declining yields that had started again in mid-2015. At the start of the year 2016, yields on ten-year German Federal bonds (bunds) were still 0.60% but dropped in the course of the first half of 2016 to 0.04% for the time being. This development was prompted by the ECB continuing its policy of monetary easing, and in the process expanding its bond purchase program to include corporate bonds. In the wake of the Brexit vote, yields on bunds dropped a further 25 base points (BP), slipping to a historically low level of –0.17% as investors' aversion to risk prompted them to start using bunds as a safe haven in light of the uncertainty surrounding the future development of the EU.

Developments in relevant markets

PASSENGER TRANSPORT

German passenger transport

Considerable increase in volume sold on the overall market at the start of 2016 for reasons that included the following:

- robust labor market with rising employment, low inflation with strongly reduced fuel prices, and higher disposable real incomes due to wage increases,
- mild weather conditions and one additional transport day (leap year),
- continued fierce price competition among modes of transport with aggressive marketing campaigns, especially by long-distance bus service providers and low-cost airlines,

- continued strong growth in motorized individual transport volume sold, driven by persistently low fuel prices,
- increased capacities and fiercer competition in German domestic air traffic, with new German domestic routes offered by Ryanair (Cologne/Bonn – Berlin) and Transavia (Munich – Berlin), Ryanair increasingly servicing major airports, and Ryanair and Easyjet strengthening their efforts to attract business travelers. Strikes by pilots and security staff during the comparable period in 2015 also had a positive impact on the air traffic growth rate.

RAIL PASSENGER TRANSPORT

- Despite declining fuel prices, significant increase in rail passenger transport volume sold in the first quarter (+4.2%) due in part to aggressive price campaigns and an expanded service in long-distance rail passenger transport. Omission of storm-caused infrastructure damages and the German Train Drivers' Union (Gewerkschaft Deutscher Lokomotivfuhrer; GDL) strikes.
- Regional rail passenger transport with moderate gains in the first quarter (+0.8%) in a fiercely competitive market. DB Regional recorded a noticeable decline as a result of losing tenders and the resulting transfers of operations to competitors.
- Long-distance rail passenger transport growth was strong in the first quarter (+9.6%). Positive effects from the commencement of operations on the new construction line VDE 8.2 Erfurt – Leipzig/Halle and DB Long-Distance's price bargains campaign.

PUBLIC ROAD PASSENGER TRANSPORT

- Following a moderate increase in the previous year, volume sold recorded slight growth across all segments.
- The expansion of long-distance bus services continued, albeit at a noticeably slowing pace. Monthly service volumes have been stagnating since the start of the year. Growth only in regional and cross-border transport, while volumes on the main routes within Germany declined. Average prices continue to decline. FlixBus continues to lead the market in Germany, ahead of DB Group with its two brands berlinlinienbus.de and IC Bus, as well as the Postbus.
- Regional bus services posted solid gains in the first quarter (+3.1%). This increase must, however, be seen in light of the expanded reporting scope adopted by the Federal Statistical Office (Statistisches Bundesamt). DB bus services recorded noticeable declines as a result of slackening demand for local services in rural areas, and adjustments to the portfolio of services.
- Subway and tram services increased considerably due to a growing population and expanded transport services in metropolitan areas.

European passenger transport

At the start of 2016, the overall market in Europe was reaping the benefits of stable economic development, with rising employment and higher disposable real incomes in many European countries. An additional transport day (leap year) and the Easter holidays also had a positive impact on demand.

Steps were taken to increase competition and growth, for example, in the following countries:

- France, which liberalized its national long-distance bus services in August 2015.
- Norway, which put rail passenger transport contracts out to tender for the first time in February 2016, with operation scheduled to commence at the end of 2018.
- The Netherlands, where the state railway Nederlandse Spoorwegen (NS) refrained from taking part in regional rail passenger transport tenders in the Netherlands in order to hone its profile as a partner for local transport authorities.

European rail passenger transport recorded a significant increase in volume sold. Noticeable gains, not just in Germany, but also in other countries, including

- Czech Republic (+9.6% in the first quarter 2016), driven by fierce competition between the Czech state railway České dráhy (CD) and private providers RegioJet and LEO Express,
- Spain (+5.0% in the first quarter 2016), helped by the expansion of high-speed connections and extensive sale of cheap tickets by Spanish state railway company RENFE.

Long-distance bus services in Europe continue to expand at a strong pace, especially in the recently liberalized French market. Providers are increasingly adopting an international approach and looking for cooperations:

- In January 2016, FlixBus agreed to a cooperation with Austrian Blaguss Group, and in May 2016 with PolskiBus.com to encourage its further expansion into Eastern Europe. In addition, FlixBus will be taking over the European mainland business of its British competitor megabus.com from July 2016 onward.
- In July 2016, Hellö will be starting up as an independent long-distance bus service brand of Austrian Federal Railways (Österreichische Bundesbahn; ÖBB), operating international routes from and through Austria.
- Starshipper is acquiring 5% in Ouibus, the long-distance bus brand owned by SNCF, and discontinuing its own market presence.

FREIGHT TRANSPORT AND LOGISTICS

German freight transport

According to our own calculations, overall market performance in the first quarter 2016 was weak. Increased road freight volumes, above all, helped performance:

- Price and competitive pressure continued to increase both among and between the various modes of transport.
- Cost trends that persistently disadvantage rail transport compared to trucks and inland waterways further weaken the competiveness of rail transport.
- Inland waterways volume 7.7% down year on year in the first quarter of 2016, with marked decreases in grain, coal, metals/metal products and ores/stones/soil. Performance of container volumes was also negative. In addition to the generally weak economic dynamic, this was primarily due to floods and the strong performance back at the start of 2015.

RAIL

- Rail freight transport volumes increased modestly, and therefore below expectations, in the first third of 2016 according to our own calculations. Reasons included a lack of stimulus from key sectors, such as iron, coal and steel, or chemicals. The intra-year trend presented in official statistics is overstated as a result of data for 2015 being revised.
- While DB volume sold in the first half of 2016 fell short of the previous year's level, non-DB Group railways continued to perform better than the average and thus to improve their market position.
- Reasons for the solid performance of our competitors include, above all, a much lower share of iron, coal and steel transport volumes, a lower share of single-wagon transport volumes where competition with trucks is particularly fierce, and intramodal shifts.

ROAD

- By our own calculations, volume sold up until May 2016 increased by more than 2%, helped both by strong stimulus from the important construction industry, and positive consumer sentiment.
- Road transport continues to benefit from low diesel costs.
- According to the toll statistics issued by the German Federal Agency for Freight Transport, foreign-registered vehicles are contributing mainly to growth. Of these, trucks from Croatia, Romania, Bulgaria, Lithuania, Slovenia and Poland continued to record above-average performance.

European rail freight transport

Year on year, volume sold in European rail freight transport (EU 28, Switzerland and Norway) declined slightly in the first quarter of 2016 by around 1.5%, with negative impacts coming particularly from the significant declines in Great Britain, Latvia and Croatia.

The decline in coal transport volumes in Great Britain continued in the first quarter of 2016, but at the faster pace of 75% by year on year comparison. This was due to the drastic increase in British tax on carbon dioxide in 2015, which caused the overall market in Great Britain to shrink by 27% in the first quarter of 2016. DB Cargo UK was particularly hard hit by this development, with volume sold decreasing by more than 20% in the first half of 2016. Volume sold in rail freight transport in Poland declined by 0.4% as of May 2016, whereas DB Cargo Polska was able to increase its volume sold by 7% in the first half of the year. Year on year, France witnessed a slight decline of 1% in volume sold in the first quarter of 2016, putting an end to the positive trend witnessed in 2015. Euro Cargo Rail (ECR) performance fell short of the market as a whole.

European land transport

After getting off to an unsettled start to 2016, volumes in the European land transport market have increased. Up until May 2016, the overall market showed improved growth by year-on-year comparison. Price trends continue to be strongly influenced by low diesel prices, while competitive pressure remains fierce. As a result, the positive volume performance is reflected only to a limited extent in revenues.

Performance by DB Schenker was also affected by the market situation, with shipment volumes and revenues increasing slightly.

Air freight

Year on year, the global airfreight market had shrunk by 2.3% as of May 2016. This was due not least to the strike at US ports in 2015, which caused demand for air freight to increase in the first quarter of 2015. As a result, the growth rates for this year are lower by year-on-year comparison. Trade routes between APAC and the US were particularly affected.

Overcapacities and lower fuel prices exerted pressure on air freight rates, which had still not stabilized as of May 2016.

DB Schenker volumes increased by 0.9%.

› Ocean freight

With growth of about 3% through April 2016, global ocean freight performed well in the first half of 2016, driven, in particular, by the intra-Asian route.

Market growth was, however, not sufficient for full utilization of the increased capacities, which meant freight charges were pushed down. Alliances between carriers aim to ensure better capacity utilization and higher price levels.

DB Schenker volumes increased by 2.4%.

› Contract logistics

In the market for contract logistics, the trend of recent years continued in the first half of 2016. Growth momentum remains strong overall, particularly in Asia. Demand for dedicated industrial and healthcare solutions improved slightly during the reporting period.

DB Schenker achieved revenues adjusted for exchange rate effects of over 10% in the first half of 2016.

› RAIL INFRASTRUCTURE IN GERMANY

The number of infrastructure customers increased again slightly in the first half of 2016. Train-path demand was also slightly positive.

The number of station stops in regional rail passenger transport remained virtually unchanged in the first half of 2016. Non-DB Group railways increased their share of the regional transport market by winning tenders.

› Political environment

› REGULATORY AND TRANSPORT POLICY TOPICS IN GERMANY

› Review of the station pricing system

The German Federal Network Agency (Bundesnetzagentur; BNetzA) launched an in-depth investigation into station fees in February 2016. Its examinations focused particularly on whether the level of the cost-oriented fees was appropriate, based on the costs used to calculate the fees in the 2014 station price list, and the generated return. Analysis is also pending on overhead cost allocations and distinctions between the costs of regulated and non-regulated areas. Completion of the process is expected in 2017, at the earliest.

› Agreement on official ruling on passenger information

In July 2015, the Federal Railway Authority (Eisenbahn-Bundesamt; EBA) issued an official ruling under which DB Station&Service AG (DB S&S AG) must provide far more passenger information than it does at present. DB S&S AG filed an appeal with suspensive effect against the official ruling. At the beginning of October 2015, DB S&S AG received the appeal notification, which partially admitted some of the arguments presented by DB S&S AG. The requirements in the notification were, however, also difficult to implement in practice or required further explanation in some cases. To maintain the suspensive effect, an application for annulment was filed in November 2015. At the same time, discussions were held with the EBA in an attempt to reach out-of-court settlement, which was achieved in May 2016 through a supplement to the appeal notification. DB S&S AG consequently withdrew its appeal against the ruling. Putting the passenger information requirements in place will incur additional costs.

› Civil proceedings on infrastructure usage fees

According to a ruling by the Federal Court of Justice (Bundesgerichtshof; BGH) from 2011, fees for the use of railway infrastructure can be reviewed for fairness by the civil courts according to the standard set out in Section 315 of the German Civil Code (Bürgerliches Gesetzbuch; BGB), even if BNetzA has not objected to the fees and they are effective according to regulatory law. In this connection, a large number of legal disputes are currently pending before the civil courts between DB Netz AG and DB S&S AG on the one hand and train operating companies (TOCs) or transport authorities on the other. The subject of the proceedings is the review of fairness of the usage fees. Some claims under anti-cartel law were also made. The majority of these legal disputes relate to fees that were raised as regional factors or in accordance with the 2005 station pricing system. In September 2015, the Regional Court of Berlin suspended a pending civil proceeding and appealed to the European Court of Justice (ECJ) to issue a preliminary ruling on the applicability of fairness reviews under civil law. Equally, at the end of 2015, the German Federal Constitutional Court (Bundesverfassungsgericht; BVerfG) admitted several constitutional complaints filed by DB Netz AG and DB S&S AG contesting the BGH's refusal to admit appeals against rulings by various Higher Regional Courts. The BVerfG ruled that these decisions infringed the rights of both companies to be heard in court, and referred the matter back to the BGH. In the meantime, the BGH has also asked the ECJ for a preliminary ruling in an action relating to station fees. For the time being, virtually all proceedings before Regional and Higher Regional Courts have been suspended pending the ECJ's decisions. The decisions by the BVerfG and BGH, and the referrals to the ECJ are important steps toward clarifying whether the civil courts may apply the provisions of Section 315 BGB alongside the regulations under railway law, as has been assumed so far in most of the proceedings. A hearing relating to the proceedings for preliminary ruling by the ECJ took place on July 13, 2016. A date for the ruling by the ECJ is unknown. In the future such methods will not be possible in accordance with the new regulations in the RAILWAY REGULATORY LAW (EISENBAHNREGULIERUNGSGESETZ) [PAGE 011].

› Lawsuit by the Federal state of Saxony-Anhalt

The Federal state of Saxony-Anhalt has brought a lawsuit against DB Netz AG, DB Regio AG and DB AG, claiming compensation for cartel damages. The lawsuit is based on allegedly illegal train-path pricing by DB Netz AG through the levying of regional factors in the years 2003 to 2011. The accused DB companies will defend themselves against the lawsuit. Conversely, DB Regio AG still has outstanding transport-related contract claims against the Federal state of Saxony-Anhalt for reimbursement of increased infrastructure usage costs from 2008 onward.

MORE DETAILS PAGE 028

› Infringement proceedings brought by the EU Commission still pending

At the end of October 2014, the European Commission filed proceedings before the ECJ against the Federal Republic of Germany on grounds of alleged non-compliance with EU regulations governing financial transparency in the railway sector. In the infringement proceedings that have been pending since 2012, the Federal Government has already refuted the accusations of the European Commission several times, and provided detailed information about the financial relationships within DB Group. The Advocate General published its opinions at the end of May 2016. A ruling by the ECJ is expected in the second half of the year.

› REGULATORY AND TRANSPORT POLICY TOPICS IN EUROPE

› New Bus Services Bill in Great Britain

Further details on a Bus Services Bill in Great Britain were published in June. The bill aims to create better conditions for partnerships within the bus industry, outside of London, to significantly improve travel information and to introduce the possibility of devolving franchising powers to the local level.

› Competition inquiry following award of the Northern Rail franchise in Great Britain

In May 2016, the Competition and Markets Authority (CMA) announced a "Phase 2" investigation based on the award of Northern Rail to DB Arriva.

We believe that operating Northern Rail alongside DB Arriva's existing bus and rail businesses in the region will not adversely affect competition in any significant way.

DB Arriva is working closely with the CMA on the investigations. The CMA expects to complete the final report by November 3, 2016.

› Deregulation of rail passenger transport in Denmark

The Danish Ministry of Transport and Building has launched the planning phase for deregulating passenger railway services in Denmark.

› Public service reforms in Italy

In February, the Italian government published the draft version of the legislative decree providing for reform of regulations governing local public services, as part of the overall reform of Italian public administration. The measures include incentives for tender procedures, fair public procurement rules, rules and support for fleet renewal, and measures for defining fares and ticket sales.

› FURTHER DEVELOPMENT OF THE TRAFFIC AND REGULATORY FRAMEWORK

› Regionalization funds increased

The Federal Republic of Germany has increased the regionalization funds – which the Federal states in particular use to order regional rail passenger transport services – to € 8.2 billion in total for 2016. Of this amount, € 8 billion are slated for distribution among all Federal states in line with what is known as the Kiel allocation formula. A further € 199 million will be allocated solely among the Federal states in Eastern Germany, and € 1 million to the state of Saarland. Regionalization funds are scheduled to increase annually by 1.8% between 2017 and 2031. The Federal states must provide evidence of their specific utilization of the funds at regular intervals to the Federal Government. An ordinance that must be approved by the German Federal Council (Bundesrat) regulates the distribution of the regionalization funds.

› Higher EEG surcharge in 2016

The Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz; EEG) of 2014 stipulated an EEG levy on railways for traction current amounts to 20% of the full EEG surcharge as part of the “special equalization scheme.” In 2016, the EEG surcharge has increased by 0.18 cents/kWh to 6.354 cents/kWh. The equivalent EEG rate for traction current will increase to 1.271 cents/kWh.

› Combined Heat and Power Generation Act enters into force

On January 1, 2016 the Combined Heat and Power Generation Act (Kraft-Wärme-Kopplungsgesetz; KWKG) 2016 came into force. The Act raised KWKG allocation rates. The Act adopts the same definition of railway consumer delivery points as the EEG for the purpose of managing KWKG load compensation. In addition, the operators of closed distribution systems have been included in the management of load compensation. Rail transport with its numerous power distribution networks (for example in stations) is also affected. The amendment will generate additional charges of around € 3 million for DB Group in 2016.

› Implementation of Directive 2012/34/EU (Recast) into national law

Directive 2012/34/EU establishing a single European railway area (Recast) must be transposed into German law. In principle, the EU regulations must be implemented exactly as written in order to ensure equal opportunities in Europe’s internal market. For this purpose, the German Federal Cabinet adopted the draft for the law to strengthen competition in the railway sector on January 13, 2016. The key element is the Railway Regulation Act (Eisenbahnregulierungsgesetz; ERegG), together with changes to be made to the General Railways Act (Allgemeines Eisenbahngesetz). In some places, the law extends far beyond the Recast specifications. All in all, it results in a considerable tightening of the regulatory framework. For example, it includes stricter provisions governing the regulation of fees as well as a significant expansion of the responsibilities of the BNetzA. Charges arising from the law for DB Group cannot therefore be ruled out. At the beginning of July the LEGISLATIVE PROCEDURE WAS COMPLETED [PAGE 046].

› Progress on the fourth railway package

The technical pillar of the fourth railway package was published by the EU on May 26, 2016, and came into force on June 15. The legislative reform, which must be transposed into national law by 2019, aims to further eliminate technical market entry hurdles in the European railway area and to improve intermodal competitiveness.

The European Parliament, Council and Commission reached agreement on the policy part of the fourth railway package in April 2016. Formal adoption by the Council and Parliament are necessary to move the legislative procedure forward. The new provisions implement stricter specifications governing the independence of infrastructure operators and enhance the transparency of financial relationships within railway companies. The regulations in the fourth railway package also constitute a further opening of the markets for rail passenger transport in Europe. From December 2020 onward, operation of any (national and cross-border) rail passenger transport services will be open to everyone. Future direct awards of public rail passenger transport services will be subject to strict efficiency and performance criteria.

› Change in employment conditions in France

In 2014, the French act governing rail reform stipulated the standardization of employment conditions for the entire rail transport sector by the end of June 2016. The model is divided into three stages, and builds on a base decree published by the government on June 9, 2016, which focuses mainly on regulating work hours. It is supplemented by a sectoral collective wage agreement and company wage agreements. Some of the work surrounding the new tariff framework will continue after the summer break. Specifying employment conditions at levels close to those in place at SNCF will threaten the ability to compete, especially for rail freight transport.

PROFITABLE QUALITY LEADER

- **Slight improvement in punctuality**
- **Revenues slightly higher on a comparable basis**
- **Value management figures with mixed performance**

Improved punctuality

- **Central indicator for product quality**
- **Measures to improve punctuality are being put in place as part of our Railway of the Future Zukunft Bahn program**
- **Slight improvement in punctuality in rail passenger transport**
- **Significant improvement in rail freight transport**

Punctuality [%]	H1 2016	2015	H1 2015
DB Group (rail) in Germany	94.6	93.6	94.4
Rail passenger transport in Germany	94.8	93.7	94.6

Punctuality data for DB Group in Germany and for rail passenger transport in Germany have improved slightly, although the DEVELOPMENT IN LONG-DISTANCE, REGIONAL AND FREIGHT TRANSPORT [PAGE 025 FF.] differed.

DB Group's higher punctuality is primarily due to the improved punctuality in rail freight transport.

Specific measures implemented as part of RAILWAY OF THE FUTURE Zukunft Bahn enabled handling an increased construction volume without adversely affecting punctuality. In addition, as part of RAILWAY OF THE FUTURE Zukunft Bahn a stabilization of punctuality patterns in long-distance transport was achieved.

Focus on improvement measures

- **Numerous measures implemented or initiated**
- **Railway of the Future Zukunft Bahn [PAGE 004] aims at improving product quality**

PRODUCT QUALITY

- Since the beginning of this year, more than 1,000 multi-train displays have been installed in more than 70 railway stations to inform travelers of the next three departures on the platform. Track changes of following trains are also displayed. By the end of this year, 2,000 of these displays will be installed at 120 stations.
- Through automation, the car orientation is now correct in about 97% of all cases, compared to 84% in January 2016. Until the end of 2016 we want to attain 99%. In addition, the car numbers of the ICE will be displayed in the DB Navigator for the first time.
- In regional transport customers are additionally notified of any disruptions quickly and individually by the route agent. The route agent can advise on alternate travel options and replacement transport options, and can be used in Bavaria, NRW, Baden-Württemberg and Schleswig-Holstein.
- The ReSET program aims at eliminating malfunctions. So far, the ICE trains have passed through this program, which includes thorough cleaning, along with ensuring working toilets, working climate control, train cleanliness, availability of the on-board restaurant and gastronomic offers, as well as WiFi accessibility. The IC fleet will follow in the second half of 2016.
- We are currently equipping 2,100 elevators and 1,000 escalators at about 1,000 railway stations throughout Germany with remote diagnostics. Once upgraded, the elevators and escalators will report malfunctions independently and in real time to the station control center so that repairs can be organized immediately. Half of these elevators and escalators have already been equipped accordingly; the rest will follow by the end of 2016.
- Since February 2016, cleaning efforts have been intensified at 53 railway stations with particular focus on basic cleaning and glass cleaning of hall roofs.
- Preparations are underway to modernize 31 underground S-Bahn (metro) tunnel stations. By the end of 2016, we will have already put more than 200 quick-win measures in place, such as replacing display cases or renovating the floor coverings. Half of these works have already been completed.
- The ICE fleet is being equipped with new WiFi technology. This new technology is currently being tested in nine ICEs. All ICEs will be upgraded by the end of 2016. The new technology forms the basis for offering free WiFi in 2nd class.

PRICE-PERFORMANCE RATIO

- The new BahnCard Business Planner serves as a quick decision support when buying a BahnCard Business. After entering the planned trips in the required class, the tool immediately calculates how much the various BahnCard Business would save. In addition, customers are recommended the card that will save the most.
- Following the success of the € 19 special price action last year, trips will again be offered at this price on ICE and IC/EC trains between two long-distance stations.
- For the first time, a summer ticket for flexible travel will be offered starting July 1. Young travelers aged 26 and under can purchase tickets for four single trips of their choice within Germany at a price of € 96.

PRODUCT INNOVATION

- With bahn.business reports we offer business customers a tool to efficiently manage their business trips. All of their train utilization data is available online, and they can better analyze their entire company's ticket and BahnCard spending, travel classes or number of trips.
- The functions, design and interaction of bahn.de are being revised. A clearer presentation of the various topics, a focus on relevant information and simplified booking access will all improve user navigation. In addition, main pages and sub-pages are also being revised and gradually implemented. The portal is also being optimized for mobile touchscreen use.
- New products and services are available to travelers in the ICE portal. Besides the expansion of free information and new editorial content focusing on travel, a children's section has been added that features comics, short movies and games. Free, regularly changing audio books are also available.
- The DB ridesharing app brings people with similar travel plans together and helps them to save money by sharing tickets. It has been available in Baden-Württemberg, Rhineland-Palatine and Saarland since April 2016.
- The "where you want to go" ("Wohin Du Willst") app integrates all forms of mobility in rural regions. On-demand services can be ordered straight from the app.
- Since April 2016, the "station live" ("Bahnhof live") app has been providing information about arrival and departure times, shopping facilities, gastronomy and service offers, and maps. In addition, for the first time users can digitally display the order of cars as shown on the car location plan.
- Regular customer interviews revealed a demand for more information and booking options for regional products, which are being implemented in DB Navigator and on bahn.de. Münchner Verkehrs- und Tarifverbund (MVV) was the first to integrate its products and services in DB Navigator in May 2016. Other transport associations' tariffs are gradually following.
- Since April 2016, customers have been able to book Flinkster and Call a Bike faster and more easily. Through the integration into DB Navigator the interconnected mobility along the door-to-door chain has been simplified.
- Customers can inform themselves on "strecken.info" ("route.info") about upcoming construction works on the rail network.
- DB Arriva has introduced the first mobile ticket system in Great Britain, which is accessible on all major routes.
- Free childcare outside the summer holidays is being offered by way of a trial in selected long-distance trains.
- Since March, we started providing real-time data for cross-border connections. Customers can check the punctual arrival of their ICE and connections details online, or on vehicle displays or information boards.
- In April 2016, we were involved in the market launch of the Berlin-based start-up company CleverShuttle – a new door-to-door service operating with hybrids and eCars.
- In January 2016, DB Energy rolled out its Web-based customer portal "My DB Energy Manager." Customers can analyze their energy data in real time and take appropriate steps. With this energy data transparency and our expertise of the energy markets, our customers can sustainably reduce their energy consumption and CO_2 and, in doing so, save money.

Economic position

- Improvement in operating profit
- Continued adverse effects from the market environment and increased expenses
- Increased net financial debt
- Improvement in ROCE, deterioration of all other value management figures

PROFIT SITUATION

Changes compared to H1 2015

Expenses and income in the first half of 2016 were not materially affected by CHANGES TO THE SCOPE OF CONSOLIDATION [PAGE 057 F.].

The BUSINESS UNIT STRUCTURE [PAGE 057] has changed compared to the first half of 2015 in the context of the Group restructuring. The figures for the first half of 2015 have been adjusted accordingly to enable better comparability.

Slight increase in revenues

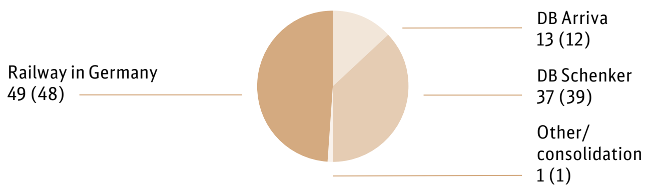
Revenues [€ million]	H1 2016	H1 2015	Change absolute	Change %
DB Group	20,033	19,960	+73	+0.4
± Special items	0	40	-40	-
DB Group adjusted	**20,033**	**20,000**	**+33**	**+0.2**
± Effects from changes in the scope of consolidation	-100	0	-100	-
± Effects from change in exchange rates	279	-	+279	-
DB Group – comparable	**20,212**	**20,000**	**+212**	**+1.1**

In the first half of 2016, revenues developed at the level of the corresponding period in the previous year, and somewhat better on a comparable basis. Positive developments at DB Long-Distance, DB Netze Track and DB Arriva were compensated in particular by exchange rate effects, and by the operational development at DB Schenker (due to, partly lower freight rates) and of DB Cargo.

- The special item in the first half of 2015 resulted from sales reductions for previous years.
- The effects from changes in the scope of consolidation in the first half of 2016 relate to DB Schenker (€ +62 million) and DB Arriva (€ +38 million).
- Effects from EXCHANGE RATE CHANGES [PAGE 006] were attributable to DB Schenker (€ −162 million), DB Arriva (€ −100 million) and DB Cargo (€ −16 million).
- Overall, REVENUE DEVELOPMENT OF THE BUSINESS UNITS [PAGE 025 FF.] was varied in the first half of 2016.

REVENUE STRUCTURE REMAINED NEARLY UNCHANGED

Revenue structure by business units [%]



H1 2016 (H1 2015)

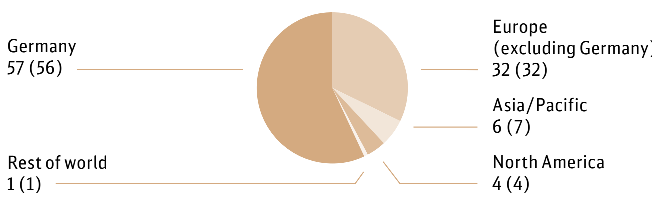
There were no significant changes in the revenue structure at the business unit level in the first half of 2016.

External revenues by regions [€ million]	H1 2016	H1 2015	Change absolute	Change %
Germany	11,484	11,207	+277	+2.5
Europe (excluding Germany)	6,360	6,380	-20	-0.3
Asia/Pacific	1,230	1,290	-60	-4.7
North America	734	862	-128	-14.8
Rest of world	225	261	-36	-13.8
DB Group adjusted	**20,033**	**20,000**	**+33**	**+0.2**

Revenue development in the first half of 2016 varied from region to region.

- In Germany, revenues were mainly driven by increases at DB Long-Distance and the Infrastructure business units.
- Revenue development in Europe (excluding Germany) was virtually stable. Negative exchange rate effects and the operational development at DB Cargo were almost entirely offset by the positive operational development at DB Arriva.
- Revenues in Asia/Pacific were impacted mainly by negative exchange rate effects. Adjusted for exchange rates, revenues increased mainly due to performance in Korea and India.
- Revenue development in North America was also mainly influenced by negative exchange rate effects, although there was a considerable decrease even after adjusting for exchange rates.

External revenues by regions [%]



H1 2016 (H1 2015)

› Development of operating profits

TRANSITION TO ADJUSTED PROFIT CALCULATION

The transition to the adjusted profit statement is a two-step process. The procedure for RECLASSIFICATIONS AND ADJUSTMENTS [2015 INTEGRATED REPORT, PAGE 95] remains unchanged. The following presentation of profit development describes the correspondingly adjusted changes in the key items of the statement of income for the first half of 2016 versus the first half of 2015. The effects from the changes in the scope of consolidation and exchange rate effects are presented in the following table and are not explained further in the following section.

In the first half of 2016, changes in the scope of consolidation resulted in higher income and expenses, while exchange rate effects reduced income and expenses overall.

	H1							Change			
		Reclassification									
Excerpt from adjusted statement of income [€ million]	**2016**	Compound interest/discounted interest	Net investment income	PPA amortization	Adjustment for special items	**2016 adjusted**	2015 adjusted	absolute	thereof due to changes in scope of consolidation	thereof due to exchange rate effects	%
Revenues	20,033	–	–	–	–	20,033	20,000	+33	+100	-279	+0.2
Inventory changes and internally produced and capitalized assets	1,254	–	–	–	–	1,254	1,311	-57	–	-1	-4.3
Other operating income	1,108	–	–	–	-1	1,107	1,213	-106	+13	-6	-8.7
Cost of materials	-9,564	–	–	–	4	-9,560	-9,926	+366	-56	+146	-3.7
Personnel expenses	-7,789	–	–	–	1	-7,788	-7,707	-81	-24	+74	+1.1
Other operating expenses	-2,632	–	–	–	1	-2,631	-2,517	-114	-20	+51	+4.5
EBITDA | EBITDA adjusted	2,410	–	–	–	5	2,415	2,374	+41	+13	-15	+1.7
Depreciation	-1,457	–	–	49	–	-1,408	-1,484	+76	-10	+7	-5.1
Operating profit (EBIT) | EBIT adjusted	**953**	**–**	**–**	**49**	**5**	**1,007**	**890**	**+117**	**+3**	**-8**	**+13.1**
Net interest income | Net operating interest income	-396	22	–	–	1	-373	-387	+14	-0	-0	-3.6
Operating income after interest	**557**	**22**	**–**	**49**	**6**	**634**	**503**	**+131**	**+3**	**-8**	**+26.0**
Result from investments accounted for using the equity method | Net investment income	17	–	0	–	–	17	15	+2	–	+0	+13.3
Other financial result	-11	-22	0	–	–	-33	-26	-7	+0	+1	+26.9
PPA amortization customer contracts	–	–	–	-49	–	-49	-49	–	–	+1	–
Extraordinary result	–	–	–	–	-6	-6	-85	+79	–	+1	-92.9
Profit before taxes on income	**563**	**–**	**–**	**–**	**–**	**563**	**358**	**+205**	**+3**	**-5**	**+57.3**

POSITIVE DEVELOPMENT OF OPERATING PROFITS

The REVENUE DEVELOPMENT [PAGE 014] was operationally slightly positive.

- Other operating income was considerably lower compared to the first half of 2015, mainly due to lower damage compensation payments at DB Regional and the elimination of one-off effects at DB Netze Track.
- The cost of materials in operations fell, mainly as a result of lower purchased services at DB Schenker in the wake of lower freight charges.
- Personnel expenses rose, mainly as a result of collective wage agreements and following the commencement of operations of Northern Rail.
- Other operating expenses increased significantly. Partly due to higher rents at DB Arriva in connection with Northern Rail. At DB Schenker service costs and rents also increased.

On balance, the slightly higher development of operating profits and overall lower expenses led to an increase in adjusted EBITDA.

Depreciation was below the level of the first half of 2015, mainly due to the impairment at DB Cargo in 2015.

Accordingly, adjusted EBIT and operating income after interest also improved significantly.

Net operating interest income improved, mainly as a result of declining interest rates as well as the capitalization of interest in connection with construction projects.

The development of adjusted PROFIT FOR BUSINESS UNITS [PAGE 025 FF.] was varied. In particular, our infrastructure business units, as well as DB Arriva and DB Schenker, developed positively. Among others, developments at DB Long-Distance and DB Regional had a dampening effect.

The development of other financial result was primarily attributable to hedging transactions.

Since the increase in the extraordinary result significantly exceeded this development, profit before taxes increased even more strongly.

LOWER EXTRAORDINARY CHARGES

Extraordinary result [€ million]	H1 2016	thereof effecting EBIT	2015	thereof effecting EBIT
DB Long-Distance	–	–	–	–
DB Regional	–	–	–	–
DB Cargo	0	0	2	2
DB Netze Track	-3	-3	-43	-43
DB Netze Stations	-1	-1	-2	-2
DB Netze Energy	–	–	–	–
DB Arriva	-3	-3	-10	-10
DB Schenker	–	–	-33	-33
Other/consolidation	1	–	1	1
DB Group	**-6**	**-5**	**-85**	**-85**

The extraordinary result in the first half of 2016 is comprised primarily of the following special items:

- Expenses for provisions for civil proceedings related to infrastructure fees at DB Netze Track and DB Netze Stations
- Expenses relating to the reversal of hedging transactions at DB Arriva

In the first half of 2015, special items primarily resulted from the disposal of investments and restructuring of companies. They were joined by effects relating to antitrust fines at DB Schenker and expenses for provisions for civil proceedings related to infrastructure fees at DB Netze Track and DB Netze Stations.

PROFIT AFTER TAXES IMPROVED SIGNIFICANTLY

Excerpt from the income statement [€ million]	H1 2016	H1 2015	Change absolute	Change %
Profit before taxes on income	563	358	+205	+57.3
Taxes on income	40	33	+7	+21.2
Actual income taxes	-88	-74	-14	+18.9
Deferred tax expenses	128	107	+21	+19.6
Net profit (after taxes)	**603**	**391**	**+212**	**+54.2**
DB AG shareholder	591	382	+209	+54.7
Minority interests	12	9	+3	+33.3

The improvement in profit before taxes was strengthened by the higher positive income taxes. Therefore the profit after taxes rose even more significantly. The development of income taxes was mainly the result of the positive development of deferred taxes at DB AG in the wake of more recent estimates among other regarding the utilization of loss carryforwards. The increase in original tax expense had a dampening effect and was due to positive income developments at foreign companies.

The net profit attributable to the shareholders of DB AG improved accordingly in the first half of 2016. Net profit attributable to minority interests also increased.

› FINANCIAL SITUATION

In addition to aiming for a sustained rise in enterprise value, DB Group's financial management focuses on maintaining a capital structure that will ensure excellent credit ratings. Please see VALUE MANAGEMENT [PAGE 017] for detailed information on the key figures used: redemption coverage, gearing and net financial debt/EBITDA.

In the FINANCIAL MANAGEMENT SYSTEM [2015 INTEGRATED REPORT, PAGE 99] of DB Group all companies will be directly linked, after the the merger of DB ML AG with DB AG, to the Treasury center of DB AG.

With respect to long-term financing, DB Group has a debt issuance program of € 25 billion available as of June 30, 2016 (as of December 31, 2015: € 20 billion). Two Eurobonds were issued by DB Finance in the first half of 2016 (total volume: € 1.25 billion, terms of ten and 15 years). One bond for € 500 million was redeemed. As such, the debt issuance program had been utilized in the amount of € 19.8 billion as of June 30, 2016 (as of December 31, 2015: € 19.0 billion).

With respect to short-term financing, as in the previous year, € 2 billion was available as of June 30, 2016 from a multi-currency multi-issuer commercial paper program, which had not been utilized as of June 30, 2016 (as of December 31, 2015: no utilization).

As of June 30, 2016 we also had guaranteed unutilized credit facilities of € 2.0 billion (as of December 31, 2015: € 1.9 billion) with a residual term of 1.0 to 2.0 years, and an additional guaranteed unutilized credit facility of € 0.1 billion (as of December 31, 2015: € 0.1 billion).

In addition, credit facilities of € 2.2 billion for operating business were available (as of December 31, 2015: € 2.2 billion). These credit facilities, which are made available to our subsidiaries around the world, include provisions for financing working capital as well as sureties for payment.

No major finance lease transactions were concluded in the first half of 2016. One property was, however, reclassified from operate lease to finance lease in an amount of around € 32 million. Finance leases totaled € 405 million as of June 30, 2016 (as of December 31, 2015: € 426 million).

Ratings

Ratings DB AG	Initial rating	Last confirmation	Current ratings: Short-term	Long-term	Outlook
S&P Global Ratings	May 16, 2000	July 15, 2016	A-1+	AA-	stable
Moody's	May 16, 2000	April 13, 2016	P-1	Aa1	stable

The creditworthiness of DB Group is constantly monitored and assessed by the rating agencies S&P Global Ratings (S&P) and Moody's. In mid-July 2016, S&P ADJUSTED THE LONG-TERM RATINGS [PAGE 046] of DB AG.

Please see our investor relations Web site for additional information on RATINGS [WWW.DB.DE/RATING-E] and complete analyses for DB AG.

Two bonds issued

ISIN	Issuer	Currency	Volume (million)	Coupon (%)	Maturity	Term (years)
XS1372911690	DB Finance	EUR	500	0.750	March 2026	10
XS1441837546 [1]	DB Finance	EUR	750	0.875	July 2031	15

[1] *Funds received on July 11, 2016.*

In the first half of 2016, we issued two bonds with a total volume of € 1.3 billion through DB Finance. We received the funds from the € 750 million bond in July 2016. In addition to refinancing due liabilities, we also used market opportunities.

After the bond markets – and especially the corporate bond sector – got off to a sluggish start to the year, the first window of opportunity opened in February for a € 500 million transaction with a term of ten years. The coupon of 0.75% is thus far the lowest ever achieved for a fixed-interest Eurobond in the history of DB AG.

A further very good opportunity emerged toward the end of the first half of 2016. Since interest rates had declined further – mainly after the Brexit vote – yields on bunds were negative far beyond a term of ten years. After the Brexit referendum, we were the first European company to place a bond with a term of 15 years and a volume of € 750 million, for which demand was very satisfactory. Here, again, the coupon was less than 1%, at 0.875%.

VALUE MANAGEMENT

ROCE increased

ROCE [€ million]	H1 2016	H1 2015	Change absolute	Change %
EBIT adjusted [1]	1,007	890	+117	+13.1
Capital employed as of Jun 30	33,462	35,035	-1,573	-4.5
ROCE (%)	**6.0**	**5.1**	**-**	**-**
Target value (%)	≥ 9.0	≥ 10.0	-	-

[1] *Figures extrapolated to the full year for calculation purposes.*

ROCE has increased as a result of improved adjusted EBIT with simultaneous decline in capital employed due to lower fixed assets and declining trade receivables.

Key debt ratios

GEARING WEAKER

Gearing [€ million]	H1 2016	H1 2015	Change absolute	Change %
Net financial debt	18,159	17,611	+548	+3.1
Equity	12,060	15,331	-3,271	-21.3
Gearing (%)	**151**	**115**	**-**	**-**
Target value (%)	100	100	-	-

Gearing has increased as a result of the marked decline in EQUITY [PAGE 020] and a simultaneous increase in NET FINANCIAL DEBT [PAGE 018 F.].

REDEMPTION COVERAGE DECREASED

	H1		Change	
Redemption coverage [€ million]	**2016**	2015	absolute	%
EBITDA adjusted	2,415	2,374	+41	+1.7
+ Net operating interest income	-373	-387	+14	-3.6
Operating cash flow [1]	**2,042**	**1,987**	**+55**	**+2.8**
Net financial debt as of Jun 30	18,159	17,611	+548	+3.1
+ Present value operate leases as of Jun 30	4,874	4,272	+602	+14.1
/ Net financial debt as of Jun 30	**23,033**	**21,883**	**+1,150**	**+5.3**
Redemption coverage (%)	**17.7**	**18.2**	**-**	**-**
Target value (%)	≥ 30	≥ 30	-	-

[1] *Figures extrapolated to the full year for calculation purposes.*

Redemption coverage has decreased partly as a result of the increased net financial debt. Moreover, the present value of operate leases increased, mainly due to Northern Rail.

NET FINANCIAL DEBT/EBITDA WEAKER

	H1		Change	
Net financial debt/EBITDA [€ million]	**2016**	2015	absolute	%
Net financial debt as of Jun 30	18,159	17,611	+548	+3.1
/ EBITDA adjusted [1]	2,415	2,374	+41	+1.7
Net financial debt/EBITDA (multiple)	**3.8**	**3.7**	**-**	**-**
Target value (multiple)	≤ 2.5	≤ 2.5	-	-

[1] *Figures extrapolated to the full year for calculation purposes.*

Net financial debt/EBITDA also deteriorated in the wake of higher net financial debt, but was partially compensated by improved ADJUSTED EBITDA [PAGE 015].

STATEMENT OF CASH FLOWS

	H1		Change	
Net financial debt/EBITDA [€ million]	**2016**	2015	absolute	%
Cash flow from operating activities	1,523	1,338	+185	+13.8
Cash flow from investing activities	-1,310	-1,910	+600	-31.4
Cash flow from financing activities	-999	-696	-303	+43.5
Net change in cash and cash equivalents	-832	-1,217	+385	-31.6
Cash and cash equivalents as of Jun 30, 2016/Dec 31, 2015	3,717	4,549	-832	-18.3

- Cash flow from operating activities mainly rose as a result of the increase in profit before taxes, depreciation and interest (€ +129 million) and positive working capital effects.
- Cash flow from investing activities decreased mainly as a result of lower payments for net capital expenditures (€ +526 million). Payments for the repayment of investment grants also decreased (€ +122 million). At the same time, cash inflows from the sale of real estate decreased.
- Cash flow from financing activities rose significantly due to lower net cash inflows from borrowing and redeeming loans (€ −187 million) and a higher cash outflow to pay the dividend for the 2015 financial year (€ −150 million). Lower cash outflows from finance leases (€ +46 million) had an opposite effect.
- As of June 30, 2016, DB Group held significantly less cash and cash equivalents compared with the end of 2015.

ASSET SITUATION

Net financial debt increased

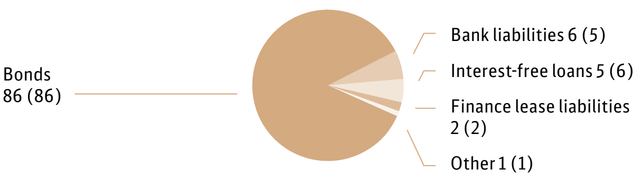
			Change	
Net financial debt [€ million]	**Jun 30, 2016**	Dec 31, 2015	absolute	%
Interest-free loans	1,146	1,337	-191	-14.3
Finance lease liabilities	405	426	-21	-4.9
Other financial debt	20,704	20,665	+39	+0.2
thereof bonds	19,197	19,307	-110	-0.6
Financial debt	**22,255**	**22,428**	**-173**	**-0.8**
− Cash and cash equivalents and receivables from financing	-3,818	-4,659	+841	-18.1
− Effects from currency hedges	-278	-278	-	-
Net financial debt	**18,159**	**17,491**	**+668**	**+3.8**

- Overall financial debt declined slightly.
- Interest-free loans decreased due to repayments.
- Finance lease liabilities decreased mostly due to continuous repayment.
- Other financial debt was virtually unchanged. The increase in bank borrowings was offset by exchange-rate-based declining development of the euro equivalent value of non-hedged, bonds foreign currency (in particular DEVELOPMENT OF BRITISH POUND [PAGE 006]).
- Unchanged effects from currency hedges for foreign currency bonds hedged against currency fluctuations.
- Significant decrease in cash and cost equivalents.

Since it was not possible to fully fund the net capital expenditures and dividend payment from internal sources of financing, net financial debt increased.

The maturity structure of financial debt has not changed as of June 30, 2016. The share of current financial debt remained at around 12% (as of December 31, 2015: around 12%).

Financial debt [%]



As of June 30, 2016 (as of December 31, 2015)

Capital expenditures continued at a high level

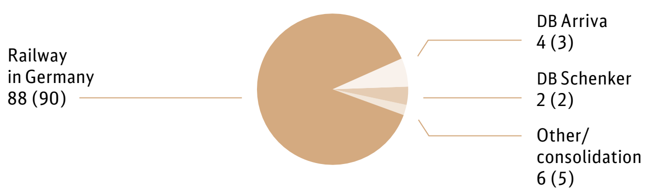
Capital expenditures [€ million]	H1 2016	H1 2015	Change absolute	Change %
Gross capital expenditures	3,472	3,366	+106	+3.1
− Investment grants	2,126	1,733	+393	+22.7
Net capital expenditures	**1,346**	**1,633**	**-287**	**-17.6**

We backed up our long-term direction with increased gross capital expenditures. Net capital expenditures were lower, mostly due to very large capital expenditures for DB Regional vehicles in the first half of 2015 and to increased investment grants for infrastructure.

Our capital expenditures continued to prioritize measures to improve the performance and efficiency of the rail infrastructure, together with our rolling stock and bus fleets.

In structural terms, gross capital expenditures continued to be dominated by business units associated with the railway in Germany, and among them as before DB Netze Track (around 72%, first half of 2015: around 66%).

Gross capital expenditures by business units [%]



H1 2016 (H1 2015)

CAPITAL EXPENDITURES BY REGIONS

Gross capital expenditures by regions [€ million]	H1 2016	H1 2015	Change absolute	Change %
Germany	3,229	3,165	+64	+2.0
Europe (excluding Germany)	197	186	+11	+5.9
Asia/Pacific	7	6	+1	+16.7
North America	4	7	-3	-42.9
Rest of world	2	1	+1	+100
Consolidation	33	1	+32	-
DB Group	**3,472**	**3,366**	**+106**	**+3.1**

Net capital expenditures by regions [€ million]	H1 2016	H1 2015	Change absolute	Change %
Germany	1,104	1,434	-330	-23.0
Europe (excluding Germany)	196	184	+12	+6.5
Asia/Pacific	7	6	+1	+16.7
North America	4	7	-3	-42.9
Rest of world	2	1	+1	+100
Consolidation	33	1	+32	-
DB Group	**1,346**	**1,633**	**-287**	**-17.6**

In regional terms, Germany continued to account for the lion's share of gross capital expenditures at around 93% (first half of 2015: around 94%). The increase here is mainly due to DB Netze Track (€ +262 million), while capital expenditures at DB Regional decreased (€ −202 million).

The increase in Europe (excluding Germany) is attributable mainly to DB Arriva (€ +31 million). Exchange rate effects had an opposite effect.

DEVELOPMENT OF INVESTMENT GRANTS

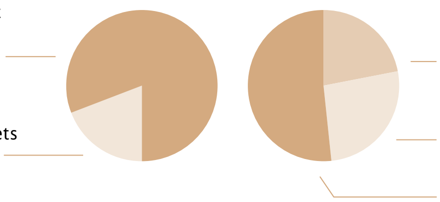
Higher investment grants were awarded. As in the first half of 2015, the recipients were almost exclusively our infrastructure companies.

Please see our Web site for details on the various GRANT FORMS [WWW.DE.DE/CAPEX].

Total assets declined slightly

Total assets [€ million]	Jun 30, 2016	Dec 31, 2015	Change absolute	Change %
Total assets	55,519	56,059	-540	-1.0
ASSETS				
Non-current assets	45,028	45,199	-171	-0.4
Current assets	10,491	10,860	-369	-3.4
EQUITY AND LIABILITIES				
Equity	12,060	13,445	-1,385	-10.3
Non-current liabilities	28,724	28,091	+633	+2.3
Current liabilities	14,735	14,523	+212	+1.5

Balance sheet structure [%]



As of June 30, 2016 (as of December 31, 2015)

There were no material changes to the International Financial Reporting Standards (IFRS) regulations for DB Group's consolidation and accounting principles that would result in any changes to the consolidated financial statements.

- Total assets declined slightly overall.
- Non-current assets were slightly lower compared to the end of 2015, mainly due to the lower property, plant and equipment (€ −216 million) and intangible assets (€ −202 million) as a result of exchange rate effects. Deferred tax assets had the opposite effect (€ +171 million).
- The decline in current assets was primarily influenced by the reduction in cash and cash equivalents (€ −832 million), while the increase in other receivables and assets (€ +220 million) and trade receivables (€ +194 million) had the opposite effect.
- In structural terms there was a slight shift in the direction of non-current assets.

Equity decreased significantly on the equity and liabilities side, mainly due to changes recognized in provisions in connection with the revaluation of pensions (€ −1,221 million) due to lower interest rates. Equity was further reduced by the dividend payment to the Federal Republic of Germany (€ −850 million) and by changes recognized in provisions in connection with currency volatilities (€ −63 million). The positive retained earnings in the first half of 2016 (€ +603 million) had the opposite effect, as did the changes recognized in provisions in connection with volatilities of hedging transactions (€ +166 million), especially for hedging energy prices. With equity declining in greater proportion to total assets, the equity ratio decreased.

- Non-current liabilities increased, mainly driven by higher pension obligations (€ +1,207 million). The decline in particular in NON-CURRENT FINANCIAL DEBT [PAGE 018 F.] (€ −264 million), derivative financial instruments (€ −149 million) and other provisions (€ −106 million) had a dampening effect.
- Current liabilities also increased in the wake of higher other liabilities (€ +313 million) and higher liabilities to banks due within the next 12 months (€ +139 million). The decline in trade payables (€−212 million) especially at DB Regional and DB Long-Distance had a dampening effect.

In structural terms of equity and liabilities, the ratio of non-current and current liabilities to total assets has increased.

TOP EMPLOYER

- **About 5,800 new employees in Germany**
- **Continuation of our employer branding campaign "A job like no other."**
- **Structural development of the remuneration system implemented**

Development of the number of employees

Employees by business units	Full-time employees (FTE) Jun 30, 2016	Dec 31, 2015	Change absolute	Change %	Jun 30, 2015	Natural persons Jun 30, 2016	Dec 31, 2015	Change absolute	Change %	Jun 30, 2015
DB Long-Distance[1]	16,443	16,339	+104	+0.6	16,489	17,538	17,411	+127	+0.7	17,539
DB Regional	35,957	36,494	-537	-1.5	36,629	37,672	38,163	-491	-1.3	38,260
DB Cargo	30,155	30,303	-148	-0.5	30,907	30,525	30,718	-193	-0.6	31,273
DB Netze Track[1]	43,948	43,161	+787	+1.8	41,067	44,876	44,028	+848	+1.9	41,805
DB Netze Stations	5,007	4,982	+25	+0.5	4,894	5,281	5,241	+40	+0.8	5,151
DB Netze Energy	1,756	1,726	+30	+1.7	1,752	1,800	1,770	+30	+1.7	1,791
DB Arriva	51,618	46,484	+5,134	+11.0	45,336	53,986	48,527	+5,459	+11.2	47,390
DB Schenker	66,822	66,327	+495	+0.7	65,560	69,151	68,722	+429	+0.6	67,952
Others[1]	50,986	51,386	-400	-0.8	54,338	53,411	53,793	-382	-0.7	56,849
DB Group	**302,692**	**297,202**	**+5,490**	**+1.8**	**296,972**	**314,240**	**308,373**	**+5,867**	**+1.9**	**308,010**
± Effects from changes in the scope of consolidation	-339	-	-339	-	-	-348	-	-348	-	-
DB Group - comparable	**302,353**	**297,202**	**+5,151**	**+1.7**	**296,972**	**313,892**	**308,373**	**+5,519**	**+1.8**	**308,010**

[1] *Previous year figures adjusted [page 057].*

The number of DB Group employees rose as of June 30, 2016, mostly due to the expansion in contract logistics at DB Schenker, growth in the maintenance team at DB Netze Track, and the commencement of operations of Northern Rail at DB Arriva.

Employees by regions [FTE]	Jun 30, 2016	Jun 30, 2015	Change absolute	Change %
Germany	187,476	188,671	-1,195	-0.6
Europe (excluding Germany)	89,952	83,786	+6,166	+7.4
Asia/Pacific	14,371	13,877	+494	+3.6
North America	8,277	8,118	+159	+2.0
Rest of world	2,616	2,520	+96	+3.8
DB Group	**302,692**	**296,972**	**+5,720**	**+1.9**

Employees by regions [natural persons]	Jun 30, 2016	Jun 30, 2015	Change absolute	Change %
Germany	195,537	196,469	-932	-0.5
Europe (excluding Germany)	93,260	86,836	+6,424	+7.4
Asia/Pacific	14,435	13,965	+470	+3.4
North America	8,392	8,220	+172	+2.1
Rest of world	2,616	2,520	+96	+3.8
DB Group	**314,240**	**308,010**	**+6,230**	**+2.0**

The number of employees in Germany has decreased slightly, but has increased in all other regions, especially Europe (excluding Germany), driven above all by growth at DB Arriva in Great Britain and at DB Schenker in Asia.

The share of employees outside of Germany rose overall slightly, to around 38% as of June 30, 2016 (as of June 30, 2015: around 36%).

Digitalization of working environments

The expert network focusing on the WORKING ENVIRONMENTS 4.0 initiative met at BarCamp in Berlin in June 2016. Since the last meeting in December 2015, the experts had worked on scenarios for the future and on initial measures, so-called prototypes.

WWW.DEUTSCHEBAHN.COM/ARBEITSWELTEN

Further implementation of the HR2020 programs

STRATEGIC WORKFORCE PLANNING

A focus topic was identified in the first half of 2016 to further develop our strategic workforce planning (SWP).

With the so-called SPP speedboat we strengthen with a quick overview of all our business activities, our strategic focus and make our strategic workforce planning more agile.

› TALENT ACQUISITION

We continued our employer branding campaign, "A job like no other," focusing on the target groups of high school students, skilled workers and engineers. As part of this initiative, we tested new advertising formats for DB Group in its capacity as employer. Multilingual advertisements were developed for the first time, targeted at school students, and under the motto "We help parents to help," parents were also approached directly.

In May 2016, we received the Employer Branding Award from the European research institute trendence in the category "Best Social Media Impact."

Our employer attractiveness continues to suffer from the perception resulting from the 2014/2015 wage dispute, as reflected in the latest employer rankings. To achieve our top employer target, we plan to create a new employer branding campaign to continue to reach and specifically address potential young professionals and target groups.

Talent acquisition continues to organize a monthly exchange of ideas to launch and develop international topics with those responsible for DB talent acquisition. Projects associated with these efforts include rolling out a global recruitment platform, building a global careers Web site, or cross-border recruitment campaigns.

› PERSONNEL DEVELOPMENT

The DB Management Navigator ("DB Führungsnavigator") was rolled out in the first half of 2016. It provides fast and compact information about relevant management and development topics on a Web site that is accessible to all DB Group managers. Information about staff leadership and personal development opportunities is also provided. The Management Navigator is updated regularly.

› CORPORATE CULTURE

As part of RAILWAY OF THE FUTURE Zukunft Bahn, the four areas for action with respect to our corporate culture have been further developed into five transformation targets (customer focus, cooperation, leadership skills, responsibility and performance capability). They form the basis for further development of our corporate culture. In order to effectively embed the targets and procedures, together with the transformation targets, within DB Group, the circle of participants at the 2016 Group Meeting was extended to include all managers and non-tariff executives.

In January 2016, about 220 female managers came together at the first international DB Female Managers' Conference in Berlin to discuss strategic issues affecting the future of DB Group.

The intra-Group project "Flexible work models for managers" has evolved into a "Guide to working flexibly in management" that illustrates the current status of implementation of flexible models in Germany and offers practical suggestions.

In the first half of 2016, we hosted workshops on "Generation management for executives" throughout Germany.

The 4th German Diversity Day took place in June under the motto "Joining forces to fight prejudice – our future lies in diversity." Around 200 recruiters and HR managers attended training sessions at the event. In addition, we developed a short movie to train staff and offer recommendations for action when dealing with prejudice and stereotypes.

› EMPLOYMENT CONDITIONS

The 1.6% increase in wage scales as of May 1, 2016, was implemented as agreed with the Railway and Transport Workers Union (Eisenbahn- und Verkehrsgewerkschaft; EVG) and the German Train Drivers' Union (Gewerkschaft Deutscher Lokomotivführer; GDL).

Starting on January 1, 2016, a program was introduced to structurally improve the remuneration system relating to function-group-specific collective wage agreements. Employees can opt for one of three models for paying the annual wage scale.

Moreover, the system for staggering wage ranges with guarantee levels in function-group-specific collective wage agreements was revised, starting on January 1, 2016.

And the existing wage groups were enhanced with an additional performance element differentiated by function group so that permanently outstanding achievement, special expertise and knowledge, or marked differences in requirements profiles can be rewarded even if employees have already reached the highest guaranteed wage level in their group.

› Optimization of HR management

Various digitalization measures have been developed in DB HR Services to simplify the work routines of all DB employees. A travel cost app, for example, was developed to simplify travel expense refunds.

ECO-PIONEER

- **New climate protection targets agreed**
- **Refitting with whisper brakes accelerated**
- **Vegetation control with glyphosate on the test stand**

Climate protection

DB Group takes its climate protection responsibility seriously and defines challenging targets to steadily reduce its CO_2 emissions.

NEW DB CLIMATE PROTECTION TARGETS AGREED

We raised our climate protection targets for 2020 in April. Our target for specific CO_2 reduction across all our transport services is 30% compared to 2006 – previous target was 20%. In addition, we plan to increase the share of renewable energy in DB's rail transport energy mix to 45%. To raise the visibility of our efforts, our new target relates only to DB's own energy mix and does not include non-Group train operating companies. We managed to meet our initial targets six years earlier than planned.

DB SCHENKER AGREES ON FURTHER CLIMATE PROTECTION TARGETS

Between 2006 and 2015, DB Schenker managed to more than halve the specific CO_2 emissions of its ocean freight business. Investments in highly modern, fuel-saving ships have contributed to this development, which has meanwhile prompted numerous well-known shipping companies to commit to DB Schenker to significantly reduce their own CO_2 emissions by 2020 – including Evergreen, Maersk Line, Hapag Lloyd, Hanjin Shipping, Hamburg Süd and Hyundai Merchant Marine. Most recently, DB Schenker entered into a further agreement governing CO_2 reduction with shipping company CMA CGM in March.

Noise reduction

In order to noticeably relieve lineside residents, we plan to halve our rail transport noise by 2020, compared to 2000.

REFITTING WITH WHISPER BRAKES ACCELERATED

We have further intensified our noise reduction activities and considerably accelerated the process to refit freight cars with quiet brake shoes in 2016. By the end of the year, 32,000 cars – equivalent to about 50% of the current fleet operated by DB Cargo in Germany – will be fitted with whisper brakes. Whisper brakes significantly reduce rail noise. The refitting of freight cars is being upgraded with financial assistance from the Federal Government.

TEST LINES FOR NEW NOISE CONTROL TECHNOLOGIES

The Federal Ministry of Transport and Digital Infrastructure (Bundesministerium für Verkehr und digitale Infrastruktur; BMVI) launched in cooperation with DB Group a "New and application-oriented noise control trials initiative" (Initiative Lärmschutz-Erprobung neu und anwendungsorientiert; I-LENA). This initiative, which runs from April 2016 to the end of 2020, will give developers and manufacturers of noise control technologies the chance for the first time ever to test their innovations in practice on DB lines. BMVI is currently subsidizing these trials with around € 5 million. I-LENA focuses on infrastructure measures aimed at reducing noise. Ideas, prototypes and products can be implemented, tested and improved in real operating conditions on suitable test lines.

Resource efficiency

Our resource efficiency efforts include maintaining a high recycling rate, increasing our use of recycled materials, and extending the service life of our vehicles.

REDESIGN EXTENDS USEFUL LIFE AND CONSERVES RESOURCES

We extend the service life of our vehicles through continuous maintenance and regular modernization of our fleet. Modernization measures significantly reduce material and energy consumption. In regional transport terms, the S-Bahn (metro) systems for the Rhine-Neckar region and Hamburg among others are currently undergoing substantial facelifts.

Air quality control

Minimizing air pollution is crucial. For years, we have reduced pollutant emissions through the use of modern vehicles.

NEW VEHICLES – CLEAN AIR

Bombardier delivered the last of the ordered TRAXX diesel locomotives (245 series) to DB Long-Distance in July. The locomotives – used for car transport trains between the

German mainland and Sylt – are fitted with four engines that can be switched on and off individually as needed, making them energy-efficient and low in emissions. Diesel particulate filters reduce fine dust emissions by 99.9% compared to the previous 218 series. The new locomotives are also much quieter.

› Nature conservation

Numerous strictly protected animals and plants are finding new homes along train lines or DB buildings. DB Group strives to protect them.

› AWARD FOR NATURE CONSERVATION PROJECT IN HANAU

“Campo Pond” is a 100 hectare piece of land that was used by the US Army as a military training ground until 2008 and on which ten Przewalski’s wild horses from Central Asia now graze. DB Netze Track is subsidizing the breeding and species conservation project with € 1.65 million as an early compensatory measure. In May, the project was awarded under the UN Decade on Biodiversity initiative.

› VEGETATION CONTROL WITH GLYPHOSATE ON THE TEST STAND

We regularly free our tracks and track infrastructure from plants. The procedures used on embankments are in principle mechanical processes. Specially approved herbicides are used on and around the tracks, including glyphosate. The approval at EU level of the crop protection active ingredient has been extended for 18 months beyond June 30, 2016. ECHA, the European Union’s Chemical Agency, has been charged with re-assessing the possible health hazards associated with glyphosate by 2017. If no alternatives are available in the marketplace by then, DB Group faces a severe cost risk as well as risks associated with line availability as elaborate procedures would then be needed to modify the tracks more often, which would result in more temporary line closures.

› Other topics

› ENVIRONMENTALLY FRIENDLY MOBILITY CHAIN

“Flinkster Connect” is a pilot project we are offering our long-distance passengers. The product combines long-distance transport services with car sharing. The PLATFORM [BAHN.DE/FLINKSTER-CONNECT] provides an integrated booking of Flinkster electric vehicles when buying a train ticket to Berlin.

› DESTINATION NATURE EXTENDED TO SWITZERLAND

The cooperation travel destination nature (Fahrziel Natur; FZN) carried by the three major German environmental organizations BUND, NABU and VCD, and DB Group has been extended to Switzerland. In Graubünden, FZN promotes sustainable ecotourism and environmentally friendly mobility in sensitive natural environments with the aim of encouraging visitors of the Bündner parks to favor public mobility services in order to reduce CO_2 emissions.

The fifth FZN award was won by the national park and national park region Bavarian forest with its visitor’s service eco ticket (Gästeservice Umwelt Ticket; GUTi).

› LONG-DISTANCE TRANSPORT VOCATIONAL TRAINEES FOR THE ENVIRONMENT

2016 marked the second “Long-distance transport vocational trainees for the environment” project. The project aims not just to raise awareness for environmental issues among young DB employees, but to give trainees the opportunity to submit their own creative ideas.

› NEW APP SHOWS ENERGY-EFFICIENT DRIVING

We started our first own train simulator app in the App Store and on Google Play. The app is based on real train data and the program we have been using for ten years to train our train drivers in energy efficiency. The aim of the simulation game is to arrive on time at the virtual destination while saving as much energy as possible.

› ENVIRONMENTAL MOBILITY CHECK RELAUNCHED

For 15 years, the Environmental Mobility Check at bahn.de has enabled passengers to calculate the carbon footprint of their journeys. It has now been updated and now also includes eCars in its environmental comparison. The updated information relies on new emissions and consumption data issued by the Institute for Energy and Environmental Research in Heidelberg and DB Group.

› 20TH PASSENGER, ENVIRONMENT AND TRANSPORT WORKSHOP

Once a year, we invite representatives of passenger and environmental organizations to our “Passenger, Environment and Transport” workshop. The format encourages constructively critical exchange on issues such as passenger rights, punctuality and our top environmental topics.

DEVELOPMENT OF BUSINESS UNITS

- **DB Arriva drives positive order trend in passenger transport**
- **Positive development of operating profits from infrastructure companies and our international activities**
- **Market and competition continue to exert pressure on transport business in Germany**

Overview of business units

	Total revenues				External revenues			
	H1		Change		H1		Change	
Revenues adjusted [€ million]	**2016**	2015	absolute	%	**2016**	2015	absolute	%
DB Long-Distance[1]	2,006	1,916	+90	+4.7	1,932	1,841	+91	+4.9
DB Regional	4,280	4,254	+26	+0.6	4,223	4,205	+18	+0.4
DB Cargo	2,312	2,391	-79	-3.3	2,154	2,226	-72	-3.2
DB Netze Track[1]	2,601	2,466	+135	+5.5	694	597	+97	+16.2
DB Netze Stations	623	604	+19	+3.1	267	248	+19	+7.7
DB Netze Energy	1,391	1,392	-1	-0.1	591	552	+39	+7.1
DB Arriva	2,529	2,375	+154	+6.5	2,526	2,372	+154	+6.5
DB Schenker	7,431	7,756	-325	-4.2	7,400	7,728	-328	-4.2
Other[1]	2,058	2,199	-141	-6.4	246	231	+15	+6.5
Consolidation[1]	-5,198	-5,353	+155	-2.9	–	–	–	–
DB Group	**20,033**	**20,000**	**+33**	**+0.2**	**20,033**	**20,000**	**+33**	**+0.2**

[1] *Previous year figures adjusted [page 057].*

	EBIT adjusted				EBITDA adjusted			
	H1		Change		H1		Change	
Operating profit figures [€ million]	**2016**	2015	absolute	%	**2016**	2015	absolute	%
DB Long-Distance[1]	54	57	-3	-5.3	184	196	-12	-6.1
DB Regional	334	348	-14	-4.0	651	666	-15	-2.3
DB Cargo	-53	-74	+21	-28.4	39	74	-35	-47.3
DB Netze Track[1]	398	330	+68	+20.6	838	791	+47	+5.9
DB Netze Stations	159	152	+7	+4.6	227	219	+8	+3.7
DB Netze Energy	63	36	+27	+75.0	98	70	+28	+40.0
DB Arriva	106	101	+5	+5.0	232	224	+8	+3.6
DB Schenker	200	165	+35	+21.2	294	258	+36	+14.0
Other/Consolidation[1]	-254	-225	-29	+12.9	-148	-124	-24	+19.4
DB Group	**1,007**	**890**	**+117**	**+13.1**	**2,415**	**2,374**	**+41**	**+1.7**
Margin (%)	5.0	4.5	–	–	12.1	11.9	–	–

[1] *Previous year figures adjusted [page 057].*

	Gross capital expenditures				Net capital expenditures			
	H1		Change		H1		Change	
Capital expenditures [€ million]	**2016**	2015	absolute	%	**2016**	2015	absolute	%
DB Long-Distance	156	141	+15	+10.6	156	141	+15	+10.6
DB Regional	137	339	-202	-59.6	135	338	-203	-60.1
DB Cargo	52	91	-39	-42.9	50	89	-39	-43.8
DB Netze Track[1]	2,495	2,233	+262	+11.7	515	644	-129	-20.0
DB Netze Stations	182	187	-5	-2.7	69	72	-3	-4.2
DB Netze Energy	49	46	+3	+6.5	20	20	–	–
DB Arriva	127	96	+31	+32.3	127	96	+31	+32.3
DB Schenker	72	82	-10	-12.2	72	82	-10	-12.2
Other/Consolidation[1]	202	151	+51	+33.8	202	151	+51	+33.8
DB Group	**3,472**	**3,366**	**+106**	**+3.1**	**1,346**	**1,633**	**-287**	**-17.6**
thereof investment grants	2,126	1,733	+393	+22.7	–	–	–	–

[1] *Previous year figures adjusted [page 057].*

Overarching topics

POSITIVE DEVELOPMENT OF ORDERS

Order volume in passenger transport [€ billion]	Jun 30, 2016	Dec 31, 2015	Change absolute	Change %
DB Regional	70.3	70.8	-0.5	-0.7
secured	49.6	49.5	+0.1	+0.2
unsecured	20.7	21.3	-0.6	-2.8
DB Arriva	24.1	22.0	+2.1	+9.5
secured	11.7	8.9	+2.8	+31.5
unsecured	12.4	13.1	-0.7	-5.3
Total	**94.4**	**92.8**	**+1.6**	**+1.7**
secured	61.4	58.4	+3.0	+5.1
unsecured	33.0	34.4	-1.4	-4.1

Order volume rose overall in the first half of 2016. Additions from newly awarded transport contracts of around € 9.1 billion were partly offset by negative changes in assumptions of about € 1.7 billion, which are primarily due to exchange rate effects, and by disposals, mainly due to services performed, of about € 5.7 billion.

PROGRESS ON THE STUTTGART – ULM PROJECT

The Stuttgart – Ulm project successfully progressed in the first half of 2016. On the new construction line Wendlingen – Ulm, half of the total of 61 km of tunnels have meanwhile been dug and excavated. We presently assume that the construction of this new line will be completed for less than the calculated budget of € 3.26 billion. We expect the tunnel breakthroughs at both ends of the future through station to take place around the turn of 2016/2017. Planning permission for the connection between Stuttgart airport and the long-distance train station is expected to be approved in July 2016. We are still striving to keep the costs of the Stuttgart 21 (S21) project within the financing budget of € 6.5 billion and to keep to the commissioning date in 2021. In its routine meeting on June 15, 2016, the Supervisory Board of DB Group discussed S21 at length. The Board had already decided to commission an external expert opinion on S21 on March 15. Once this opinion has been submitted, the Supervisory Board will resume its deliberations in fall 2016.

DB Long-Distance business unit

EVENTS IN THE FIRST HALF OF 2016

Trends on the long-distance bus market

Growth on the long-distance bus market in 2016 is expected to fall below the level of the previous year. The trends driving the market are mixed.

We managed to achieve our target of quadrupling our services already in spring 2016, and thus established a schedule of strictly timed services across virtually all of Germany. Our market share increased significantly as a result, and berlinlinienbus.de is now the second-largest provider in the marketplace. The largest market player has rescheduled or even discontinued numerous connections. At the same time, however, it has taken over a competitor, set up subsidiaries in numerous countries throughout Europe, and entered into cooperation agreements with other competitors.

Vehicle availability improved

The availability of the ICE fleet improved slightly compared to the first half of 2015:

- Continuous reduction of drive and brake defects.
- Implementation of numerous stabilizing measures, such as increasing suppression capacities and optimizing suppression preparation.
- 12 new ICE 3 multiple units (BR 407 series) were approved for transport services to France.
- There was a weighting effect due to the ongoing heightened need for drive replacements on the ICE 1 and ICE 2 trains, as a result of problems caused by distorted wheel discs, power converter failures, and by replacing brake hollow shafts.

The refitting of the ICE 3 fleet with new driving wheel sets started at the end of June 2015, and is expected to be ongoing until 2018. Commissioning approval has still not been granted to put the new wheel sets into service on the ICE-T fleet. Consultations with the EBA are still ongoing and will probably require further performance test runs.

After putting the new double-decker Intercity 2 (IC 2) into service in mid-December 2015 it was apparent that the vehicles had several operational problems. Among other factors, faults in the doors and train steering led to frequent delays. The ride comfort was not satisfactory, either. In response, we have adjusted the rollout plan. The rollout of these trains on the Cologne – Dresden line will now be postponed until the timetable change in 2016. Meanwhile, we have been able to stabilize the ride comfort of the trains considerably. In addition, currently two approaches to solve the problem of swaying are undergoing trials. As the year progresses, the manufacturer will implement a further program to rectify the defects. Moreover, the trains are expected to be fitted at the start of 2017 with the currently missing functions.

Vehicle projects in long-distance transport

Between March and June 2016, we implemented our RESET [PAGE 012] program as part of RAILWAY OF THE FUTURE Zukunft Bahn for quality improvements. Special programs implemented quickly were aimed at remedying functional problems in customer-relevant areas of ICE trains. These included thorough cleaning inside and out, redesigning the toilets and replacing upholstered seats and armrests where necessary.

The preparations for the redesign of the ICE 3 continued. Series conversion is expected to begin in 2016. Those ICE 3 trains that are not yet fitted with the European Train Control System (ETCS) will be upgraded during the redesign.

We have largely completed the ICmod program to stabilize our IC and EC fleet with additional technology measures.

The test runs to obtain approval for the ICE 4 were completed successfully in the first half of 2016.

DEVELOPMENT IN THE FIRST HALF OF 2016

- Performance development was positive as negative effects were eliminated and the portfolio of products and services was improved.
- Persistently intense competitive environment is weighing on revenue and profit development.

	H1		Change	
DB Long-Distance	**2016**	2015	absolute	%
Punctuality rail (%)	78.4	78.8	–	–
Rate of people making connections (long-distance/long-distance) (%)	86.4	87.7	–	–
Passengers rail (million)	66.7	60.3	+6.4	+10.6
Passengers long-distance bus (million)	0.4	0.4	–	–
Volume sold rail (million pkm)	18,835	17,044	+1,791	+10.5
Volume sold long-distance bus (million pkm)	102.7	96.5	+6.2	+6.4
Volume produced (million train-path km)	71.6	67.4	+4.2	+6.2
Load factor (%)	50.5	49.1	–	–
Total revenues [1] (€ million)	2,006	1,916	+90	+4.7
External revenues [1] (€ million)	1,932	1,841	+91	+4.9
EBITDA adjusted [1] (€ million)	184	196	–12	–6.1
EBITDA margin (adjusted) [1] (%)	9.2	10.2	–	–
EBIT adjusted [1] (€ million)	54	57	–3	–5.3
Gross capital expenditures (€ million)	156	141	+15	+10.6
Employees as of Jun 30 [1] (FTE)	16,443	16,489	–46	–0.3

[1] *Previous year figures adjusted* *[page 057]*.

Punctuality in long-distance transport has declined slightly, which resulted in a decline of the rate of people successfully making long-distance transport connections. The decline was caused by operating difficulties, specifically by widespread construction activity and limited availability of infrastructure.

The punctuality pattern has, however, stabilized noticeably since the second quarter. The effects of the improvements should become tangible as the year progresses. On-schedule departures of long-distance trains in major stations were in some cases 15 percentage points better year on year, and have improved by 6 percentage points overall since the beginning of the year. Optimizations in ICE fleet maintenance enabled us to reduce drive and brake malfunctions by 17%.

The performance in rail transport was positive at DB Long-Distance in the first half of 2016. The number of passengers increased, as did volume produced and sold. This trend was driven by the non-recurrence of impacts from strikes and bad weather that plagued the first half of 2015, and was supported by the commissioning of the new construction line VDE 8.2 (Erfurt–Halle/Leipzig), expansion of the services to Sylt, and other supply-side measures. The closure of the high-speed line between Hanover and Kassel in April 2016 had an adverse effect, as did limitations due to the signal box fire in Mülheim an der Ruhr. As the number of passengers increased, the capacity utilization of the trains rose slightly.

Bus services increased following the expansion of our long-distance bus business with the introduction of new routes.

In this environment, total and external revenues developed above the level of the first half of 2015. Additionally, proceeds from transporting refugees in 2015 and the first half of 2016 had a positive effect.

The increase in other operating income (+11.2%) is primarily due to damages paid for late vehicle deliveries. Meanwhile, there was a contrary effect from reduced compensation payments for vehicle accidents and insurance refunds.

The higher cost of materials (+7.8%) was mainly due to increased infrastructure expenses caused by higher prices and volumes, and increased maintenance expenses.

Personnel expenses (+1.4%) increased due to collective bargaining agreements.

Depreciation decreased (–6.4%) because ICE 3 trains reached the end of their useful life for accounting purposes in the first half of 2016. Purchases of new 407 series ICE 3s and IC 2s had an opposite effect.

Since the positive income trend was only able to compensate for the increased expenses to a certain degree, both adjusted EBITDA and adjusted EBIT declined.

Gross capital expenditures increased primarily due to vehicle acquisitions and workshop projects.

The number of employees decreased as of June 30, 2016, following adjustments at DB European Railservice GmbH.

DB Regional business unit

AWARDED TRANSPORT CONTRACTS

Concluded transport contracts (rail) in the first half of 2016	Term	Volume (million train km) p. a.	Total [1]
Nuremberg diesel network	06/2019–06/2031	3.2	38.4
Network 5 Danube-Ostalb	12/2016–12/2026	6.7	63.8
Network 2 Stuttgart–Ulm–Lake Constance	12/2016–12/2023	2.6	18.3
Northwest Hessen network (NWH)	12/2017–12/2032	2.5	38.1
Total [1]		**15.0**	**158.6**

[1] *Differences due to rounding are possible.*

Nine contract award procedures were concluded by contracting organizations for regional rail passenger transport in Germany in the first half of 2016 (first half of 2015: eight). A total of about 34 million train kilometers were awarded (first half of 2015: 32 million train kilometers). Of the train kilometers for which new orders were placed in the first half of 2016, around 91% had previously been operated by companies within DB Group.

We won four of the contract awards (first half of 2015: three), accounting for 45% (first half of 2015: 27%) of the train kilometers awarded.

Concluded transport contracts (bus) in the first half of 2016	Term	Volume (million Nkm) p. a.	Total [1]
Regional transport Oder-Spree district	07/2016–07/2026	4.4	43.8
City transport Pforzheim	12/2016–12/2026	3.6	36.4
Regional transport Uelzen bundles, North, East and South	08/2016–07/2026	1.8	18.2
VSN Göttingen sub-networks 21, 31 and 32	08/2016–07/2024	1.6	12.7
RMV HTK-Vordertaunus 2 and 3	12/2016–12/2024	1.5	12.4
VRN Neckargemünd	12/2016–12/2026	1.5	15.2
Regional transport Coburg bundles, East and West	09/2016–08/2026	1.2	12.0
Subcontractor to MVG Mainz	12/2016–12/2024	1.2	9.5
Other (12 contracts)	1–10 years	5.3	42.2
Total [1]		**22.1**	**202.4**

[1] *Differences due to rounding are possible.*

In bus services, a volume of 62 million commercial vehicle kilometers (Nkm) were awarded in Germany during the reporting period (first half of 2015: 29 million Nkm) in 85 tender award procedures (first half of 2015: 52 tenders). Of the commercial vehicle kilometers for which new orders were placed, 43% (first half of 2015: 53%) were previously operated by DB Regional Bus.

In the first half of 2016, we participated in 69 tenders (first half of 2015: 44 tenders) with a volume of 56 million Nkm (first half of 2015: 27 million Nkm). In the tender award procedures that we participated in, we were successful in 39% of cases (first half of 2015: 48%).

EVENTS IN THE FIRST HALF OF 2016

Lawsuit against the Federal state of Saxony-Anhalt

On March 31, 2016, DB Regio AG brought a lawsuit before Magdeburg Administrative Court claiming reimbursement of increased infrastructure usage costs based on regulations governing the onward allocation of infrastructure cost increases from three transport contracts. DB Regional is asserting claims for payment arrears for 2008 through 2014 plus accrued interest and delay damages. The objections raised by the Federal state out of court are closely linked to the LAWSUIT FOR CARTEL DAMAGES [PAGE 010] brought by the Federal state.

Extensive vehicle measures

We are also working to constantly improve our local transport vehicle fleet. The measures include: redesign of interiors, adding passenger information and video recording systems, and repainting.

- For the North-South tender, 101 double-deck cars were completely renovated by the end of June 2016. The entire renovation volume is 102 vehicles.
- For the North-East Stadtbahn, 68 double-deck cars were completely renovated by the end of June 2016.
- For the future operation of the Stuttgart S-Bahn (metro), 52 out of a total of 60 vehicles from the 423 series had been completely renovated by the end of June 2016.
- For the Rhine-Neckar S-Bahn (metro), 77 vehicles from the EMU 425 series are being modernized between now and mid-2017.

Further delays have occurred in the delivery of new trains for DB Regional:

- 87 vehicles from the 430 series (model used on the Stuttgart S-Bahn) can still only be operated without the retractable step function. This step function has been undergoing trials since the beginning of 2016.

- The delivery of the 60 ordered vehicles of the series 490 (S-Bahn Hamburg) has been postponed to the period between May 3 and December 20, 2018.
- DB Regional expects delivery of the "Link" diesel multiple units from PESA (632/633 series) for the Sauerland network and Dreieichbahn to be delayed by more than two years and delivery of the vehicles for the Allgäu diesel network to be one year late on average.
- Delivery of the vehicles ordered for the Nuremberg-Ingolstadt-Munich Express will be significantly delayed.
- Delivery of the double-decker trains for rollout in several transport networks commenced much later than scheduled in mid-December 2015.

Further agreement reached with Bombardier Transportation

In the second quarter of 2016, DB Regional and Bombardier Transportation were able to agree on an out-of-court settlement with regard to the late delivery of double-decker trains, which also includes agreement with DB Long-Distance with regard to the new IC2s. Thus we were able to avoid extensive legal battles.

DEVELOPMENT IN THE FIRST HALF OF 2016

- Performance influenced by lost tenders.
- Positive effects from the omission of strike effects from the first half of 2015.
- Burdens from higher collective wages.

	H1		Change	
DB Regional	**2016**	2015	absolute	%
Punctuality rail (%)	95.2	95.0	–	–
Punctuality bus (%)	91.2	91.6	–	–
Passengers (million)	1,267	1,264	+3	+0.2
thereof long-distance bus	0.4	0.3	+0.1	+33.3
Volume sold (million pkm)	24,068	24,771	-703	-2.8
thereof long-distance bus	124.7	79.2	+45.5	+57.4
Total revenues (€ million)	4,280	4,254	+26	+0.6
External revenues (€ million)	4,223	4,205	+18	+0.4
Concession fees (€ million)	1,964	1,910	+54	+2.8
EBITDA adjusted (€ million)	651	666	-15	-2.3
EBIT adjusted (€ million)	334	348	-14	-4.0
Gross capital expenditures (€ million)	137	339	-202	-59.6
Employees as of Jun 30 (FTE)	35,957	36,629	-672	-1.8

Overall, rail transport punctuality remained virtually stable, although certain products did show slight improvements, partly due to the program to improve punctuality on 34 selected regional and S-Bahn (metro) lines.

Bus service punctuality declined slightly, mainly due to an expansion of the bus services included in the punctuality monitoring system (+35%).

Performance declined in the first half of 2016. The volume sold reduced both in the rail line of business and in the bus line of business. Performance losses in rail transport were particularly noticeable in the regions Southeast and North and in North Rhine-Westphalia.

The development of the higher-revenue and higher-performance rail business particularly affected the economic performance of DB Regional. Performance shortfalls were compensated by non-recurrence of the strike impacts from the first half of 2015. Revenues were roughly on a par with the first half of 2015, helped by the positive trend in concession fees. Bus business had a dampening effect.

By contrast, other operating income declined (–35.7%) due to lower compensation payments.

As energy expenses decreased due to diesel price trends, the cost of materials declined (–1.8%), helped also by lower purchased services.

Personnel expenses declined slightly (–1.0%) as the number of employees decreased. Collective wage increases had an opposite effect.

Other operating expenses (+0.4%) were on a level with the first half of 2015.

As expenses increased overall at a higher rate than income, adjusted EBITDA and adjusted EBIT were lower by year on year comparison.

Gross capital expenditures were lower due to the completion of train purchases in 2015.

Compared to June 30, 2015, the number of employees was lower following failure to win tenders, mainly in rail business.

Rail line of business

- Performance influenced by lost tenders.
- Positive effects from the omission of strike effects from the first half of 2015.
- Burdens from higher collective wages.

Rail business Selected key figures [€ million]	H1 2016	2015	Change absolute	%
Passengers (million)	967.1	949.7	+17.4	+1.8
Volume sold (million pkm)	20,524	21,181	-657	-3.1
Volume produced (million train-path km)	229.9	234.7	-4.8	-2.0
Total revenues	3,790	3,783	+7	+0.2
External revenues	3,621	3,595	+26	+0.7
Rail concession fees	1,964	1,910	+54	+2.8
EBITDA adjusted	592	599	-7	-1.2
EBIT adjusted	298	310	-12	-3.9
Gross capital expenditures	112	324	-212	-65.4
Employees as of Jun 30 (FTE)	27,133	27,844	-711	-2.6

Rail performance was influenced by declining volume produced and sold, especially in the regions Southeast and North and in North Rhine-Westphalia. These shortfalls were partially offset by the omission of strike effects from the first half of 2015. The number of passengers increased.

Revenue development was on the level with the first half of 2015. The omission of strike effects, which mainly affected concession fees, was virtually offset entirely by performance shortfalls.

Other operating income (–33.9%) declined due to lower compensation for damages in connection with vehicle projects.

The reduced cost of materials (–2.6%) was influenced mainly by lower energy expenses as a result of price and volume effects.

Personnel expenses (–1.9%) decreased due to the lower number of employees. Collective wage increases had an opposite effect.

Other operating expenses (–0.4%) were on a level with the first half of 2015.

As a result of the vehicles added, depreciation increased (+1.6%).

The decrease in earnings exceeded the relief on the cost side, so that adjusted EBITDA and adjusted EBIT declined.

Gross capital expenditures were lower due to the purchase of trains in 2015.

The number of employees declined as of June 30, 2016, mainly as a result of performance losses.

Bus line of business

- Burdens due to performance losses, especially in the region Southwest.
- Optimization of business portfolio is having a positive effect.
- Persisting intense price pressure and competition continues to burden the long-distance bus business.

Bus business Selected key figures [€ million]	H1 2016	2015	Change absolute	%
Passengers (million)	299.6	314.7	-15.1	-4.8
thereof long-distance bus	0.4	0.3	+0.1	+33.3
Volume sold (million pkm)	3,544	3,590	-46	-1.3
thereof long-distance bus	124.7	79.2	+45.5	+57.4
Volume produced (million bus km)	284.8	279.9	+4.9	+1.8
Total revenues	650	661	-11	-1.7
External revenues	602	610	-8	-1.3
EBITDA adjusted	58	67	-9	-13.4
EBIT adjusted	35	38	-3	-7.9
Gross capital expenditures	25	15	+10	+66.7
Employees as of Jun 30 (FTE)	8,824	8,785	+39	+0.4

Persisting intense price pressure and competition continued to weigh on the development of operating profits in our long-distance bus business in the first half of 2016. Performance development was positive, not least due to expansions on the supply side, which had a considerable impact on the income statement. Only the development of other bus business is therefore discussed below.

Compared to the first half of 2015, the performance in other bus business was down due to lower passenger numbers and failure to win tenders in the region Southwest.

Price effects also had an adverse impact on revenue development, which declined overall.

Other operating income (+21.3%) increased, partly due to higher intra-Group transfer prices and increased income from the sale of buses.

Cost of materials (–5.7%) declined mainly as a result of lower diesel prices and less purchased contractor services.

Personnel expenses (+2.1%) increased mainly due to collective wage agreements.

Other operating expenses (+13.7%) increased, mainly due to higher intra-Group transfer prices.

Since expenses decreased at a greater rate than income, adjusted EBIT and adjusted EBITDA improved. However, the development of operating profits in bus business overall, driven by long-distance bus activities, was significantly weaker than in the first half of 2015.

Vehicle purchases caused gross capital expenditures to increase.

The number of employees as of June 30, 2016 increased slightly following the expansion of long-distance bus services. Losses of tenders, especially in the region Southwest, had an opposite effect.

DB Cargo business unit

EVENTS IN THE FIRST HALF OF 2016

Action plan for Germany^plus continued

In the final year of the action plan for Germany^plus priority is on translating, anchoring and stabilizing the effects of the measures within the line organization. “Lean Maintenance,” “Freight Car Campaign,” “Utilization-Oriented Sales” and “Portfolio Management” are the levers offering the most potential.

Further development of DB Cargo

The concept for further development of DB Cargo was elaborated in more detail in the first half of 2016. The concept covers five strategic directions: raising production stability, reorganizing production, optimizing local profitability, raising driver productivity and restructuring sales.

DBwestports shuttles speed up transport

Since February 2016, DBwestports shuttles have been linking the ports of Zeebrugge, Antwerp, Rotterdam and Amsterdam directly to Hanover. The new service shortens the distances considerably, which also benefits transport times to Berlin and Leipzig, as well as Poland and the Czech Republic.

National subsidiary established in the Czech Republic

DB Cargo has expanded its international network in Europe by establishing a new national subsidiary – DB Cargo Czechia s.r.o. – in Ostrava / Czech Republic. The establishment of what is now the 16th national subsidiary in the European network marks a consistent step towards intensifying existing activities in the Czech Republic through a company of its own.

New multiyear contract with ArcelorMittal

ArcelorMittal, the world’s largest steel producer, has again commissioned DB Cargo to handle its rail transport needs throughout Europe. The new contract has a term of several years and governs a transport volume of 42 million tons in total. DB Cargo deploys 55 full trains each week to carry ore, coke and limestone to ArcelorMittal’s furnaces in Germany. A further 20 full trains commute each week from Eisenhüttenstadt and Bremen. In addition, DB Cargo moves 1,500 cars for ArcelorMittal in its single car network in Germany and Europe.

Automobile terminal opened

In April 2016, DB Cargo opened a new 75,000 m² automobile terminal with space for 2,000 cars in Bremen, following capital expenditures of around € 15 million. A hall has also been built on the premises for vehicle rework and checks. Through this investment, DB Cargo is offering its expertise in implementing more transport on rail, and by providing this new service in Bremen.

Investments

- In April 2016, Spanish subsidiary Transportes Ferroviarios Especiales S.A, Madrid / Spain, sold its 75% stake in Logística Sanmival S.L., Burgos / Spain.

DEVELOPMENT IN THE FIRST HALF OF 2016

- Persisting intense competitive environment weighs on performance.
- Coal and steel transport volumes decline further in Great Britain and Germany.
- Additional services in the Netherlands, Italy and Scandinavia.

DB Cargo	H1 2016	H1 2015	Change absolute	Change %
Punctuality (%)	75.7	74.4	–	–
Freight carried (million t)	140.2	150.9	–10.7	–7.1
Volume sold (million tkm)	47,830	48,912	–1,082	–2.2
Volume produced (million train-path km)	90.4	93.4	–3.0	–3.2
Capacity utilization (t per train)	529.1	523.7	+5.4	+1.0
Total revenues (€ million)	2,312	2,391	–79	–3.3
External revenues (€ million)	2,154	2,226	–72	–3.2
EBITDA adjusted (€ million)	39	74	–35	–47.3
EBIT adjusted (€ million)	–53	–74	+21	–28.4
EBIT margin (adjusted) (%)	–2.3	–3.1	–	–
Gross capital expenditures (€ million)	52	91	–39	–42.9
Employees as of Jun 30 (FTE)	30,155	30,907	–752	–2.4

Punctuality in rail freight transport has improved significantly, mainly due to positive developments in Germany, and is primarily the result of a better resource situation compared to the first half of 2015.

The market situation for rail freight transport in Europe also remained challenging in the first half of 2016. Moreover, the intense competitive environment weighed on business performance. Acquisitions of new transport contracts in the European network were partially able to compensate for this trend. Performance development weakened as a result. The volume of freight carried and the volume sold both decreased. Measures put in place to improve efficiency enabled us to raise the capacity utilization per train slightly.

Revenue development was weaker compared to the first half of 2015, mainly due to lower coal transport volumes in Great Britain and steel transport volumes in Germany.

Other operating income (+25.9%) increased, partly due to higher compensation for damages relating to vehicle projects. Higher income from the sale of rolling stock also contributed to this result.

Cost of materials (+1.6%) was slightly above the level of the first half of 2015. Higher purchased transport services were partially offset by lower energy expenses due to price and performance effects.

Personnel expenses (–0.6%) were slightly lower compared to the first half of 2015, mainly due to exchange rate effects and a lower number of employees. Adjusted for exchange rate effects, personnel expenses increased due to collective wage increases.

Other operating expenses (–5.3%) decreased, partly as a result of lower vehicle rents.

Declining earnings and additional cost burdens caused adjusted EBITDA to decrease significantly overall. By contrast, adjusted EBIT improved following lower depreciation (–38.2%) due to the impairment charges recognized in 2015.

Gross capital expenditures were considerably lower following the major capital expenditures in locomotives in Poland in the first half of 2015.

The number of employees decreased as of June 30, 2016, mainly as a result of optimizations in Poland, adjustments to business conditions in Great Britain, and weak performance in Germany.

Region Central

- Additional services in the Netherlands, Italy and Scandinavia.
- Omission of strike effects.

Region Central Selected key figures [€ million]	H1 2016	H1 2015	Change absolute	Change %
Freight carried (million t)	124.9	124.8	+0.1	+0.1
Volume sold (million tkm)	38,579	38,495	+84	+0.2
Volume produced (million train-path km)	72.0	72.5	-0.5	-0.7
Total revenues	2,429	2,314	+115	+5.0
External revenues	1,741	1,727	+14	+0.8
EBITDA adjusted	61	84	-23	-27.4
EBIT adjusted	3	-27	+30	-
Gross capital expenditures	23	54	-31	-57.4
Employees as of Jun 30 (FTE)	19,682	19,806	-124	-0.6

Business performance in the region Central was virtually unchanged in the first half of 2016. Growth from additional transport services in the Netherlands, Italy and Scandinavia, and the omission of strike effects from the first half of 2015 were almost fully offset by declines in Germany in the face of persistently fierce competition, geopolitical uncertainty, and weak demand for steel transport services. Following implementation of optimization programs such as Network rail, capacity utilization in-creased slightly (+0.8%).

The increase in revenues was mainly driven by expanded services in the Netherlands, Italy and Scandinavia, but also by the omission of strike effects from the first half of 2015.

Other operating income (+14.7%) increased, partly due to higher compensation for damages relating to vehicle projects. Higher income from the sale of rolling stock also contributed to this result.

Cost of materials (+10.5%) increased in the first half of 2016 due to higher purchased transport services.

Personnel expenses (+1.1%) increased slightly due to collective wage rises. This increase was partly offset by the lower number of employees.

Since expenses increased at a greater rate than revenues, adjusted EBITDA decreased overall. By contrast, adjusted EBIT increased due to lower depreciation (–47.7%) following the recognition of impairment charges in 2015.

Gross capital expenditures have decreased significantly, mainly due to lower capital expenditures for ETCS upgrades in locomotives and cars.

Compared to June 30, 2015, the number of employees decreased, mainly due to fluctuation.

Region West

- Performance was influenced by further declines in coal and steel transport volumes in Great Britain.
- Operating problems, strikes and floods burdened performance in France.
- Positive stimulus to performance in Spain.

Region West Selected key figures [€ million]	H1 2016	2015	Change absolute	%
Freight carried (million t)	31.7	40.1	- 8.4	-20.9
Volume sold (million tkm)	6,964	8,244	-1,280	-15.5
Volume produced (million train-path km)	14.3	17.1	-2.8	-16.4
Total revenues	393	475	- 82	-17.3
External revenues	321	412	- 91	-22.1
EBITDA adjusted	11	16	- 5	-31.3
EBIT adjusted	-16	-13	-3	+23.1
Gross capital expenditures	27	17	+10	+58.8
Employees as of Jun 30 (FTE)	5,198	5,625	- 427	-7.6

The region West was substantially impacted by the further slump on the COAL MARKET IN GREAT BRITAIN [PAGE 008] in the first half of 2016. Business performance was weak as a result. Freights carried decreased considerably, as did both volume sold and volume produced. In addition to a statutory change (CO_2 taxation), the other factor driving the development of coal transport services was primarily low natural gas prices, leading to combined-cycle power plants switching from coal operation to gas firing. Performance was also adversely impacted by the loss of key accounts, strike effects, and floods in France.

Revenues decreased considerably in the wake of this business performance and due to negative exchange rate effects.

Other operating income (+34.1%) was above the level of the first half of 2015 due to increased intra-Group rental income for locomotives.

Cost of materials (−5.7%) decreased in the wake of business performance and due to lower diesel prices.

Personnel expenses decreased (−5.6%), mainly due to adjustment of the number of employees in Great Britain in line with business conditions.

Depreciation (−6.9%) were lower compared to the first half of 2015.

Since the lower revenues were only partially offset by lower expenses, adjusted EBITDA and adjusted EBIT decreased.

Gross capital expenditures increased significantly, mainly as a result of car acquisitions and refits.

The number of employees declined following adjustment to the poorer business conditions in Great Britain.

Region East

- Performance was mainly driven by increased coal transport, intermodal and military transport volumes in Poland.
- Improved resource utilization and productivity in Poland.
- Performance varied in Southeast Europe.

Region East Selected key figures [€ million]	H1 2016	2015	Change absolute	%
Freight carried (million t)	7.8	7.9	- 0.1	-1.3
Volume sold (million tkm)	2,287	2,173	+114	+ 5.2
Volume produced (million train-path km)	4.1	3.8	+ 0.3	+7.9
Total revenues	125	124	+1	+ 0.8
External revenues	92	86	+ 6	+7.0
EBITDA adjusted	9	15	- 6	- 40.0
EBIT adjusted	4	7	-3	- 42.9
Gross capital expenditures	3	20	-17	- 85.0
Employees as of Jun 30 (FTE)	4,155	4,311	-156	-3.6

Compared to the first half of 2015, volume produced and sold improved in the region East, mainly as a result of increased coal transport, and intermodal and military transport volumes in Poland. Freight carried remained virtually stable.

Revenues improved due to performance development and the higher rental income.

Other operating income (−11.4%) declined due to exchange rate effects and the non-recurrence of compensation payments for Class 92 locomotives in the first half of 2015.

Cost of materials (+12.9%) increased, mainly as a result of higher purchased transport services in Poland. Lower energy expenses as a result of price and volume effects had a dampening effect.

Personnel expenses (−1.9%) decreased due to exchange rate effects. Adjusted for exchange rate effects, they increased due to collective wage agreements and following the recruitment of new employees in Hungary.

Other operating expenses (+2.7%) increased as a result of higher rentals for rolling stock.

Depreciation (−25.3%) was considerably lower due to the impairment charges recognized in 2015.

In light of the disproportionate increase in expenses, adjusted EBIT and adjusted EBITDA decreased significantly.

Gross capital expenditures were considerably lower following the major capital expenditures in locomotives in Poland in the first half of 2015.

The number of employees declined, mainly due to optimizations in Poland. New hires in Hungary had an opposite effect.

DB Netze Track business unit

EVENTS IN THE FIRST HALF OF 2016

VDE 8 on schedule

Current large construction sites of German unification transport projects (Verkehrsprojekte Deutsche Einheit; VDE) 8.1 include:

- Expansion of the Nuremberg – Ebensfeld line; four-track expansion of the Erlangen and Forchheim sections.
- Hallstadt – Ebensfeld; tie-in of the new construction line and four-track expansion (full closure from January to September 2016).
- New construction line Ebensfeld – Erfurt; overhead wire will go live at the end of August, preparations to commence test runs, completion of traction current line.
- Halle hub, construction site about 12 km in length; complete modification and new train formation yard.
- Leipzig hub; second expansion stage has commenced.
- Expansion of feeder routes, for example Erfurt – Eisenach, with the aim of putting the entire VDE 8 project into service by the end of 2017.

Start of one of the biggest existing network tunnel construction projects

Construction of the new 909 m Pforzheim tunnel commenced on January 15, 2016. Around € 88 million are being invested in this project, which comprises drilling the actual tunnel, lining it, and installing the technical equipment, and is expected to reach completion in September 2018. Building this new Pforzheim tunnel constitutes one of the biggest tunnel construction projects in DB Group's infrastructure modernization program.

Accident near Bad Aibling

On February 9, 2016, a serious train accident occurred on the line between Bad Aibling and Kolbermoor in Bavaria. The casualties included several fatalities and numerous injuries. DB Group is working closely with the investigating authorities to establish the cause and reappraisal of the accident.

Total closure Hanover – Kassel

Between April 23 and May 8, 2016, we replaced around 130,000 t of ballast on the high-speed line between Hanover and Kassel. The works were split into several sections over a total distance of more than 30 km. Because of the high frequency on the line, the ballast had to be replaced at short notice to avoid speed restrictions.

We kept the impact for our customers as low as possible. During the closure, more than 90% of the affected long-distance transport capacity was provided as scheduled. Trains still stopped at Hanover's exhibition center, and four additional ICE Sprinters were in service each day.

Expansion and new construction of the Karlsruhe – Basel line

Karlsruhe – Basel is a major project where large sections of the line – such as South Rastatt – Offenburg and the Katzenberg Tunnel section – are already in operation. The first tunnel boring machine started on the Rastatt tunnel at the end of May 2016, marking a further milestone in this project. The second machine will probably start working on the 4,270-m-long structure from September 2016 onwards. Construction work is going on as well between the Katzenberg Tunnel and the Swiss border. In January 2016, the necessary steps were taken to enable planning of the sections between Offenburg and Riegel as well as Hügelheim and Auggen to commence. Also in January 2016, the German Bundestag adopted a resolution on financing the core demands (Offenburg tunnel and freight train path along the A5 highway) of the Project Advisory Board, which will result in additional costs.

DEVELOPMENT IN THE FIRST HALF OF 2016

- Higher revenues from price adjustments and higher volume produced by non-Group customers.
- Personnel expenses rose due to collective wage increases and a greater number of employees.
- Increased maintenance expenditures.

DB Netze Track	H1 2016	H1 2015	Change absolute	Change %
Punctuality DB Group (rail) in Germany (%)	94.6	94.4	-	-
Punctuality in Germany [1] (%)	94.2	94.2	-	-
Train kilometers on track infrastructure (million train-path km)	530.7	517.2	+13.5	+2.6
thereof non-Group customers	158.4	141.5	+16.9	+11.9
Share of non-Group customers (%)	29.8	27.4	-	-
Total revenues [2] (€ million)	2,601	2,466	+135	+5.5
External revenues [2] (€ million)	694	597	+97	+16.2
Share of total revenues [2] (%)	26.7	24.2	-	-
EBITDA adjusted [2] (€ million)	838	791	+47	+5.9
EBIT adjusted [2] (€ million)	398	330	+68	+20.6
Operating profit after interest [2] (€ million)	271	188	+83	+44.1
ROCE [2] (%)	4.4	3.7	-	-
Capital employed as of Jun 30 [2] (€ million)	17,889	18,040	-151	-0.8
Net financial debt as of Jun 30 [2] (€ million)	10,224	10,544	-320	-3.0
Redemption coverage [2] (%)	13.9	12.3	-	-
Gross capital expenditures [2] (€ million)	2,495	2,233	+262	+11.7
Net capital expenditures [2] (€ million)	515	644	-129	-20.0
Employees as of Jun 30 [2] (FTE)	43,948	41,067	+2,881	+7.0

1) Non-Group and intra-Group train operating companies.
2) Previous year's figure adjusted [page 057].

Punctuality of non-Group and intra-Group TOCs in Germany remained unchanged, while TOCs within DB Group were able to improve punctuality slightly.

In the first half of 2016, the train kilometers on track infrastructure increased due to higher demand from non-Group customers from regional and freight transport. Demand from intra-Group customers declined, especially for regional passenger transport and freight transport, which had a dampening effect.

Total revenues increased, mainly due to price adjustments and the omission of the negative effects associated with storms and GDL strikes in the first half of 2015. The decreased volume produced by intra-Group customers had an opposite effect.

Other operating income (−7.1%) decreased, mainly due to lower proceeds from the disposal of property, plant and equipment, as well as decreased income from scrap and public sector grants. Increased income from damages had an opposite effect.

Cost of materials (−0.3%) remained virtually unchanged. Lower expenses for energy and other purchased services, and higher discount income were largely offset by increased maintenance expenses.

The increase in personnel expenses (+10.3%) was primarily due to price effects resulting from collective wage agreements, to a larger number of employees due to transfers from DB ProjektBau and S-Bahn Berlin, and to the need for more manpower in maintenance and capital expenditures functions.

Other operating expenses (+5.7%) increased mostly as a result of higher expenses for IT services, rents and other communication services. These resulted in particular due to the higher number of employees.

Depreciation (−4.5%) was below the level of the first half of 2015.

Overall income increased at a greater rate than expenses, so that adjusted EBITDA and adjusted EBIT improved.

Higher revenues and a lower depreciation led to an increase in operating profit after taxes.

The increase in adjusted EBIT and a lower capital employed resulted in an improved ROCE.

Capital employed decreased, mainly as a result of lower property, plant and equipment, increased provisions and higher not settled investment grants.

Compared to the first half of 2015, net capital expenditures were down, mainly as a result of a lower DB funded capital expenditure contribution due to the service and financing agreement II. Redemption coverage increased as of June 30, 2016.

Increased capital expenditure volumes, both for network expansion and the existing network, resulted in higher gross capital expenditures. These included, in particular, superstructure modernization, replacing control and security equipment and bridges, and other structural engineering works.

The number of employees increased as of June 30, 2016, mainly due to the transfer of employees from DB ProjektBau and S-Bahn Berlin and new hires in maintenance.

› DB Netze Stations business unit

› EVENTS IN THE FIRST HALF OF 2016

› New start-up competition Next Station

The start-up competition Next Station entered its third round in 2016. More than 100 start-ups applied. The competition focuses on innovative products and services at stations. A jury crowned three winners.

Other events

- Our "Ensuring accessibility at small stations" program aims to make 108 stations with less than 1,000 commuters each day accessible. The project is being inanced with aid from the Federal Government and the Federal states.
- Extended video surveillance at stations in Berlin: alongside the presence of service staff and security forces, we are relying on technology to make our trains and stations even safer. In a first step, around 800 video cameras at 100 stations in Berlin will start recording before the end of 2016. By then, more than half of all stations in Berlin will be equipped with modern video technology.

DEVELOPMENT IN THE FIRST HALF OF 2016

- Increased demand from non-Group customers.
- Higher rental income.
- Burdens due to development of personnel expenses.
- Reduction of energy costs.

	H1		Change	
DB Netze Stations	**2016**	2015	absolute	%
Facility quality (grade)	2.94	2.95	–	–
Station stops (million)	74.3	72.7	+1.6	+2.2
thereof non-Group customers	17.3	15.4	+1.9	+12.3
Total revenues (€ million)	623	604	+19	+3.1
thereof station revenues (€ million)	413	399	+14	+3.5
thereof rental (€ million)	203	198	+5	+2.5
External revenues (€ million)	267	248	+19	+7.7
EBITDA adjusted (€ million)	227	219	+8	+3.7
EBIT adjusted (€ million)	159	152	+7	+4.6
ROCE (%)	11.3	10.5	–	–
Capital employed as of Jun 30 (€ million)	2,829	2,899	–70	–2.4
Net financial debt as of Jun 30 (€ million)	1,175	1,261	–86	–6.8
Redemption coverage (%)	33.2	29.6	–	–
Gross capital expenditures (€ million)	182	187	–5	–2.7
Net capital expenditures (€ million)	69	72	–3	–4.2
Employees as of Jun 30 (FTE)	5,007	4,894	+113	+2.3

The assessment of facility quality is recorded locally. The method for determining the facility quality was adjusted as a result of the conclusion of the service and financing agreement II. It was possible to maintain the level of facility quality.

The number of station stops increased, mainly due to increased schedule frequencies primarily on the part of non-Group railways who have been awarded new contracts for regional transport services.

The increase in total revenues is due to quantity- and price-related higher station revenues, as well as increased income from rental and leases. The growing market share of non-Group railways is also reflected in higher external revenues.

Other operating income (–10.1%) decreased, mostly as a result of lower damages and investment grants.

Cost of materials (+1.0%) increased in the wake of higher expenses for exterior cleaning and for security and public order services as part of RAILWAY OF THE FUTURE Zukunft Bahn.

Personnel expenses (+4.1%) increased, mainly due to collective wage increases and following the transfer of employees from DB ProjektBau. Depreciation (+0.9%) was slightly above the level of the first half of 2015.

Overall the increased revenues could overcompensate the higher expenses. As a result, adjusted EBITDA and adjusted EBIT improved.

Lower capital employed, helped by the positive development in operating profits, caused ROCE to improve. The decline in capital employed was mainly due to lower property, plant and equipment.

Net financial debt declined as a result of a profit-related increase in the operating cash flow as well as lower liabilities arising from Group financing.

Gross capital expenditures were lower compared to the first half of 2015. Net capital expenditures decreased due to reporting date effects.

Following the transfer of employees from DB ProjektBau, the number of employees increased.

DB Netze Energy business unit

EVENTS IN THE FIRST HALF OF 2016

Further improvements of access to traction current grid

In 2014, DB Netze Energy was the first rail infrastructure company (RIC) in Europe to completely liberalize traction current supply, thereby creating the opportunity for TOCs to select alternative energy suppliers. Since then, the number of companies changing to alternative providers has increased further. The necessary expansion of IT systems is making good progress. A few customers complained that the market-consolidated access model was not being implemented quickly enough, which prompted abuse proceedings at BNetzA that were eventually settled.

Lawsuits due to the traction current pricing system

DB Netze Energy was taken to court by several TOCs for damages due to improper traction current pricing in the past. The years 2009 to 2014 are affected. Frankfurt am Main Regional Court accepted the claims to the greatest possible extent at the beginning of June 2015. An appeal against the Court's decision was lodged. Further lawsuits are pending before the Regional Court. These rest until the decision by the Higher Regional Court.

DEVELOPMENT IN THE FIRST HALF OF 2016

- Increasing competition in the liberalized traction current network.
- New stationary energy customers acquired.
- Energy prices continue to fall.
- Improved purchase terms from ongoing negotiations with existing providers and from new and highly efficient power generation plants.

DB Netze Energy	H1 2016	H1 2015	Change absolute	Change %
Supply reliability (%)	99.99	99.99	–	–
Traction current (16.7 Hz and direct current) (GWh)	4,378	4,290	+88	+2.1
Traction current pass-through (16.7 Hz) (GWh)	755.4	606.9	+148.5	+24.5
Stationary energy (50 Hz and 16.7 Hz) (GWh)	8,532	6,635	+1,897	+28.6
Diesel fuel (million l)	217.7	209.7	+8.0	+3.8
Total revenues (€ million)	1,391	1,392	–1	–0.1
External revenues (€ million)	591	552	+39	+7.1
EBITDA adjusted (€ million)	98	70	+28	+40.0
EBIT adjusted (€ million)	63	36	+27	+75.0
ROCE (%)	12.9	7.3	–	–
Capital employed as of Jun 30 (€ million)	978	981	–3	–0.3
Net financial debt as of Jun 30 (€ million)	254	254	–	–
Redemption coverage (%)	41.4	27.0	–	–
Gross capital expenditures (€ million)	49	46	+3	+6.5
Net capital expenditures (€ million)	20	20	–	–
Employees as of Jun 30 (FTE)	1,756	1,752	+4	+0.2

The high level of supply reliability was retained.

The traction current volumes passed through on behalf of non-Group customers increased as price competition has become fiercer since the traction current network opened.

Demand for diesel fuel increased, mainly from intra-Group regional passenger transport.

In the area of stationary energies, the quantity of sales to non-DB Group customers continued to increase.

Internal revenues declined due to the development of primary energy prices – and particularly the diesel price. The increase in non-DB Group customers in the stationary energies and traction power had an opposite effect in total revenues and resulted in higher external revenues.

Other operating income increased due to special effects for provisions for shutting down and disposing of the Neckar joint power plant (Gemeinschaftskraftwerk Neckar; GKN).

Cost of materials (–1.9%) decreased as prices on the primary energy markets fell, and as a result of savings from power plant contracts and the final settlement for 2015 regarding GKN. Higher sales-related purchase volumes of power and diesel had an opposite effect, as did increased maintenance expenses.

Personnel expenses (+1.1%) increased due to collective wage increases.

Other operating expenses (+9.6%) increased mainly due to higher expenses for IT services, as a result of the adjustment made to invoicing systems to make them meet regulation requirements.

Depreciation (+3.0%) increased in the wake of ongoing capital expenditures activities and as a result of EBA demands for grant refunds.

Overall, an increase in operating profits is seen arising from the decrease in expenses associated with the energy purchase as well as the higher income.

The positive effects of the improved operating profit and the virtually unchanged capital employed led to a significant improvement in ROCE.

Net financial debt remained unchanged. Redemption coverage improved noticeably following the increase in operating cash flow.

The increase in gross capital expenditures reflects the higher capital expenditures driven by increased investment grants under the service and financing agreement II in the maintenance and technical improvement of the existing network.

The number of employees was virtually unchanged as of June 30, 2016.

DB Arriva business unit

AWARDED TRANSPORT CONTRACTS

DB Arriva has participated in invitations to tender throughout Europe. Among other things, DB Arriva has been awarded the contract to operate the London Overground (LOROL) local rail transport system. The € 1.8 billion contract begins on November 13, 2016 and has a term of 7.5 years, with an option to extend for two more years. DB Arriva currently operates LOROL with a joint-venture partner. From 2017 onwards, DB Arriva will operate LOROL without any partners.

Concluded transport contracts (bus) H1 2016		Term	Volume (million bus km) p. a.	total [1]
The Netherlands	Limburg	12/2016–12/2031	24.3	365.1
Slovakia	Nitra (Region)	03/2016–02/2026	22.6	225.8
Great Britain	London (16 routes)	5 years each	20.4	102.4
The Netherlands	ZOWAD	12/2016–12/2020	8.5	33.9
Poland	Warsaw	12/2016–12/2024	4.0	32.0
Denmark	Movia A14	12/2016–12/2022	3.3	19.8
Sweden	Halland [2]	06/2018–06/2020	2.8	5.7
Denmark	Sydtrafik 2 [2]	07/2017–07/2018	3.8	3.8
Denmark	Fynbus–Nordfyns Kommune	08/2016–08/2022	0.6	3.7
Great Britain	TfL Route 197 [2]	09/2017–09/2019	1.2	2.4
Total [1]			**91.5**	**794.6**

[1] *Differences due to rounding are possible.*
[2] *Extension of the existing contract.*

Concluded transport contracts (rail) H1 2016		Term	Volume (million train km) p. a.	total [1]
The Netherlands	Limburg	12/2016–12/2031	6.8	102.8
Great Britain	London Overground	11/2016–05/2024	13.2	98.9
Total [1]			**20.0**	**201.7**

[1] *Differences due to rounding are possible.*

EVENTS IN THE FIRST HALF OF 2016

Northern Rail started

At the beginning of April, DB Arriva began operating the Northern rail franchise which operates in Northern England. The contract, which is worth approximately € 10 billion in revenues, will expire in March 2025. With more than 5,000 employees and 333 trains, Northern Rail currently transports around 90 million passengers annually to destinations in Northern England. The contract will involve expanding services and investing in extensive modernization. For example, over the next three years, DB Arriva plans to increase the number of services offered by Northern Rail by 12%, establish new connections, invest in more than 280 new carriages and completely renovate the rest of the fleet.

New express train in the Greater Prague area

DB Arriva is offering a new train connection in the Greater Prague area. The service, which is operated on a purely private basis without any contract from the regional public transport authorities, has performed well since its launch. Around 10,000 passengers take the express train every month and the trend is increasing.

DEVELOPMENT IN THE FIRST HALF OF 2016

- DB Arriva began operating the Northern Rail franchise.
- Positive effects from acquisitions in the Mainland Europe line of business.
- Worsening market environment for UK Bus.
- Weaker pound leads to exchange rate effects.

DB Arriva	H1 2016	H1 2015	Change absolute	Change %
Punctuality rail (%) [1]	91.5	91.8	–	–
Passengers (million)	854.4	814.5	+39.9	+4.9
Volume sold rail (million pkm)	5,076	4,300	+776	+18.0
Volume produced rail (million train-path km)	75.1	65.6	+9.5	+14.5
Volume produced bus (million bus km)	517.5	509.3	+8.2	+1.6
Total revenues (€ million)	2,529	2,375	+154	+6.5
External revenues (€ million)	2,526	2,372	+154	+6.5
EBITDA adjusted (€ million)	232	224	+8	+3.6
EBIT adjusted (€ million)	106	101	+5	+5.0
Gross capital expenditures (€ million)	127	96	+31	+32.3
Employees as of Jun 30 (FTE)	51,618	45,336	+6,282	+13.9

[1] *Change in method from 2016 onwards (weighted by number of passengers instead of revenues, figures of previous year are adjusted).*

In rail passenger transport (Great Britain, Denmark, Sweden, the Netherlands and Poland), there was a slight decline in punctuality, primarily due to operating problems caused by floods in Great Britain in the first quarter of 2016.

The trend in passenger numbers was positive. Both in rail services and in bus services, the volume produced increased. In bus services, the increase was driven mainly by 2015 acquisitions in Mainland Europe. This was partially offset by other portfolio changes in the Mainland Europe line of business. In rail transport, the volume sold rose due to the start of the Northern Rail contract.

The increase in revenues was primarily attributable to the commencement of the Northern Rail contract. In addition, acquisitions in the Mainland Europe line of business had a positive impact on revenues. Performance at UK Bus and exchange rate effects had an adverse impact.

Compared to the first half of 2015, cost of materials (+4.8%) and personnel expenses (+4.9%) were higher in the first half of 2016 due to the expansion of services at UK Trains. Exchange rate effects had a favorable impact.

Adjusted EBIT and EBITDA increased, mainly because of acquisitions, but also due to improvements in UK Trains. Shortfalls at UK Bus mainly due to lost routes in London had an offsetting effect.

Gross capital expenditures increased in the first half of 2016. This resulted mainly from preparations for the launch of the Limburg contract in the Netherlands and the commencement of the Northern Rail operations.

The number of employees has increased since June 30, 2015, primarily due to Northern Rail and 2015 acquisitions.

UK Bus line of business

- General difficult market conditions for bus operators in Great Britain.
- Impact of London routes lost in early 2015; London has since won new routes.
- Weaker pound leads to significant exchange rate effects.

UK Bus line of business Selected key figures [€ million]	H1		Change	
	2016	2015	absolute	%
Passengers (million)	343.0	350.7	-7.7	-2.2
Volume produced (million bus km)	182.6	188.9	-6.3	-3.3
Total revenues	620	673	-53	-7.9
External revenues	616	668	-52	-7.8
EBITDA adjusted	81	97	-16	-16.5
EBIT adjusted	39	51	-12	-23.5
Gross capital expenditures	21	67	-46	-68.7
Employees as of Jun 30 (FTE)	16,789	16,764	+25	+0.1

The passenger numbers in the bus business in Great Britain were lower in the first half of 2016 due to lost routes in London and a reduction in high street footfall, together with a worsening economic climate outside London. Across regions and London, the volume produced dropped accordingly.

There has been a significant adverse impact on revenues due to exchange rate effects. Revenues were also adversely affected by lost routes in London, and a challenging economic climate and difficult market conditions outside of London.

The trend in the cost of materials (−9.1%) and personnel expenses (−5.5%) were also driven primarily by exchange rate effects and lost routes in London.

Adjusted EBITDA and adjusted EBIT were therefore lower than in the first half of 2015.

Timing effects due to the acquisition of buses resulted in a significant decrease in gross capital expenditures.

The number of employees was almost unchanged as of June 30, 2016.

UK Trains line of business

- Northern Rail services began on April 1, 2016.
- Improvements in the line of business.
- Weaker pound leads to exchange rate effects.

UK Trains line of business Selected key figures [€ million]	H1 2016	H1 2015	Change absolute	Change %
Passengers (million)	92.3	63.9	+28.4	+44.4
Volume sold (million pkm)	3,931	3,180	+751	+23.6
Volume produced (million train-path km)	45.7	37.7	+8.0	+21.2
Total revenues	985	812	+173	+21.3
External revenues	969	797	+172	+21.6
EBITDA adjusted	35	20	+15	+75.0
EBIT adjusted	20	6	+14	-
Gross capital expenditures	25	7	+18	-
Employees as of Jun 30 (FTE)	11,172	5,588	+5,584	+99.9

Performance development was positive in the first half of 2016. The very strong performance is primarily attributable to the start-up of the Northern Rail contract, which commenced on April 1, 2016.

The revenue development was also positive as a result. This trend was also driven by revenue growth at Cross Country and expanded services at Chiltern, partially offset by adverse exchange rate effects.

The trend in the cost of materials (+18.4%) and personnel expenses (+27.0%) was influenced mainly by the commencement of the Northern Rail service and by positive exchange rate effects.

Overall, the adjusted profit figures improved. Adjusted EBITDA and EBIT increased significantly, primarily due to the commencement of Northern Rail operations and other trading improvements.

Gross capital expenditures rose in connection with the commencement of the Northern Rail operations.

The number of employees almost doubled thanks to the addition of more than 5,000 Northern Rail employees.

Mainland Europe line of business

- Positive effects from acquisitions.

Mainland Europe line of business Selected key figures [€ million]	H1 2016	H1 2015	Change absolute	Change %
Passengers rail (million)	51.9	49.9	+2.0	+4.0
Passengers bus (million)	367.2	350.0	+17.2	+4.9
Volume sold rail (million pkm)	1,145	1,120	+25	+2.2
Volume produced rail (million train-path km)	29.4	27.9	+1.5	+5.4
Volume produced bus (million bus km)	334.8	320.4	+14.4	+4.5
Total revenues	978	937	+41	+4.4
External revenues	940	907	+33	+3.6
EBITDA adjusted	137	127	+10	+7.9
EBIT adjusted	66	62	+4	+6.5
Gross capital expenditures	69	21	+48	-
Employees as of Jun 30 (FTE)	23,412	22,742	+670	+2.9

In the Mainland Europe line of business, the number of passengers and the volume produced in rail transport increased in the first half of 2016. In bus service, the number of passengers and the volume produced increased sharply due to the acquisitions in Slovakia, Slovenia and Italy.

As a result, the revenue development was also distinctly positive.

On the expenses side, the cost of materials (−1.0%) declined due to lower energy costs. The acquisitions had an opposite effect.

Personnel expenses (+3.8%) increased due to the higher number of employees as a result of the acquisitions.

Overall, though, the adjusted profit figures improved. Both adjusted EBITDA and adjusted EBIT increased.

Gross capital expenditures were considerably higher compared to the first half of 2015. This resulted mainly from preparations for the launch of services in Limburg (the Netherlands) and the acquisitions.

As of June 30, 2016, the number of employees was higher, mainly due to acquisitions.

DB Schenker business unit

EVENTS IN THE FIRST HALF OF 2016

PRIMUS – DB Schenker's new strategy

With its new PRIMUS strategy, DB Schenker intends to significantly increase profitability and to focus the portfolio even more on international growth markets. DB Schenker's existing business is focused heavily on Europe and Germany. PRIMUS will ensure that the portfolio is more balanced internationally.

A comprehensive transformation program was launched to drive change in the three core areas of growth, efficiency and culture.

Digitalization is increasingly important as a driver of disruption in the logistics industry. As a result, DB Schenker has reorganized, establishing the position of Chief Digital Officer and a dedicated digitalization unit. This unit's mission is to promote data-driven business models, online platforms and technical innovations worldwide.

Strategic partnership with GLS

With the launch of the GLS cooperation arrangement in Germany, DB Schenker is expanding its product portfolio in Europe. Through access to GLS's network, corporate customers will have new options for shipping parcels domestically and internationally and will benefit from an improved network. Harmonizing the partners' IT interfaces and adapting operating processes in advance guaranteed that the service would run flawlessly and transparently from the start. The service will be expanded throughout Europe step by step.

Cooperation with uShip online freight exchange

DB Schenker has signed a five-year cooperation agreement with the US online freight exchange, uShip. The purpose of the agreement is to use digital innovations to move freight faster and more efficiently and to improve service for customers and partners.

The uShip marketplace platform, which successfully connects shippers and carriers in more than 19 countries, is a leader in arranging freight transports via mobile devices. DB Schenker will initially use it for land transport.

From the end of 2016, drivers and freight in land transport should be brought together online via DB Schenker's own platform, "Drive4Schenker."

First DB Schenker logistics center in Dubai

By opening the first logistics center of its own at Dubai Logistics City (DLC), DB Schenker has taken an important strategic step toward strengthening its offering to customers in the growth region of the Middle East. The logistics center's direct links to the big airports in the region and its proximity to the seaport, as well as the value-added services, parts services and temperature-controlled services it offers, are tailor-made to address customers' need for fast, high-value transport and warehousing services.

Investments

- In January 2016, DB Schenker acquired 75% of the shares in Redhead Holdings Ltd., Bradford/Great Britain. The agreement stipulates that it may acquire the remaining 25% after four years. Redhead has been included in the DB consolidated financial statements since February 2016.
- In February 2016, DB Schenker acquired 49% of the shares in Almoayed Logistics Services W.L.L., Manama/Bahrain. The company has been included in the DB consolidated financial statements since March 2016.

DEVELOPMENT IN THE FIRST HALF OF 2016

- Contract logistics continues to be the driver of revenue growth.
- Intense competitive environment.
- Lower freight rates, mainly in ocean and air freight.
- Noticeable influence of exchange rate effects.

	H1		Change	
DB Schenker	**2016**	2015	absolute	%
Shipments in European land transport (thousand)	50,712	50,862	-150	-0.3
Air freight volume (export) (thousand t)	550.6	545.8	+4.8	+0.9
Ocean freight volume (export) (thousand TEU)	976.3	953.8	+22.5	+2.4
Total revenues (€ million)	7,431	7,756	-325	-4.2
External revenues (€ million)	7,400	7,728	-328	-4.2
Gross profit (€ million)	2,708	2,631	+77	+2.9
Gross profit margin (%)	36.4	33.9	-	-
EBITDA adjusted (€ million)	294	258	+36	+14.0
EBIT adjusted (€ million)	200	165	+35	+21.2
EBIT margin (adjusted) (%)	2.7	2.1	-	-
Gross capital expenditures (€ million)	72	82	-10	-12.2
Employees as of Jun 30 (FTE)	66,822	65,560	+1,261	+1.9

With the exception of European land transport, the volume development was positive in the first half of 2016.

The main drivers of the negative revenue development were air and ocean freight and exchange rate effects. Despite the growth in volume, air and ocean freight revenues fell due to the declines in freight rates. These were induced both by supply and energy prices.

However, the cost of materials (–7.8%) also dropped accordingly, so overall gross profit increased. Another driver for this was the development in contract logistics. In comparison to revenue development, the increase in gross profit was disproportionately high, therefore the gross profit margin also improved.

Personnel expenses (+0.9%) were above the level of the first half of 2015. This was mainly attributable to the higher number of employees and to adjustments to wages.

Overall, however, the development of adjusted EBITDA and adjusted EBIT was positive. Adjusted for exchange rates, the development of operating profits was even more positive. Due to changes in the accounting and allocation of overhead costs to the lines of business, the operating profit figures at the lines of business level are not comparable to the figures of the previous year period.

Gross capital expenditures were lower than in the first half of 2015. The decrease was caused primarily by developments in the Europe region, where the capital expenditures priorities continue to be.

The increase in the number of employees as of June 30, 2016 was driven by the increase in business activities in contract logistics. This was offset by a decline in European land transport.

European land transport line of business

- Within the system and direct transport areas, there is a greater focus on international transport services.
- Commencement of the cooperation agreement with GLS.
- High competitive pressure, lower diesel prices.
- Further optimization of the IT landscape and general cargo transport.

European land transport Selected key figures [€ million]	H1 2016	2015	Change absolute	%
Shipments in European land transport (thousand)	50,712	50,862	–150	–0.3
Total revenues	3,226	3,198	+28	+0.9
External revenues	3,197	3,174	+23	+0.7
EBITDA adjusted	91	96	–5	–5.2
EBIT adjusted	58	51	+7	+13.7
Employees as of Jun 30 (FTE)	19,437	24,542	–5,105	–20.8

As a result of positive development both in the system (+3.1%) and direct transport (+8.6%) areas, the shipment volume increased compared to the first half of 2015. By contrast, the parcel business (–7.6%) declined.

Despite the lower shipment volume, the development of revenues was positive. This was primarily attributable to the system and direct transport areas. Conversely, exchange rate effects and the parcel business had a dampening effect.

The cost of materials was higher compared to the first half of 2015. This was mainly due to the direct transport service areas.

Due to changes in the accounting and allocation of overhead costs to the lines of business, the figures for personnel expenses, operating profit and the number of employees are not comparable to the figures of the previous year period.

Air and ocean freight line of business

- In ocean freight, the focus is on efforts to optimize capacity utilization, costs and purchase prices and on expanding cooperation with customers.
- In air freight, the focus is on expanding the customer base and improving the cargo mix.

Air and ocean freight Selected key figures [€ million]	H 1 2016	2015	Change absolute	%
Air freight volume (export) (thousand t)	550.6	545.8	+ 4.8	+ 0.9
Ocean freight volume (export) (€ thousand)	976.3	953.8	+22.5	+2.4
Total revenues	2,988	3,427	- 439	-12.8
External revenues	2,986	3,424	- 438	-12.8
EBITDA adjusted	106	102	+ 4	+3.9
EBIT adjusted	99	87	+12	+13.8
Employees as of Jun 30 (FTE)	13,104	20,177	-7,073	-35.1

Performance was positive in both air and ocean freight:

- Volumes increased slightly in air freight. This was mainly due to the Asia–Europe routes and transports within Asia. By contrast, volume development on the transatlantic and transpacific routes, as well as on transport services to and from Latin America and from the Middle East region, declined.
- Ocean freight volume also increased. Here, the transports within Asia, the Asia–Europe routes and the transatlantic services, in particular, had a positive impact. The transpacific transport services, the routes within Europe and the transport services within the Middle East region reported lower volumes.

Revenue development was negative in both air and ocean freight, mainly due to freight rates and the exchange rate development.

By contrast, both had a positive impact on the cost of materials, which dropped noticeably.

Due to changes in the accounting and allocation of overhead costs to the lines of business, the figures for personnel expenses, operating profit and the number of employees are not comparable to the figures for the previous year period.

Contract logistics/SCM line of business

- Growth remains strong; once again the line of business with the highest growth at DB Schenker.
- Focus on capacity expansion: commissioning of new and expansion of existing logistics centers worldwide, including in Australia, Germany, France and the Czech Republic.

Contract logistics/SCM Selected key figures [€ million]	H 1 2016	2015	Change absolute	%
Total revenues	1,218	1,130	+88	+7.8
External revenues	1,218	1,130	+88	+7.8
EBITDA adjusted	70	72	-2	-2.8
EBIT adjusted	43	45	-2	- 4.4
Employees as of Jun 30 (FTE)	19,012	19,953	- 941	- 4.7

Revenue development in the contract logistics/SCM line of business remained clearly positive in the first half of 2016. Good business development in the existing and new customer base had an effect here. This was offset by negative exchange rate effects.

Cost of materials also increased due to the business expansion. Exchange rate developments had a dampening effect.

Due to changes in the accounting and allocation of overhead costs to the lines of business, the figures for personnel expenses, operating profit and the number of employees are not comparable to the figures for the previous year period.

Other/consolidation

EVENTS IN THE FIRST HALF OF 2016

DB Engineering & Consulting GmbH

With retroactive economic effect to January 1, 2016, DB ProjektBau GmbH and DB International were merged to form DB Engineering & Consulting (DB E&C). DB Group thus combined its domestic infrastructure project skills with its international engineering and consulting expertise. DB E&C employs 4,000 people from 66 countries on every continent. Its offering ranges from planning and construction oversight through planning and acceptance tests and services in the environmental, geotechnical engineering and geodesics fields to project management and consulting. The references of DB E&C include the relocation of the Hamburg-Altona long-distance railway station; quality and safety plans for the new subway in Kochi, Southern India; general planning for the ICE facility in Cologne-Nippes; monitoring operations at the Mecca Subway in Saudi Arabia; planning and construction oversight for the German unification transport projects no. 8 (VDE 8); and consulting for maintenance and high-speed transport services in China.

WWW.DB-ENGINEERING-CONSULTING.DE

Launch of the first freight transport route in the United Arab Emirates

At the turn of 2015/2016, the United Arab Emirates (UAE) officially commissioned the freight transport line between Shah, Habshan and the Port of Ruwais. Every day, 2-km-long trains transport 22,000 t of sulfur granulate. DB Group and Etihad Rail, the UAE's railway company, set up a joint venture in June 2013 to operate freight transports on the route. DB E&C is responsible for maintaining the infrastructure and the technical equipment.

Support for light rail project in Canberra

At the end of January 2016, DB E&C and other partners were awarded the contract for the first light rail system in Canberra/Australia. DB E&C will provide consulting services for the operation and maintenance of the light rail system. The 12-km-long subway will connect the fast-growing suburb of Gungahlin with the center of the capital city. Already in 2019, the light rail system will begin operating with 13 above-ground stations.

DEVELOPMENT IN THE FIRST HALF OF 2016

The item Subsidiaries/other primarily includes the standalone business services of DB Group (for example DB Zeitarbeit (temporary work) and DB JobService), the governance functions (for example Corporate Development, Finance and Treasury) and business services (for example Shared Service Center Accounting or Human Resources) of the holding companies DB AG and DB ML AG, along with other operational services (for example DB Fahrzeuginstandhaltung (vehicle maintenance) and DB Systel (IT services)) that provide services for several of DB Group's business units. This also includes all INTERNAL SERVICE PROVIDERS [PAGE 003], which previously were assigned to the former business unit DB Services.

The decrease in total revenues (€ –141 million or – 6.4%) was primarily attributable to effects relating to the reassignment of project management responsibilities between the infrastructure companies and DB E&C. This was somewhat offset by the decrease in personnel expenses caused by the associated transfer of employees.

The change in adjusted EBITDA (€ –30 million, or +24.8% to € –151 million) and in adjusted EBIT (€ –36 million, or +14.7% to € –281 million) was mainly due to wage increases under collective bargaining agreements and global allowances at DB Fahrzeuginstandhaltung.

ADDITIONAL INFORMATION

- **Most of the contracts awarded were for infrastructure projects**
- **Cartel proceedings due to ticket sales halted**
- **Additional settlement on rail cartel concluded**

Significant contract awards

INFRASTRUCTURE

- Framework contracts with two-year terms for maintenance of the superstructure infrastructure were concluded (total volume: around € 176 million).
- Framework contracts with a one-year term for the production and delivery of rails were concluded (total volume: around € 160 million).
- Contracts for construction services and equipment services for the expansion of route 6135 between Wünsdorf and Hohenleipisch (Berlin – Dresden expansion line, continuation of construction phase 1) were awarded with a volume of € 142 million.
- A contract for construction services for the S-Bahn (metro) connection of a new urban district in Frankfurt am Main, the former American residential area Gateway Gardens (Air Base) was awarded in the amount of € 130 million.
- As part of the construction work on the VDE 8.1 Nuremberg – Erfurt, 10 km of tracks is to be widened to four tracks within 12 months (total volume: € 115 million).
- For the new ICE facility in Cologne-Nippes, multiyear contracts for construction services and equipment engineering services were awarded in several contract packages (total volume: around € 110 million).
- Construction services contracts totaling € 61 million were awarded for measures on track construction and trackside assemblies as part of the incorporation of the new construction line Leipzig – Erfurt into the Leipzig hub.
- For the central logistics of the major Stuttgart – Ulm project contracts to dispose of around 5.5 million t of soil and rock from ground excavation and tunnel boring (total volume: around € 51 million) were awarded.
- The contract package 41 for the Halle hub construction project, electronic interlocking with rail plan reconstruction/adaptation of the Halle (Saale) central station to match the performance capabilities of the expansion and new construction lines feeding into it, was awarded in the amount of € 40 million.

GENERAL REQUIREMENTS AND SERVICES

- Framework contracts were concluded for the next eight years (maximum) to support capacity while providing IT services (SmartICT), (total volume: around € 1,200 million).

Other legal issues

CARTEL PROCEEDINGS DUE TO TICKET SALES HALTED

In May 2016, the German Federal Cartel Office halted the abuse proceedings regarding ticket sales launched against DB AG in January 2014 in exchange for the issuance of binding commitments. The commitments will create the greatest possible legal certainty and establish a new contractual basis for the existing mechanisms for cooperative ventures in ticket prices and sales in rail passenger transport in Germany. In particular, in the future even more flexible sample contracts will be available to local transport companies for cooperation with DB Vertrieb GmbH (DB Sales). In addition, the commitments will mean expanded opportunities for competitors to sell long-distance tickets from DB AG. The German Federal Cartel Office did not detect any conclusive infringement.

ADDITIONAL SETTLEMENT ON RAIL CARTEL CONCLUDED

In March 2016, we reached an out-of-court agreement with the Stahlberg-Roensch Group and Constantin Stahlberg on payment of damages relating to the rail cartel.

After Voestalpine and ThyssenKrupp, Stahlberg-Roensch Group is the third participant in the rail cartel with whom we managed to reach an out-of-court settlement after intensive negotiations. We have not yet reached a settlement with the last cartel participant, the Moravia Group. Therefore, DB Group continues to pursue claims for damages against Moravia Steel in a lawsuit.

We will transfer most of the compensation payments to the Federal Government, the Federal states and other funding bodies which previously had assigned their claims to us. Because the rail procurements in question were largely supported by public funding, in obtaining damages we are working primarily in the interest of the funding bodies. Most of the funding bodies have already approved the settlement. The percentage allocations still have to be coordinated and agreed with the funding bodies in question.

OPPORTUNITY AND RISK REPORT

- **No material changes in opportunity and risk management**
- **Risks for EBIT development in 2016 declined**
- **Risk portfolio unchanged without any risks to DB Group as a going concern**

Our business activities are associated with risks as well as opportunities. Our business policy therefore aims to take advantage of opportunities through our opportunity management system, while also actively managing those risks identified within the framework of our risk management system. There were no significant changes to DB Group's RISK MANAGEMENT SYSTEM [2015 INTEGRATED REPORT, PAGE 168 FF.] in the first half of 2016. Nor were there any changes to DB Group's MAJOR OPPORTUNITIES AND RISKS [2015 INTEGRATED REPORT, PAGE 170 FF.].

The opportunities and risks analysis was performed compared to the anticipated DEVELOPMENT OF DB GROUP IN FULL-YEAR 2016 [PAGE 049].

Compared to the estimate in the 2015 Integrated Report, the overall risk position has decreased from € 0.3 billion to € 0.2 billion. The remaining risks in the EBIT forecast are mostly in the areas of economic climate, market and competition in the amount of € 0.1 billion (thereof very likely (vl): € 0.0 billion) as well as the procurement and energy market in the amount of € 0.1 billion (thereof vl: € 0.0 billion). The decrease in the overall risk position resulted from the inclusion of risks in the outlook.

Compared to the estimate in the 2015 Integrated Report, the overall opportunity position has decreased from € 0.2 billion to € 0.1 billion. Opportunities exist mainly in the areas of economic climate, market and competition, as well as legal and contracts. The decrease resulted from the inclusion of opportunities in the outlook.

Our analyses of risks, countermeasures, hedging and precautionary measures, together with the opinion of the Group Management Board based on the current risk assessment and our medium-term planning (MTP), indicate that there are no risks that, individually or jointly, could have an impact on the net assets, financial or earnings position of DB Group and would pose a threat to the Group as a going concern.

EVENTS AFTER THE BALANCE SHEET DATE

- **S&P adjusts long-term ratings**
- **DB Arriva further expands business in Italy**
- **Directive 2012/34/EU (recast) adopted into national law**

› Additional bond issued

In July 2016, we became the first European company to issue – via DB Finance – a bond with a negative yield. The zero-coupon bond has a total volume of € 350 million, a term of five years and was placed primarily with European investors. On the issue date, the yield was –0.006%.

› S&P adjusts long-term ratings

On July 15, 2016, the rating agency S&P adjusted DB AG's long-term ratings from "AA" to "AA–", among other things because of persistently weak profit development, and simultaneously raised the rating outlook from "negative" to "stable." The short-term rating did not change (A–1+).

› DB Arriva further expands business in Italy

DB Arriva has acquired another Italian bus company, SAVDA S.p.A., Valle d'Aosta/Italy, thereby continuing its growth in Northern Italy.

› Directive 2012/34/EU (recast) adopted into national law

The Act to strengthen competition in the railway sector, the core element of which is the Railway Regulation Act, passed by the two houses of the German parliament (Bundestag and Bundesrat) at the beginning of July 2016, will enter into force in the second half of 2016.

OUTLOOK

- **Outlook for economic development largely stable**
- **Market development likely weaker than previously expected in freight transport and logistics**
- **Expectations for full-year 2016 largely confirmed**

Future direction of DB Group

The future direction of DB Group is described in the 2015 INTEGRATED REPORT [PAGE 178]. There were no significant changes to this in the first half of 2016.

Economic outlook

Anticipated development [%]	2015	2016 (Mar forecast)	**2016 (Jul forecast)**
GDP World	+2.5	~ +2.5	~ +2.5
World trade [1]	+1.4	~ +3.0	~ +1.5
GDP Eurozone	+1.6	~ +1.5	~ +1.5
GDP Germany	+1.5	~ +1.5	~ +1.5

[1] *Trade in goods only.*

The data for 2015, adjusted for price and calendar effects, is based on the information and estimates available as of July 2016. Expectations for 2016 are rounded off to the nearest half percentage point.

Source: Oxford Economics.

Forecasts for economic development in 2016 are based on the assumption of general stability in the geopolitical situation. We largely stand by our forecast for economic development in 2016 as stated in the 2015 Integrated Report. However, based on updated estimates, we expect a weaker trend in global trade.

Our forecast for global economic growth in 2016 is unchanged. Our assessment of developments in North and South America is currently somewhat weaker than at the beginning of the year. On the other hand, China's economic performance is more positive than expected at the start of the year.

The uncertainty in Great Britain following the Brexit vote will probably exert pressure on consumption and investment and, thus, on GDP growth as well. Overall, the economic trend in Germany is positive, as expected.

Anticipated development of the relevant markets

PASSENGER TRANSPORT

Anticipated market development [%]	2015	2016 (Mar forecast)	**2016 (Jul forecast)**
German passenger transport market (based on pkm)	+1.4	+1.5	+1.5

The data for 2015 are based on the information and estimates available as of July 2016. Expectations for 2016 are rounded off to the nearest half percentage point.

A significant increase in volume sold in the German passenger transport market in 2016 is still expected.

We also expect a substantial increase in volume sold in the European passenger transport market in 2016. Overall, economic conditions remain good despite Brexit, with stable employment figures, growing disposable real income and the continuation of low fuel prices. In particular, significant growth has been reported in countries with newly deregulated market segments (for example France) and in countries with intensive intramodal and intermodal competition (among others the Czech Republic).

FREIGHT TRANSPORT AND LOGISTICS

Anticipated market development [%]	2015	2016 (Mar forecast)	**2016 (Jul forecast)**
German freight transport (based on tkm)	~ +1.8	~ +2.0–+2.5	~ +2.0
European rail freight transport (based on tkm)	+ 0.8	~ +2.0	~ + 0.5
European land transport (based on revenues)	+1.3	~ +1.5–+2.0	~ +2.0
Global air freight (based on t)	+1.3	~ +2.5	~ +1.5
Global ocean freight (based on TEU)	+1.2	~ +3.0	~ +1.5
Global contract logistics (based on revenues)	+ 5.4	~ + 6.0	~ + 4.5

The data for 2015 are based on the information and estimates available as of July 2016. Expectations for 2016 are rounded off to the nearest half percentage point.

The outlook for the entire German freight transport market has not changed fundamentally since the previous forecasts were published:

- The downward trend in the significant iron, coal and steel/bulk commodity segments and persistent tough intermodal competitive pressure will continue to weigh on rail freight transport in Germany in the second half of 2016, meaning that, currently, the volume sold can only be expected to come in at, or slightly above, the previous year level.
- Supported by a base effect following the slump caused by low water levels in the second half of 2015, inland waterway transport should again develop more positively, although remain behind previous expectations.

The European rail freight transport market is expected to experience only a slight increase in volume sold in 2016. In particular, in the segments that are most relevant for rail transport, in some cases the considerably weaker economic momentum is having a dampening effect on market development.

Due to increasing demand, sentiment in the European land transport market has brightened slightly. However, it is likely to have received a substantial setback from the Brexit decision that is not yet reflected in the current market indicators. Consequently, the current cautiously optimistic forecast for the rest of the year entails significant risks.

In the global ocean freight market, somewhat lower growth in volume is now expected for 2016. The main reason are the uncertainties surrounding global trade. Ocean freight development is highly dependent on the performance of the Chinese market.

Because of the decrease in volume in the first quarter of 2016, growth in the air freight market for 2016 is expected to be weaker than previously projected. The Chinese market's development will play a key role here.

For the contract logistics market, very strong growth is still expected, albeit in a slightly weakened form. The growth is being driven by the continuing trend toward outsourcing and strong growth in Asia.

INFRASTRUCTURE

For train-path demand, we are now assuming that the slightly positive development of the first half of 2016 will continue at a stable level for full-year 2016 as well.

We now assume that there will be increasing growth in station stops for full-year 2016 as well.

Anticipated development of the procurement and financial markets

PROCUREMENT MARKETS

We continue to expect no bottlenecks in procurement. Any further spike in the oil price should be subdued, because shale oil production in the USA should expand again in the event of higher prices. Short-term production losses can be cushioned by well-stocked inventories. In Germany there will continue to be struggles over the design of the new electricity market (Electricity Market 2.0).

FINANCIAL MARKETS

Developments in the financial markets continue to be dominated by uncertainties and therefore remain volatile. In particular, the global economic trend and uncertainty regarding further developments in the monetary policies of major central banks are having a negative impact. In addition, the consequences of the Brexit vote, for which a final assessment is not yet possible, will also play a role.

The bond markets are likewise unlikely to be able to escape this development. Investors could feel compelled to invest more heavily in bonds with high credit ratings. Among others, bunds and corporate bonds with high credit ratings may experience a visible increase in demand, resulting in falling yields/interest. The current situation, in which bunds are trading at negative yields, is thus not expected to change this year.

The ongoing economic recovery process in the Eurozone and increased uncertainty, especially as a result of the Brexit vote, are likely to mean that a turnaround on interest rates by the ECB is not to be expected. To the contrary, it is likely that, partly in light of decreased inflation expectations, the ECB will expand its bond purchasing program over the next few months. The resulting increase in liquidity is likely to put further pressure on the level of interest rates.

Anticipated development of DB Group

Anticipated development of DB Group	2015	2016 (Mar forecast)	**2016 (Jul forecast)**
Volume sold rail passenger transport (Germany) (million pkm)	79,434	~ +0.5%	+0.5 - 1.0%
Volume sold rail freight transport (million tkm)	98,445	~ +1.0%	~ -2.5%
Train kilometers on track infrastructure (million train-path km)	1,053	~ +0.5%	~ +1.0%
Shipments in European land transport (thousand)	101,703	+1-2%	+0.5 - 1.0%
Air freight volume (export) (thousand t)	1,128	+3-4%	~ +3.0%
Ocean freight volume (export) (thousand TEU)	1,942	+3-4%	~ - 0.5%
Customer satisfaction, passengers (SI)	76.4	~77	~77
Punctuality of DB Group (rail) in Germany (%)	93.6	~ 94.5	~ 94.5
Revenues (€ billion)	40.5	> 41.5	> 40.5
Revenues comparable (€ billion)	40.5	> 41.5	> 41.0
EBIT adjusted (€ billion)	1.8	>1.8	>1.8
ROCE (%)	5.3	> 5.3	> 5.3
Redemption coverage (%)	18.5	~17	~17

On the basis of the developments to date in the 2016 financial year and the current estimates for the second half of 2016, we have reduced somewhat our expectations for performance at DB Cargo and DB Schenker. This has an effect on revenue development accordingly. In addition, negative exchange rate effects are becoming apparent.

BUSINESS UNITS

Anticipated development [€ million]	Revenues adjusted 2015	Revenues adjusted 2016 (Mar forecast)	**Revenues adjusted 2016 (Jul forecast)**	EBIT adjusted 2015	EBIT adjusted 2016 (Mar forecast)	**EBIT adjusted 2016 (Jul forecast)**
DB Long-Distance [1]	4,053	↗	↗	165	↗	↘
DB Regional	8,670	→	→	669	→	→
DB Cargo	4,767	↗	↘	-183	↗	↗
DB Netze Track [1]	5,016	↗	↗	568	→	→
DB Netze Stations	1,199	↗	↗	254	↘	↘
DB Netze Energy	2,812	↘	↘	66	↗	↗
DB Arriva	4,843	↗	↗	270	↗	↗
DB Schenker	15,451	↗	↘	395	↗	↗

↗ above previous year's figure
→ at previous year's level
↘ below previous year's figure

[1] *Previous year figures adjusted [page 057].*

At the business unit level, the main changes in projected revenues affect the business units DB Cargo and DB Schenker. For EBIT development, we expect DB Long-Distance to be only somewhat weaker than previously expected.

Anticipated capital expenditures

Anticipated development DB Group [€ billion]	2015	2016 (Mar forecast)	**2016 (Jul forecast)**
Gross capital expenditures	9.3	~ 9.9	> 9.9
Net capital expenditures	3.9	~ 3.5	> 3.5

We will continue our modernization course in the 2016 financial year with a high level of capital expenditures. Based on current estimates, we expect somewhat higher capital expenditures on the whole than we had forecast at the start of 2016.

Anticipated financial situation

Anticipated development DB Group [€ billion]	2015	2016 (Mar forecast)	**2016 (Jul forecast)**
Maturities	1.1	1.1	1.1
Bond issues	2.5	≤ 3.0	≤ 3.0
Cash and cash equivalents as of Dec 31	4.5	>3.0	≥ 3.0
Net financial debt as of Dec 31	17.5	>19.0	≤19.0

Our actual estimates of the financial situation are nearly unchanged. Net financial debt will likely be somewhat lower than previously expected.

Forward-looking statements

This management report contains statements and forecasts pertaining to the future development of DB Group, its business units and individual companies. These forecasts are estimates made based on information that was available at the current time. Actual developments and profits may diverge from the current expectations as a result of the non-materialization of the assumptions upon which our forecasts are based or the materialization of risks such as those presented in the Risk report.

DB Group does not assume any obligation to update the statements made within this management report.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

CONSOLIDATED STATEMENT OF INCOME

	H1		
[€ million]	**2016**	2015	2015
Revenues	20,033	19,960	40,403
Inventory changes and internally produced and capitalized assets	1,254	1,311	2,699
Overall performance	21,287	21,271	43,102
Other operating income	1,108	1,216	2,772
Cost of materials	-9,564	-9,934	-20,208
Personnel expenses	-7,789	-7,707	-15,599
Depreciation	-1,457	-1,533	-4,471
Other operating expenses	-2,632	-2,557	-5,750
Operating profit (EBIT)	**953**	**756**	**-154**
Result from investments accounted for using the equity method	17	15	22
Net interest income	-396	-410	-800
Other financial result	-11	-3	0
Financial result	**-390**	**-398**	**-778**
Profit before taxes on income	**563**	**358**	**-932**
Taxes on income	40	33	-379
Net profit	**603**	**391**	**-1,311**
Net profit attributable to:			
Shareholder of Deutsche Bahn AG	591	382	-1,325
Minority interests	12	9	14
Earnings per share (€ per share)			
undiluted	1.37	0.89	-3.08
diluted	1.37	0.89	-3.08

Reconciliation of consolidated comprehensive income

	H1		
[€ million]	**2016**	2015	2015
Net profit	603	391	-1,311
Changes due to the revaluation of defined benefit plans	-1,323	718	777
Changes in items recognized directly in equity which are not reclassified to the income statement	**-1,323**	**718**	**777**
Changes resulting from currency translation	-64	197	126
Changes resulting from market valuation of securities	3	-4	-1
Changes resulting from market valuation of cash flow hedges	188	222	63
Share of profit items not recognized in the income statement due to investments accounted for using the equity method	-	-	-3
Changes in items recognized directly in equity which are reclassified to the income statement	**127**	**415**	**185**
Balance of profit items covered directly in equity (before taxes)	**-1,196**	**1,133**	**962**
Revaluation of defined benefit plans	101	-29	-68
Changes in deferred taxes on profit items recognized directly in equity, which are not reclassified to the income statement	**101**	**-29**	**-68**
Deferred taxes relating to the change in the market valuation of securities	-	0	0
Deferred taxes relating to the change in the market valuation of cash flow hedges	-22	-10	3
Changes in deferred taxes on profit items receivables recognized directly in equity, which are reclassified to the income statement	**-22**	**-10**	**3**
Balance of profit items recognized directly in equity (after taxes)	**-1,117**	**1,094**	**897**
Comprehensive income	**-514**	**1,485**	**-414**
Comprehensive income attributable to:			
Shareholder of Deutsche Bahn AG	-524	1,473	-431
Minority interests	10	12	17

CONSOLIDATED BALANCE SHEET

Assets

[€ million]	Jun 30, 2016	Dec 31, 2015	Jun 30, 2015
NON-CURRENT ASSETS			
Property, plant and equipment	38,843	39,059	39,319
Intangible assets	3,560	3,762	4,330
Investments accounted for using the equity method	534	518	532
Available-for-sale financial assets	12	11	19
Receivables and other assets	223	175	201
Derivative financial instruments	350	339	500
Deferred tax assets	1,506	1,335	1,671
	45,028	**45,199**	**46,572**
CURRENT ASSETS			
Inventories	1,056	1,018	1,026
Available-for-sale financial assets	1	1	1
Trade receivables	4,212	4,018	4,553
Other receivables and other assets	1,379	1,159	1,348
Income tax receivables	57	56	72
Derivative financial instruments	69	59	6
Cash and cash equivalents	3,717	4,549	2,814
Held-for-sale assets	0	0	0
	10,491	**10,860**	**9,820**
Total assets	**55,519**	**56,059**	**56,392**

Equity and liabilities

[€ million]	Jun 30, 2016	Dec 31, 2015	Jun 30, 2015
EQUITY			
Subscribed capital	2,150	2,150	2,150
Reserves	2,809	3,924	4,121
Retained earnings	6,925	7,185	8,895
Equity attributable to shareholder of Deutsche Bahn AG	**11,884**	**13,259**	**15,166**
Minority interests	176	186	165
	12,060	**13,445**	**15,331**
NON-CURRENT LIABILITIES			
Financial debt	19,489	19,753	18,941
Other liabilities	392	334	309
Derivative financial instruments	301	450	387
Pension obligations	4,895	3,688	3,807
Other provisions	2,491	2,597	2,771
Deferred items	1,018	1,104	1,181
Deferred tax liabilities	138	165	95
	28,724	**28,091**	**27,491**
CURRENT LIABILITIES			
Financial debt	2,766	2,675	1,963
Trade liabilities	4,467	4,679	4,494
Other liabilities	3,651	3,338	3,648
Income tax liabilities	174	163	158
Derivative financial instruments	103	205	148
Other provisions	2,729	2,714	2,372
Deferred items	845	749	787
	14,735	**14,523**	**13,570**
Total assets	**55,519**	**56,059**	**56,392**

CONSOLIDATED STATEMENT OF CASH FLOWS

	H1		
[€ million]	**2016**	2015	2015
Profit before taxes on income	563	358	-932
Depreciation on property, plant and equipment and intangible assets	1,457	1,533	4,471
Result on disposal of property, plant and equipment and intangible assets	-30	-48	-74
Result on disposal of financial assets	0	-2	-3
Interest and dividend income	-23	-29	-49
Interest expenses	420	438	848
Foreign currency result	1	-3	-7
Result of investments accounted for using the equity method	-17	-15	-22
Other non-cash expenses and income	275	617	1,426
Changes in inventories, receivables and other assets	-696	-1,233	-319
Changes in liabilities, provisions and deferred items	-40	104	-1,135
Cash generated from operating activities	1,910	1,720	4,204
Interest received	13	20	32
Received/paid (-) dividends and capital distribution	0	1	-9
Interest paid	-321	-330	-620
Paid (-)/reimbursed (+) taxes on income	-79	-73	-118
Cash flow from operating activities	**1,523**	**1,338**	**3,489**
Proceeds from the disposal of property, plant and equipment and intangible assets	107	146	340
Payments for capital expenditures in property, plant and equipment and intangible assets	-3,507	-3,640	-9,525
Proceeds from investment grants	2,126	1,733	5,478
Payments for repaid investment grants	-27	-149	-187
Proceeds from sale of financial assets	0	5	5
Payments from investments in financial assets	0	-9	0
Payments/proceeds from acquisition of shares in consolidated companies including net cash and cash equivalents acquired	-9	4	-25
Payments for additions of investments accounted for using the equity method	0	0	-2
Cash flow from investing activities	**-1,310**	**-1,910**	**-3,916**
Distribution of profits to shareholder	-850	-700	-700
Distribution of profits to minority interests	-11	-5	-10
Payments for finance lease transactions	-68	-114	-159
Proceeds from issue of bonds	494	–	2,475
Payments for redemption of bonds	-500	–	-700
Payments for the redemption and repayment of interest-free loans	-220	-220	-220
Proceeds from borrowings and commercial paper	159	356	251
Payments for the redemption of borrowings and commercial paper	-3	-13	-26
Cash flow from financing activities	**-999**	**-696**	**911**
Net changes in cash and cash equivalents	**-786**	**-1,268**	**484**
Cash and cash equivalents as of Jan 1	4,549	4,031	4,031
Changes in cash and cash equivalents due to changes in scope of consolidation	–	–	–
Changes in cash and cash equivalents due to changes in exchange rates	-46	51	34
Cash and cash equivalents as of Jun 30/Dec 31	**3,717**	**2,814**	**4,549**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

[€ million]	Subscribed capital	Reserves: Capital reserves	Reserves: Currency translation	Reserves: Fair value valuation of securities	Reserves: Fair value valuation of cash flow hedges	Reserves: Revaluation of pensions	Reserves: Other movements	Reserves: **Total reserves**	Retained earnings	**Equity attributable to shareholder of Deutsche Bahn AG**	Minority interests	**Total equity**
As of Jan 1, 2015	2,150	5,310	75	4	–462	–1,886	–12	**3,029**	9,203	**14,382**	143	**14,525**
+ Capital increase	–	–	–	–	–	–	–	**–**	–	**–**	12	**12**
– Capital decrease	–	–	–	–	–	–	–	**–**	–	**–**	–	**–**
– Dividend payments	–	–	–	–	–	–	–	**–**	–700	**–700**	–5	**–705**
± Other changes	–	–	–1	–	–	2	–	**1**	10	**11**	3	**14**
± Comprehensive income	–	–	195	–4	212	688	–	**1,091**	382	**1,473**	12	**1,485**
thereof net profit	–	–	–	–	–	–	–	**–**	382	**382**	9	**391**
thereof currency effects	–	–	195	–	–	–	–	**195**	–	**195**	2	**197**
thereof deferred taxes	–	–	–	–	–10	–29	–	**–39**	–	**–39**	–	**–39**
thereof market valuation	–	–	–	–4	222	–	–	**218**	–	**218**	–	**218**
thereof revaluation of defined benefit plans	–	–	–	–	–	717	–	**717**	–	**717**	1	**718**
thereof share of items not recognized in the income statement from investments accounted for using the equity method	–	–	–	–	–	–	–	**–**	–	**–**	–	**–**
As of Jun 30, 2015	**2,150**	**5,310**	**269**	**0**	**–250**	**–1,196**	**–12**	**4,121**	**8,895**	**15,166**	**165**	**15,331**

[€ million]	Subscribed capital	Reserves: Capital reserves	Reserves: Currency translation	Reserves: Fair value valuation of securities	Reserves: Fair value valuation of cash flow hedges	Reserves: Revaluation of pensions	Reserves: Other movements	Reserves: **Total reserves**	Retained earnings	**Equity attributable to shareholder of Deutsche Bahn AG**	Minority interests	**Total equity**
As of Jan 1, 2016	2,150	5,310	199	0	–396	–1,177	–12	**3,924**	7,185	**13,259**	186	**13,445**
+ Capital increase	–	–	–	–	–	–	–	**–**	–	**–**	4	**4**
– Capital decrease	–	–	–	–	–	–	–	**–**	–	**–**	–1	**–1**
– Dividend payments	–	–	–	–	–	–	–	**–**	–850	**–850**	–11	**–861**
± Other changes	–	–	–	–	–	–	–	**–**	–1	**–1**	–12	**–13**
± Comprehensive income	–	–	–63	3	166	–1,221	–	**–1,115**	591	**–524**	10	**–514**
thereof net profit	–	–	–	–	–	–	–	**–**	591	**591**	12	**603**
thereof currency effects	–	–	–63	–	–	–	–	**–63**	–	**–63**	–1	**–64**
thereof deferred taxes	–	–	–	–	–22	101	–	**79**	–	**79**	–	**79**
thereof market valuation	–	–	–	3	188	–	–	**191**	–	**191**	–	**191**
thereof revaluation of defined benefit plans	–	–	–	–	–	–1,322	–	**–1,322**	–	**–1,322**	–1	**–1,323**
thereof share of items not recognized in the income statement from investments accounted for using the equity method	–	–	–	–	–	–	–	**–**	–	**–**	–	**–**
As of Jun 30, 2016	**2,150**	**5,310**	**136**	**3**	**–230**	**–2,398**	**–12**	**2,809**	**6,925**	**11,884**	**176**	**12,060**

SEGMENT INFORMATION ACCORDING TO SEGMENTS

Jan 1 to Jun 30 [€ million]	DB Long-Distance [1]		DB Regional		DB Cargo		DB Netze Track [1]	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
External revenues	1,932	1,841	4,223	4,205	2,154	2,226	694	597
Internal revenues	74	75	57	49	158	165	1,907	1,869
Total revenues	2,006	1,916	4,280	4,254	2,312	2,391	2,601	2,466
Other external income	80	72	128	207	114	89	325	351
Other internal income	27	25	41	56	21	18	91	96
Changes in inventories and internally produced and capitalized assets	2	2	32	35	23	13	388	302
Total income	2,115	2,015	4,481	4,552	2,470	2,511	3,405	3,215
Cost of materials	-1,235	-1,147	-2,617	-2,664	-1,243	-1,223	-812	-814
Personnel expenses	-457	-451	-937	-947	-830	-836	-1,275	-1,156
Other operating expenses	-239	-221	-276	-275	-358	-378	-480	-454
EBITDA	184	196	651	666	39	74	838	791
Scheduled depreciation [3]	-130	-139	-316	-318	-92	-148	-444	-461
Impairment losses recognized/reversed [3]	0	0	-1	0	0	0	4	0
EBIT (operating profit)	54	57	334	348	-53	-74	398	330
Net operating interest income [4]	-1	-1	-27	-24	-30	-36	-127	-142
Operating income after interest [4]	53	56	307	324	-83	-110	271	188
Property, plant and equipment	1,879	1,464	6,594	6,596	2,237	2,925	20,132	20,264
+ Intangible assets	1	0	17	17	1	514	134	160
thereof goodwill	0	0	6	6	0	470	0	0
+ Inventories	77	70	163	146	88	107	161	167
+ Trade receivables	258	226	566	551	551	619	316	330
+ Receivables and other assets	1,055	1,672	375	146	112	289	52	50
− Receivables from financing	-1,043	-1,662	-175	0	-19	-199	-2	-2
+ Income tax receivables	–	–	0	0	2	1	0	0
+ Available-for-sale assets	–	–	–	–	0	0	–	–
− Trade liabilities	-254	-275	-718	-743	-534	-514	-663	-727
− Miscellaneous and other liabilities	-262	-276	-472	-494	-374	-419	-997	-896
− Income tax liabilities	–	–	0	0	-5	-8	–	0
− Other provisions	-73	-61	-1,241	-1,187	-171	-159	-366	-288
− Deferred items	-357	-361	-131	-132	-8	-10	-878	-1,018
Capital employed [5]	1,281	797	4,978	4,900	1,880	3,146	17,889	18,040
Net financial debt	-1,034	-1,566	2,462	2,434	1,433	1,289	10,224	10,544
Investments accounted for using the equity method	0	0	5	5	27	24	1	2
Result from investments accounted for using the equity method	0	0	1	0	1	3	0	0
Gross capital expenditures	156	141	137	339	52	91	2,495	2,233
Investment grants received	–	–	-2	-1	-2	-2	-1,980	-1,589
Net capital expenditures	156	141	135	338	50	89	515	644
Additions due to changes in the scope of consolidation	–	–	–	–	–	–	–	–
Employees [6]	16,443	16,489	35,957	36,629	30,155	30,907	43,948	41,067

1) *Previous-year figures adjusted due to changes to the segment allocation (Group restructuring).*
2) *Relating to special items and reclassification PPA amortization of customer contracts.*
3) *The non-cash items are included in the segment result shown.*
4) *Key figure from internal reporting, no external figures.*
5) *Profit transfer agreements were not assigned to segment assets or liabilities.*
6) *The number of employees comprises the workforce, excluding trainees, at the end of the reporting period (part-time employees have been converted to full-time equivalents).*

DB Netze Stations		DB Arriva		DB Schenker		Subsidiaries/ other [1]		Sum of segments [1]		Consolidation [1]		DB Group adjusted		Reconciliation [2]		DB Group	
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
267	248	2,526	2,372	7,400	7,728	837	783	20,033	20,000	–	–	20,033	20,000	0	-40	20,033	19,960
356	356	3	3	31	28	2,612	2,808	5,198	5,353	-5,198	-5,353	–	–	–	–	–	–
623	604	2,529	2,375	7,431	7,756	3,449	3,591	25,231	25,353	-5,198	-5,353	20,033	20,000	–	-40	20,033	19,960
50	55	87	69	89	89	234	274	1,107	1,206	–	7	1,107	1,213	1	3	1,108	1,216
8	9	2	2	3	4	542	551	735	761	-735	-761	–	–	–	–	–	–
17	12	1	3	4	4	403	348	870	719	384	592	1,254	1,311	–	–	1,254	1,311
698	680	2,619	2,449	7,527	7,853	4,628	4,764	27,943	28,039	-5,549	-5,515	22,394	22,524	1	-37	22,395	22,487
-239	-237	-731	-698	-4,782	-5,185	-2,406	-2,468	-14,065	-14,436	4,505	4,510	-9,560	-9,926	-4	-8	-9,564	-9,934
-139	-134	-1,077	-1,026	-1,505	-1,491	-1,565	-1,668	-7,785	-7,709	-3	2	-7,788	-7,707	-1	0	-7,789	-7,707
-93	-90	-579	-501	-946	-919	-711	-679	-3,682	-3,517	1,051	1,000	-2,631	-2,517	-1	-40	-2,632	-2,557
227	219	232	224	294	258	-54	-51	2,411	2,377	4	-3	2,415	2,374	-5	-85	2,410	2,289
-68	-67	-126	-123	-94	-93	-164	-158	-1,434	-1,507	23	23	-1,411	-1,484	-49	-49	-1,460	-1,533
0	0	0	0	0	0	0	0	3	0	–	–	3	0	–	–	3	0
159	152	106	101	200	165	-218	-209	980	870	27	20	1,007	890	-54	-134	953	756
-19	-21	-15	-19	-18	-21	-136	-123	-373	-387	–	–	-373	-387	–	–	–	–
140	131	91	82	182	144	-354	-332	607	483	27	20	634	503	–	–	–	–
3,210	3,257	2,049	2,139	1,435	1,459	1,984	1,923	39,520	40,027	-677	-708	38,843	39,319	–	–	38,843	39,319
4	3	1,809	2,028	1,484	1,479	110	129	3,560	4,330	–	–	3,560	4,330	–	–	3,560	4,330
0	0	1,436	1,585	1,188	1,199	13	13	2,643	3,273	–	–	2,643	3,273	–	–	2,643	3,273
–	0	86	73	64	68	435	395	1,074	1,026	-18	–	1,056	1,026	–	–	1,056	1,026
26	24	322	290	2,325	2,648	967	1,007	5,331	5,695	-1,119	-1,142	4,212	4,553	–	–	4,212	4,553
13	12	495	591	1,102	750	17,711	18,321	20,915	21,831	-19,313	-20,282	1,602	1,549	–	–	1,602	1,549
–	–	-133	-254	-638	-266	-17,020	-17,638	-19,030	-20,021	18,929	19,927	-101	-94	–	–	-101	-94
–	–	20	17	26	22	9	32	57	72	–	–	57	72	–	–	57	72
–	–	–	0	–	–	–	–	0	0	–	–	0	0	–	–	0	0
-98	-85	-446	-371	-1,749	-1,836	-1,115	-1,081	-5,577	-5,632	1,110	1,138	-4,467	-4,494	–	–	-4,467	-4,494
-129	-113	-519	-390	-765	-771	-917	-954	-4,435	-4,313	392	356	-4,043	-3,957	–	–	-4,043	-3,957
-1	0	-87	-92	-73	-58	-36	-34	-202	-192	28	34	-174	-158	–	–	-174	-158
-53	-55	-180	-193	-461	-381	-2,631	-2,791	-5,176	-5,115	-44	-28	-5,220	-5,143	–	–	-5,220	-5,143
-143	-144	-206	-148	-15	-17	-126	-140	-1,864	-1,970	1	2	-1,863	-1,968	–	–	-1,863	-1,968
2,829	2,899	3,210	3,690	2,735	3,097	-629	-831	34,173	35,738	-711	-703	33,462	35,035	–	–	33,462	35,035
1,175	1,261	574	687	180	637	3,145	2,325	18,159	17,611	–	–	18,159	17,611	–	–	18,159	17,611
–	–	133	129	15	14	353	358	534	532	–	–	534	532	–	–	534	532
–	–	12	7	0	1	3	4	17	15	–	–	17	15	–	–	17	15
182	187	127	96	72	82	218	196	3,439	3,365	33	1	3,472	3,366	–	–	3,472	3,366
-113	-115	0	0	–	–	-29	-26	-2,126	-1,733	–	–	-2,126	-1,733	–	–	-2,126	-1,733
69	72	127	96	72	82	189	170	1,313	1,632	33	1	1,346	1,633	–	–	1,346	1,633
–	–	–	2	17	10	–	–	17	12	–	–	17	12	–	–	17	12
5,007	4,894	51,618	45,336	66,822	65,560	52,742	56,090	302,692	296,972	–	–	302,692	296,972	–	–	302,692	296,972

› Information by regions

Jan 1 to Jun 30 [€ million]	External revenues		Non-current assets [1]		Capital employed [1]		Gross capital expenditures		Net capital expenditures		Employees [1]	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Germany	11,484	11,207	36,024	36,626	27,682	28,315	3,229	3,165	1,104	1,434	187,476	188,671
Europe (excluding Germany)	6,360	6,380	6,044	6,706	5,450	6,324	197	186	196	184	89,952	83,786
Asia/Pacific	1,230	1,290	799	810	773	817	7	6	7	6	14,371	13,877
North America	734	862	216	221	269	276	4	7	4	7	8,277	8,118
Rest of world	225	261	26	27	26	39	2	1	2	1	2,616	2,520
Consolidation	–	–	-678	-708	-738	-736	33	1	33	1	–	–
DB Group adjusted	**20,033**	**20,000**	**42,431**	**43,682**	**33,462**	**35,035**	**3,472**	**3,366**	**1,346**	**1,633**	**302,692**	**296,972**
Reconciliation	0	-40	–	–	–	–	–	–	–	–	–	–
DB Group	**20,033**	**19,960**	**42,431**	**43,682**	**33,462**	**35,035**	**3,472**	**3,366**	**1,346**	**1,633**	**302,692**	**296,972**

[1] *As of June 30.*

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

› Basic principles and methods

The unaudited, short-form interim financial statements for the period ending June 30, 2016 are prepared in accordance with the International Financial Reporting Standards (IFRS) as applied in the EU and their interpretation by the IFRS Interpretations Committee (IFRIC). The requirements of IAS 34 (Interim Financial Reporting) were followed. The accounting policies underlying the consolidated financial statements 2015 have been consistently applied for these interim financial statements.

Adoption of the following new IAS/IFRS standards, interpretations and amendments was mandatory for the reporting period.

› IAS 1: Presentation of Financial Statements – Disclosure Initiative (published in December 2014; applicable for reporting periods starting January 1, 2016)
This amendment implements initial proposals to amend IAS 1 (Presentation of Financial Statements) that can be implemented at short notice. It aims to heighten emphasis on the concept of materiality. The amendment necessitates changes to the presentation of the consolidated financial statements.

› IAS 16/IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization (published in May 2014; applicable for reporting periods starting January 1, 2016)
This amendment clarifies which methods of depreciating property, plant and equipment and amortizing intangible assets are appropriate. As a rule, depreciation and amortization must reflect the consumption of the expected future economic benefits embodied in the asset. This amendment does not affect the consolidated financial statements.

› IAS 16/IAS 41: Agriculture: Bearer Plants (published in June 2014; applicable for reporting periods starting January 1, 2016)
Pursuant to this amendment, bearer plants are measured at acquisition cost up to maturity, and subsequently accounted for in the same way as property, plant and equipment, as defined in IAS 16 (Property, Plant and Equipment). Application of IAS 41 is no longer permissible in future. This amendment does not affect the consolidated financial statements.

› Amendments to IAS 19: "Defined Benefit Plans" Employee Contributions (published in November 2013, applicable for reporting periods starting February 1, 2015)
These amendments to IAS 19 – Defined Benefit Plans: Employee Contributions refer to clarification of paragraph 93 governing the accounting method for employee contributions to defined benefit plans. These amendments do not materially affect the consolidated financial statements.

› IAS 27: Separate Financial Statements (published in August 2014; applicable for reporting periods starting January 1, 2016)
With the approval of IFRS 10 and IFRS 12, the area of application of IAS 27 in a company's separate financial statements is limited to investments in subsidiaries, associates and joint ventures. This amendment does not materially affect the consolidated financial statements.

› IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (published in May 2014; applicable for reporting periods starting January 1, 2016)
These amendments clarify the procedure for accounting for acquisitions of shares in joint arrangements that constitute business operations. According to the amendments, all of the rules governing the accounting for business combinations as specified in IFRS 3 Business Combinations and other IFRS apply as long as they do not contradict the guidelines in IFRS 11. This amendment does not affect the consolidated financial statements.

› Improvements to IFRS 2010–2012: Improvements to IFRS (published in December 2013; applicable for reporting periods starting February 1, 2015)
Improvements to IFRS 2010–2012 is the fifth collective standard implementing various amendments to seven existing IFRSs. They primarily clarify ambiguous wording and definitions. These amendments do not materially affect the consolidated financial statements.

- Improvements to IFRS 2012–2014: Improvements to IFRS (published in September 2014; applicable for reporting periods starting January 1, 2016)
  Improvements to IFRS 2012–2014 is the seventh collective standard implementing various amendments to four existing IFRSs. They primarily clarify ambiguous wording and definitions. These amendments do not materially affect the consolidated financial statements.

CHANGES TO THE SEGMENT ALLOCATION

As part of the Group restructuring that was decided in the previous year, the intra-Group service functions and service providers were reorganized at the start of the 2016 financial year. The former DB Services segment has been eliminated in its entirety, and the companies belonging to it have been allocated to the Subsidiaries/Other segment. In addition, DB Bahnbau Gruppe GmbH (formerly assigned to DB Netze Track) is now recognized under Subsidiaries/Other, while AMEROPA-REISEN GmbH (formerly assigned to Subsidiaries/Other) has been reallocated to the DB Long-Distance segment. The previous-year figures have been adjusted accordingly. Further changes to the segment allocation were immaterial.

In a transfer of operations (section 613a BGB) that came into effect on July 1, 2015, DB Projektbau GmbH transferred various organizational units and all project management functions including the appropriate assets and liabilities to DB Netz AG and DB Station&Service AG, respectively. This is primarily the reason why the personnel expenses, number of employees, purchased services and capitalized assets all increased significantly compared to the first half of 2015 in the DB Netze Track and DB Netze Stations segments. These figures decreased accordingly in the Subsidiaries/Other segment.

CHANGES IN DB GROUP

Movements in the scope of consolidation of Deutsche Bahn Group (DB Group) are detailed in the following:

[Number]	German as of Jun 30, 2016	Foreign as of Jun 30, 2016	Total as of Jun 30, 2016	Total as of Jun 30, 2015	Total as of Dec 31, 2015
FULLY CONSOLIDATED SUBSIDIARIES					
As of Jan 1	126	506	**632**	**632**	**632**
Additions	2	9	**11**	**9**	**25**
Additions due to changes in type of inclusion	0	0	**0**	**0**	**1**
Disposals	4	10	**14**	**10**	**25**
Disposals due to changes in type of inclusion	0	0	**0**	**1**	**1**
Total	**124**	**505**	**629**	**630**	**632**

Additions of companies and parts of companies

Apart from seven companies that were newly established during the reporting period, the additions to the scope of consolidation also include the transactions discussed below:

- Redhead Holdings Limited (Redhead), Bradford/Great Britain: By contract dated December 10, 2015 (closing date January 29, 2016), Schenker AG, Essen, acquired 75.0% of the shares in Redhead. Redhead operates as a freight forwarder and bulk carrier in Great Britain. The existing put-call options for the remaining 25% stake held by non-controlling shareholders are treated as contingent purchase price payments from a financial perspective. Consequently, the financial liability constitutes part of the transferred consideration for all of the shares. As such no shares of other shareholders are recognized in Group equity. This subsidiary has been included in the segment report under DB Schenker since February 1, 2016.
- Almoayed Logistics Services W.L.L. (Almoayed), Manama/Bahrain: By contract dated July 28, 2015 (closing date January 19, 2016), Schenker Middle East FZE, Dubai/VAE, acquired 49.0% of the shares in Almoayed. The company is fully consolidated because DB Schenker performs the operational management of the company and is entitled to receive the majority of the dividends, pursuant to the agreement. Following completion of the acquisition, the capital was increased by BHD 580,000 (about € 1.4 million) and the company's name changed to Almoayed Schenker W.L.L. Almoayed acts as the network partner for DB Schenker in Bahrain. This subsidiary has been included in the segment report under DB Schenker since February 1, 2016.

Below, the costs and the fair value of the acquired net assets are presented cumulatively for all changes to the scope of consolidation, insofar as they are included in the scope of IFRS 3. All purchase price allocations for acquisitions in the reporting period are consistent with IFRS 3. Goodwill is substantiated to a large extent by the synergy effects expected for the period after the acquisition. In addition, a considerable proportion of goodwill is attributable to assets which are not eligible for recognition under IFRS 3, and in particular the employee base, market access and the future revenue potential.

The goodwill is calculated as follows:

[€ million]	2016	thereof Redhead	thereof Almoayed
PURCHASE PRICE			
Payments made	9	9	0
+ Outstanding purchases price payments	4	4	–
Total compensation	**13**	**13**	**0**
+ Fair value of equity already held prior to acquisition	–	–	–
– Fair value of net assets acquired	7	7	0
Goodwill	**6**	**6**	**0**

We do not expect any part of the goodwill associated with these acquisitions to be deductible for income tax purposes.

PURCHASE PRICE ALLOCATION REDHEAD

The acquired net assets are broken down as follows:

[€ million]	Carrying amount	Adjustment	Fair value
Property, plant and equipment	6	–	6
Intangible assets	0	5	5
Trade receivables	6	–	6
Other receivables and assets	1	–	1
Cash and cash equivalents	0	–	0
Assets	**13**	**5**	**18**
Financial debt	3	–	3
Liabilities	6	–	6
Other provisions	1	–	1
Deferred tax liabilities	0	1	1
Liabilities	**10**	**1**	**11**
thereof contingent liabilities recognized in accordance with IFRS 3	–	–	–
Share of third parties	–	–	–
Net assets acquired	**3**	**4**	**7**
Purchase price paid in cash and cash equivalents	9	–	9
Cash and cash equivalents acquired	0	–	0
Inflow of cash and cash equivalents due to transaction	**9**	**–**	**9**

The fair value of the trade receivables is € 6 million, with no impairments included.

If Redhead had been included in the consolidated financial statements as of January 1, 2016, DB Group would have reported additional revenues of € 3 million and an additional effect on profit of € −1 million.

Since initial consolidation, Redhead has generated revenues of € 32 million and a net profit of € −1 million.

PURCHASE PRICE ALLOCATION ALMOAYED

The purchase price of € 26 thousand was paid to acquire a shell company with no further assets or liabilities.

If Almoayed had been included in the consolidated financial statements as of January 1, 2016, DB Group would not have reported any additional revenues or profits.

Since initial consolidation, Almoayed has not generated any revenues or profits.

› Disposals of companies and parts of companies

The disposals from the scope of consolidation include seven mergers, six liquidations, and one sale.

The following table summarizes the major effects on the consolidated income statement resulting from the changes in the scope of consolidation which have taken place compared with the respective previous year period:

[€ million]	H1 2016	thereof from additions to the scope of consolidation	Amounts due to disposals from the scope of consolidation
Revenues	20,033	100	0
Inventory changes and internally produced and capitalized assets	1,254	–	–
Overall performance	21,287	100	0
Other operating income	1,108	13	0
Cost of materials	-9,564	-56	0
Personnel expenses	-7,789	-24	0
Depreciation	-1,457	-10	0
Other operating expenses	-2,632	-21	1
Operating profit (EBIT)	**953**	**2**	**1**
Result from investments accounted for using the equity method	17	–	–
Net interest income	-396	0	0
Other financial result	-11	0	0
Financial result	**-390**	**0**	**0**
Profit before taxes on income	**563**	**2**	**1**
Taxes on income	40	0	0
Net profit	**603**	**2**	**1**

Of the revenues of € 100 million resulting from additions to the scope of consolidation, € 32 million are attributable to Redhead and € 30 million to MTS MarkenTechnikService GmbH & Co. (formerly SPA SystemPartner GmbH & Co KG), which was acquired during 2015, € 17 million to Alpetour-Potovalna Agencija d.d., Kranj/Slovenia, which was acquired during 2015, € 9 million to BUS PARTNERS SERVICES s.r.o, Bratislava/Slovakia, which was acquired during 2015, € 7 million to GOTFRI spol. s.r.o, Bratislava/Slovakia, which was acquired during 2015, and € 5 million to KM S.P.A., Cremona/Italy, which was acquired during 2015.

› Contingent receivables, and liabilities as well as guarantee obligations

Contingent receivables amounted to € 20 million as of June 30, 2016 (as of December 31, 2015: € 68 million, as of June 30, 2015: € 61 million), and mainly comprise a claim for a refund of investment grants which had been paid; however, as of the balance sheet date, the extent and due date of the claim was not sufficiently certain.

As of the balance sheet date, no contingent receivables were recognized for any ongoing proceedings due to the great uncertainty surrounding reimbursement claims, timing and likelihood.

The contingent liabilities are broken down as follows:

[€ million]	Jun 30, 2016	Dec 31, 2015	Jun 30, 2015
Contingent liabilities from issuing and transferring bills	3	–	–
Other contingent liabilities	88	85	109
Total	**91**	**85**	**109**

Other contingent liabilities also comprise risks arising from litigation which had not been stated as provisions because the expected probability of occurrence is less than 50%.

There are also contingencies of € 33 million from guarantees as of June 30, 2016 (as of December 31, 2015: € 35 million, as of June 30, 2015: € 36 million). Property, plant and equipment with carrying amounts of € 5 million (as of December 31, 2015: € 6 million, as of June 30, 2015: € 6 million) were also used as security for loans. The reported figure essentially relates to rolling stock and buses which are in use at the operating companies in the DB Arriva and DB Long-Distance segments.

DB Group acts as guarantor mainly for equity participations and joint ventures, and is subject to joint and several liability for all syndicates in which it is involved.

Information regarding the fair value of financial instruments

The carrying amounts of the cash and cash equivalents, trade receivable and other financial assets (€ 5,227 million) approximate the fair values as of the balance sheet date.

The carrying amounts of the trade payable, the other and miscellaneous financial liabilities (a total of € 6,340 million) as well as the short-term financial debt approximate the fair values as of the balance sheet date.

With regard to the following balance sheet items, the other financial assets and other financial liabilities are as follows:

[€ million]	Jun 30, 2016			Dec 31, 2015			Jun 30, 2015		
		thereof			thereof			thereof	
	Carrying amount	financial	non-financial	Carrying amount	financial	non-financial	Carrying amount	financial	non-financial
ASSETS									
Receivables and other assets	223	79	144	175	82	93	201	79	122
Other receivables and assets	1,379	936	443	1,159	782	377	1,348	902	446
Total	**1,602**	**1,015**	**587**	**1,334**	**864**	**470**	**1,549**	**981**	**568**
LIABILITIES									
Other liabilities	392	302	90	334	221	113	309	196	113
Trade payables and other liabilities	8,118	6,038	2,080	8,017	6,086	1,931	8,142	5,942	2,200
Total	**8,510**	**6,340**	**2,170**	**8,351**	**6,307**	**2,044**	**8,451**	**6,138**	**2,313**

The fair value of the non-current financial debt amounted to € 21,994 million as of June 30, 2016 (as of December 31, 2015: € 21,753 million, as of June 30, 2015: € 21,087 million).

The financial instruments recognized at fair value are classified under valuation level 2 and to a lesser extent under valuation level 1.

[€ million]	Jun 30, 2016				Dec 31, 2015				Jun 30, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS												
Available-for-sale financial assets (securities at fair value)	2	–	–	**2**	2	–	–	**2**	2	–	–	**2**
Derivatives – non-hedging	–	5	–	**5**	–	5	–	**5**	–	5	–	**5**
Derivatives – hedging	–	414	–	**414**	–	393	–	**393**	–	501	–	**501**
Total	**2**	**419**	**–**	**421**	**2**	**398**	**–**	**400**	**2**	**506**	**–**	**508**
LIABILITIES												
Derivatives – non-hedging	–	4	–	**4**	–	4	–	**4**	–	8	–	**8**
Derivatives – hedging	–	400	–	**400**	–	651	–	**651**	–	527	–	**527**
Total	**–**	**404**	**–**	**404**	**–**	**655**	**–**	**655**	**–**	**535**	**–**	**535**

The other available-for-sale financial assets shown in the balance sheet (a total of € 11 million) comprise other investments and securities which are recognized at cost of purchase, because there is no corresponding price listed on an active market and because the fair value cannot be reliably determined. At present, there is essentially no intention to sell.

There have been no reclassifications between the valuation levels in the current reporting period.

For establishing the fair values of the derivative financial instruments, the contractually agreed or most probable cash flows are discounted using the appropriate market interest rate, whereby due consideration is given to the credit risk by means of credit spreads.

No credit risk markdowns have been recognized in the case of secured exposures. The credit risk resulting from the derivative portfolio is treated on a net basis. Credit support annexes, which are subject to daily security settlement with a threshold value of € 0, are concluded to minimize the credit risk of long-term interest and cross-currency transactions as well as energy-based derivatives.

Other financial obligations

The other financial obligations amounted to € 22,230 million as of June 30, 2016 (as of December 31, 2015: € 20,343 million, as of June 30, 2015: € 20,874 million).

Capital expenditures in relation to which the company has entered into contractual obligations as of the balance sheet date, but for which no consideration has yet been received, are broken down as follows:

[€ million]	**Jun 30, 2016**	Dec 31, 2015	Jun 30, 2015
Committed capital expenditures			
Property, plant and equipment	16,314	15,145	15,548
Intangible assets	12	6	5
Purchase of financial assets	433	434	451
Total	**16,759**	**15,585**	**16,004**

The increase in order commitments in property, plant and equipment is particularly affected by the planned capital expenditure projects due to own construction projects; this was counteracted by the completed purchases of new vehicles. In the case of some supply arrangements, there are independent admissions of guilt with regard to fulfilling the order commitment; these are opposed by claims of the same amount, backed by bank guarantees and insurance policies with maximum creditworthiness. Order commitments to acquire property, plant and equipment include future obligations for vehicles in connection with the transport contracts that must be accounted for in accordance with IFRIC 12.

The purchase of financial assets amounting to € 433 million (as of December 31, 2015: € 434 million, as of June 30, 2015: € 451 million) relates to outstanding contributions at the European Company for the Financing of Railroad Rolling Stock (EUROFIMA), Basel/Switzerland.

Related-party disclosures

Major economic relations between DB Group and the Federal Republic of Germany (Federal Government) relate to liabilities due to the Federal Government arising from loans which have been extended (present value € 1,146 million, as of December 31, 2015: € 1,337 million, as of June 30, 2015: € 1,306 million). There are also relations arising from the fees paid to the Federal Government within the framework of pro forma billing for the assigned civil servants as well as cost refunds for the secondment of business relationship service provision personnel as well as from investment grants which have been received. The guarantees received from the Federal Government primarily relate to the loans received from EUROFIMA as well as the outstanding contributions and liabilities arising from collective liability of DB AG at EUROFIMA.

Business relations with Deutsche Telekom and Deutsche Post regarding the use of telecommunications and postal services have taken place to the usual extent.

Other disclosures

BOND ISSUES AND REDEMPTIONS

Deutsche Bahn Finance B.V. (DB Finance), Amsterdam/the Netherlands, issued the following bonds in the first half of 2016:

Issue volume	Term (years)	Coupon (%)	Placement
€ 500 million	10	0.75	Institutional investors in Europe
€ 750 million	15	0.875	Institutional investors in Europe

DB Group received the proceeds from the € 750 million bond in July 2016.

In the first half of 2016, a € 500 million bond issued by DB Finance was redeemed at maturity.

Dividend payment

Pursuant to the resolution of the Annual General Meeting of April 13, 2016, DB AG paid a dividend of € 850 million to the Federal Government.

Number of issued shares

The number of issued shares is unchanged at 430,000,000.

Major events after the balance sheet date

BOND ISSUES

In July 2016, DB Group via DB Finance was the first European company to issue a negative-yield bond. Most of the zero coupon bond with a total volume of € 350 million and a term of five years was placed with European investors. At the time of issue, the bond yielded – 0.006%.

ACQUISITION OF SHARES IN SAVDA S.P.A.

By contract dated April 28, 2016 (closing date July 11, 2016), Arriva Italia s.r.l., Milan/Italy, acquired all of the shares in SAVDA S.p.A., Valle d'Aosta/Italy. The company operates bus routes in Valle d'Aosta and in the neighboring regions of Piedmont and Lombardy, as well as in France and Switzerland. The purchase price was € 16 million.

S&P ADJUSTS RATING

On July 15, 2016, the rating agency S&P adjusted DB AG's long-term ratings from "AA" to "AA–", among other things because of persistently weak profit development, and simultaneously raised the rating outlook from "negative" to "stable". The short-term rating did not change (A–1+).

RAILWAY REGULATION ACT ADOPTED

The Act to strengthen competition in the railway sector, the core element of which is the Railway Regulation Act, passed by the two houses of the German parliament (Bundestag and Bundesrat) at the beginning of July 2016, will enter into force in the second half of 2016.

Berlin, July 19, 2016

Deutsche Bahn Aktiengesellschaft
The Management Board

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The Interim and Integrated Reports of Deutsche Bahn Group, the Financial Statements of Deutsche Bahn AG, the Annual Report of DB Fernverkehr AG, DB Regio AG, DB Station & Service AG and DB Netz AG and up-to-date information are also available on the Internet.

› CORPORATE COMMUNICATIONS

Corporate publications and the Competition Report are available on the Internet or can be requested from Corporate Communications:

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› DB SERVICE NUMBER

Our service number +49-180-699-6633 gives you direct access to all of our telephone services. These services include general information, booking of train tickets, finding train times, our customer dialog and our frequent traveler system (BahnCard).

The following charges apply: calls from the German fixed-line network cost 20 ct/call. Calls from the German cell phone network cost 60 ct/call at most.

FINANCIAL CALENDAR

› MARCH 23, 2017

Annual Results Press Conference,
Publication of the 2016 Integrated Report

› JULY 26, 2017

Interim Results Press Conference,
Publication of the Interim Report January – June 2017

CONTRIBUTION TO RESOURCE CONSERVATION

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