

Corporate Governance report

- | | |
|--|---|
| 36 Statement of compliance | 38 Compliance |
| 36 Cooperation between the Management Board and Supervisory Board | 38 Accounting and auditing |
| 38 Transparency | 38 Efficiency audit of the Supervisory Board |
| 38 Risk management | 39 Compensation report |

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102-16
102-18

Corporate governance rules are intended to ensure good, responsible, value-focused corporate management. On July 1, 2009, the Federal Government adopted the Public Corporate Governance Code (PCGK) regulating the principles of good corporate and investment management. The PCGK sets out the essential provisions of applicable law governing the management and monitoring of non-listed companies in which the Federal Republic of Germany holds a majority stake, while outlining the internationally and nationally acknowledged principles of good and responsible corporate governance. The objective of the PCGK is to make the corporate management and oversight of companies more transparent and easier to understand as well as to establish more precisely the role of the Federal Government as a shareholder in such companies. Concurrently, the intention is to increase awareness of good corporate governance.

We are convinced that good corporate governance is fundamental to the success of DB Group. Our aim is to sustainably increase the enterprise value so as to promote the interests of customers, business partners, investors, employees and the public, while maintaining and expanding trust in DB Group.

Statement of compliance

The Management Board and Supervisory Board of DB AG jointly state:

“Since the last statement of compliance was published on March 21, 2018, DB AG has complied with the recommendations adopted by the Federal Government on July 1, 2009 concerning the PCGK, with the exception of point 3.3.2 (the insurance deductible when taking out D&O liability insurance for the Supervisory Board). DB AG will continue to comply with the recommendations of the PCGK in the future, with the exception mentioned above until a decision is reached concerning deductibles for the Supervisory Board.”

Cooperation between the Management Board and Supervisory Board

As a German Aktiengesellschaft (joint stock corporation), DB AG is subject to a two-tier management and monitoring structure in the form of the Management Board and Supervisory Board. These two bodies are strictly segregated in terms of both their membership and their competencies. The Management Board manages the company solely on its own joint responsibility. The Supervisory Board monitors the activities of the Management Board and is responsible for appointing members to, and dismissing members from, the Management Board.

In the interests of optimum company management, we see it as very important for the Management Board and the Supervisory Board to maintain continuous dialog with each other and to work together efficiently and in an atmosphere of mutual trust for the benefit of the company. The Management Board provides the Supervisory Board with regular, prompt, comprehensive information on all matters relevant to the company, particularly those concerning planning, business development, risk position and risk management, as well as the internal control system.

An overview of the **members of the Management Board and of the Supervisory Board** [§ 247 ff.](#) of DB AG, including the mandates they hold, is provided in the Notes to the consolidated financial statements.

Management Board

The Management Board manages the company solely on its own joint responsibility. It is required to safeguard the interests of the company and is committed to achieving the sustainable growth of enterprise value. It specifies the business goals and defines the strategies to be implemented in order to attain these targets. The Management Board is responsible for making decisions on all matters of fundamental and key importance for the company.

Martin Seiler took up his position as member of the Management Board responsible for Human Resources and Legal Affairs on January 1, 2018. Alexander Doll took up his position as member of the Management Board responsible for Freight Transport and Logistics on April 1, 2018. Both Board members were appointed previously in 2017. Since January 1, 2019, Alexander Doll has been managing the Finance, Freight Transport and Logistics Board division of DB Group, following the merging of the finance functions previously managed by the Board division of the CEO with the business units of the Freight Transport and Logistics division.

The Management Board of DB AG therefore continues to consist of six divisions. In addition to the Board division of the CEO, the Management Board is also responsible for the “Human Resources and Legal Affairs,” “Digitalization and Technology,” “Passenger Transport,” “Finance, Freight Transport and Logistics,” and “Infrastructure” Board divisions.

Management Board members must discuss any conflicts of interest with the Supervisory Board immediately and must also provide their colleagues on the Management Board with information about any such conflicts. There were no conflicts of interest during the year under review.

Supervisory Board

The Supervisory Board advises and monitors the Management Board in its management of the company.

In line with the requirements of the Co-Determination Act (Mitbestimmungsgesetz; MitbestG), the Supervisory Board of DB AG consists of 20 members, of whom ten members are shareholders’ representatives and ten members are employee representatives. Some of the shareholders’ representatives are seconded to the Supervisory Board and some are elected at the Annual General Meeting. The employees’ representatives on the Supervisory Board are elected in line with the requirements of the Co-Determination Act.

The Chairman of the Supervisory Board of DB AG is Michael Odenwald as of April 17, 2018, following the resignation of the previous Chairman, Prof. Dr. Dr. Utz-Hellmuth Felcht as of the end of March 31, 2018. The personal or business **relations of individual members of the Supervisory Board of DB AG** **□ 236** are given in the Notes to the consolidated financial statements.

Supervisory Board members must immediately disclose any conflicts of interest with the Supervisory Board and must also provide the Supervisory Board with information about any such conflicts. In the reporting period, no such incidents arose.

Transactions of fundamental importance and other Management Board decisions with a major impact on the business operations and on the assets, financial or income situation of DB Group require the authorization of the Supervisory Board. The Management Board reports to the DB Supervisory Board on the development of business and the position of DB Group at least once every quarter. The Management Board also reports to the Supervisory Board regularly on all measures implemented within DB Group that are intended to ensure compliance with laws and corporate regulations. In addition, the tasks of the Supervisory Board include the auditing and approval of DB AG’s annual financial statements and the auditing of DB AG’s management report, the consolidated financial statements, and the DB Group management report. The Supervisory Board also monitors the accounting process, the effectiveness of the internal control system, the risk management system and the internal audit system, as well as the process of auditing the annual financial statements.

In addition, the Chairman of the Supervisory Board is in regular contact with the Management Board and particularly the Chief Executive Officer to discuss company strategy, business development and risk management. The Chairman of the Supervisory Board receives regular reports from the Chief Executive Officer on all events that are of key importance for assessing the company’s situation and development, as well as for its management.

There were no consultancy agreements or other comparable service agreements or contracts for services between the members of the Supervisory Board and DB AG in the year under review.

Supervisory Board committees

In order to enable it to carry out its monitoring activities to the best of its abilities, the Supervisory Board of DB AG has made use of the option of setting up further committees in addition to the Mediation Committee, which has to be set up in accordance with the Co-Determination Act, and has set up an Executive Committee, an Audit and Compliance Committee and a Personnel Committee. An overview of the **committee members** **□ 249** can be found in the Notes to the consolidated financial statements. Details of the **work performed by the individual committees** **□ 33 f.** in the year under review are included in the report of the Supervisory Board.

🔗 Details of the functions of the individual committees can be found on our Web site.



405-1

Share of women on the Management Board and Supervisory Board

↓ Five women currently serve on the Supervisory Board of DB AG. A target of a 30% share of women on the Supervisory Board of DB AG was set, with a deadline of June 30, 2022.

One woman currently serves on the Management Board of DB AG. A target of a 30% share of women on the Management Board of DB AG was set, with a deadline of June 30, 2022.

At the other management levels of DB AG, the following targets have been set (deadline December 31, 2020): at the first management level below the Management Board a 25.5% share of women, and at the second management level below the Management Board a 28.6% share of women.

Transparency

All important information regarding the consolidated and annual financial statements, the interim report, the financial calendar and information on security transactions subject to a reporting obligation can be found on our [Web site](#). In addition, we provide regular information on current developments within the framework of our investor relations activities and corporate communication.

Risk management

Good corporate management also encompasses a responsible approach to the risks and opportunities arising in connection with business operations. The early identification and limitation of business risks is therefore of paramount importance to the Management Board and the Supervisory Board.

The Management Board is responsible for ensuring adequate risk management and monitoring it within the company, and for continuously improving both. The Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetz; BilMoG) precisely defines the responsibilities of the Supervisory Board with regard to monitoring the accounting process and ensuring the effectiveness of the internal control system, the risk management system and the internal audit system. For the Supervisory Board to be able to discharge this responsibility, it must be provided with suitable information based on which it can form an opinion on the adequacy and effectiveness of the systems. Regular reports are made to the Audit and Compliance Committee concerning the adequacy and effectiveness of the internal control system. In addition, the Management Board reports to the Audit and Compliance Committee regarding risks of major importance to the Group companies and the handling of

these risks by the Management Board. It also controls whether the early warning system for risks meets the requirements of section 91 (2) of the Stock Corporation Act (Aktiengesetz; AktG).

Compliance

Compliance is an integral component of the corporate and leadership culture in DB Group. To us, compliance means ensuring our business activities comply with the relevant laws and regulations that apply to them.

Our compliance activities focus on preventing and consistently combating corruption and other corporate crime. Mandatory compliance policies serve to protect DB Group, our employees and our executives. Increasing awareness among our employees and executives remains of great importance, because only risk-aware employees can recognize risks and successfully avoid or, at least, minimize them.

The compliance work of DB Group includes the early detection of compliance risks as well as the introduction of relevant countermeasures. This work includes conducting compliance programs, constant communication and process improvements.

Additional information on the subject of [compliance](#) can be found in the **Notes to sustainability** [253 f.](#) and on our Web site.

Accounting and auditing

On March 21, 2018, the Annual General Meeting of DB AG appointed PwC, Berlin, as auditor for the 2018 financial year. The Audit and Compliance Committee prepared the proposals of the Supervisory Board regarding the election of the auditor and, following the election of the auditor by the Annual General Meeting, defined the key audit aspects in conjunction with the auditor. Once again this year it was agreed with the auditor that the Chairman of the Audit and Compliance Committee will be notified immediately of any possible reasons for exclusion or prejudice that emerge in the course of the audit. It was also agreed that the Chairman of the committee will be notified immediately by the auditor of any separate findings and any irregularities in the statement of compliance.

Efficiency audit of the Supervisory Board

The Supervisory Board regularly monitors the efficiency of its activities. An efficiency audit is carried out every two years. The efficiency audit was last carried out in 2017.

Compensation report

The compensation report outlines the compensation system and lists the individual compensation of the members of the Management Board and the Supervisory Board.

The compensation system of the Management Board

The compensation system for the Management Board of DB AG aims to provide appropriate compensation to the Management Board members in accordance with their duties and areas of responsibility, while at the same time directly taking into account the performance of each Management Board member and the success of the company.

The appropriate level of compensation is reviewed regularly using a comparison process. This review examines the level of Management Board compensation both in comparison to the external market (horizontal appropriateness) and in comparison to other levels of compensation within the company (vertical appropriateness). If the review shows a need to adjust the compensation system or the level of compensation, the Personnel Committee of the Supervisory Board submits its proposals in this regard to the Supervisory Board for approval. The appropriateness of Management Board compensation was last reviewed in 2016.

Compensation components

The total compensation for Management Board members consists of a fixed salary, a performance-linked annual director's fee and a long-term incentive plan based on multi-year figures. Total compensation also includes benefit commitments, other commitments and ancillary benefits.

The fixed salary is cash compensation linked to the financial year. It is based on the scope of responsibility and the experience of each Management Board member. The individually defined fixed income is paid out in 12 equal installments.

The annual performance-linked director's fee is calculated using a factor linked to the achievement of business targets (director's fee factor) and the achievement of individual targets (performance factor). There is a multiplicative link between the director's fee factor and the performance factor. The director's fee factor depends on the level of success in attaining the business targets set out by corporate planning. The parameters for this relationship are in equal parts operational success (operating income after interest) and return on capital employed (ROCE).

The performance factor reflects success in meeting personal targets. The target fee corresponds to the annual director's fee paid to the Management Board member in a "normal financial year" for fully meeting performance targets

(meeting targets). If the Group results do not meet planned objectives, the director's fee factor can, in extreme cases, be reduced to zero, regardless of personal performance. This means that the annual director's fee can be zero. If planned objectives are sufficiently exceeded and the maximum performance factor is also achieved, the annual director's fee can amount to 2.6 times the target director's fee.

The business and personal targets of the Management Board members are decided by the Supervisory Board each year based on recommendations from the Personnel Committee, and are then agreed in writing with the Management Board members.

Together with the corporate planning adopted by the Supervisory Board, the personal targets form the basis for assessing the annual director's fee. This means that all of the key parameters for total compensation are established at the beginning of the financial year.

At the end of each financial year, the director's fee and the personal performance factor are calculated for each Management Board member based on Group results. Target income is attained if both business goals and individual targets have been met in full. The final decision on this matter is made by the Supervisory Board and is prepared by the Personnel Committee.

The methodology for calculating the long-term incentive plan for the Management Board has been changed since the 2017 tranche. The basis for assessing the long-term element of compensation is now a customary return on capital, based on equity value. Aligning the long-term incentive to the equity value rewards sustainable increases in the value of the company. After the end of each planning period, the increase in value achieved in comparison to the company's original planning and the payment factor are calculated. The term of each plan is four years. The payment amount for the long-term incentive plan has an upper limit and can vary between 0% and 250%. Claims from the long-term incentive plan are inheritable.

The Management Board members are entitled to an appropriate severance package if their contract is terminated before the contractually stipulated termination date, provided that the Management Board member was not personally responsible for the termination through his or her actions. The severance package is based on the remaining term of the contract, the agreed target salary and, where applicable, the pension benefits already owed by DB AG for the remainder of the contract.

In accordance with the recommendations of the PCGK, a severance payment cap is included in all contracts of DB AG Management Board members. This cap means that payments made to a Management Board member due to premature termination of Management Board duties without good cause as defined by section 626 of the Civil Code (Bürgerliches Gesetzbuch; BGB) cannot exceed the value of two years' salary, including variable compensation components, and must not provide compensation for more than the remaining term of the employment agreement.

Management Board members do not receive any additional compensation for mandates exercised in control bodies of Group companies or affiliated companies.

Group-wide compensation system for executives

The compensation system for executives aims primarily to closely link compensation to the sustainable success of the company in the sense of the business success of the integrated rail system and of the Group as well as the alignment of all divisions toward this objective.

The annual director's fee for executives and employees not subject to wage agreements in the integrated rail system are structured as profit shares. Personal goals are then agreed with executives as part of a regular process. The achievement of the goals is regularly included in the assessment when making decisions on increases to the fixed salary.

If the executives are members of bodies of DB AG subsidiaries, the respective subsidiary's Supervisory Board is responsible for discussing the personal goals if possible until the end of a financial year. Where applicable, the respective decision-making will take place after the DB AG Supervisory Board meeting in which the mid-term planning and the targets for the Group's Management Board are adopted. This chronological sequence of the handling of personal goals in the Supervisory Boards of the subsidiaries is due to the Group structure of DB AG.

In some cases, given the regulatory requirements, DB Netz AG is subject to separate regulatory requirements which take even greater account of the business success of DB Netz AG.

Pension entitlements

The Supervisory Board of DB AG has set a general retirement age of 65 for Management Board members. After leaving the company, Management Board members are entitled to pension payments. At the latest upon reaching

the age of 65, a Management Board member is entitled to a lifelong pension if the term of employment ends due to permanent invalidity, or if the contract is terminated before the agreed termination date or is not extended, where the Board member was not responsible for the termination, or if the Management Board member refuses to continue the contract under the same or more beneficial conditions.

The system governing benefit commitments to Management Board members was amended in 2017. Members appointed to the Management Board for the first time in 2017 and thereafter receive a defined benefit commitment under which a capital stock is saved up for the Board member for the duration of their employment and paid out when they reach retirement age. An annual amount derived as a specific percentage of fixed salary is paid into the defined contribution plan.

Company pension commitments for Management Board members already in office are based on a percentage of the basic salary depending on the length of time that the Management Board member has been with the company. Pension commitments include lifelong retirement and surviving dependent benefits. There is no lump-sum payment option.

In addition to Management Board member contracts entered into before January 1, 2009, a reinsurance policy was concluded to cover company pension benefits.

Contractual ancillary benefits

The contractual ancillary benefits for members of the Management Board include a company car with driver for business and personal use, a personal BahnCard 100 First free travel card and standard insurance coverage. A housing allowance is provided for second homes where these are required for business purposes. Where these monetary benefits cannot be granted on a tax-free basis, they are taxed as non-monetary benefits for which the Management Board members are fully responsible. Management Board members, like any other member of the Group's executive staff, can choose to take part in the company's deferred compensation program.

The members of the Management Board are covered by liability insurance against financial losses incurred due to DB AG's business operations (D&O insurance). In the year under review, this insurance was designed as a Group insurance policy with the deductible provided for under law; it provides coverage for financial losses that may occur during the performance of Management Board activities. The insurance coverage of the existing D&O insurance policy is valid for a period of five years after the termination of activities as a member of the Management Board.

Compensation for the 2018 financial year

The director's fee for the previous financial year is due at the end of the month in which the company's Annual General Meeting takes place.

The members of the DBAG Management Board will receive the following compensation for their work during the year under review:

Total compensation of the Management Board (€ thousand)	Fixed compensation	Compensation in connection with the early termination of service	Variable compensation				Total ⁴⁾
			Short-term ¹⁾	Long-term (payment in 2018)	Long-term ²⁾	Other ³⁾	
Incumbent members of the Management Board of DBAG as of Dec 31, 2018							
Dr. Richard Lutz	900	-	892	-	107	17	1,809
Ronald Pofalla	650	-	560	-	185	31	1,241
Berthold Huber	650	-	560	-	185	28	1,238
Martin Seiler	400	-	394	-	225	28	822
Alexander Doll	300	-	256	-	206	22	579
Prof. Dr. Sabina Jeschke	400	-	394	-	142	16	810
Total	3,300	-	3,055	-	1,049	143	6,498

Individual figures are rounded and therefore may not add up.

¹⁾ Subject to the decision of the Supervisory Board.

²⁾ Long-term variable compensation refers to additions to and releases of provisions for long-term incentives (LTI).

³⁾ Monetary benefits accruing from travel discounts, usage of company cars, and insurance and housing allowances.

⁴⁾ Total without long-term variable compensation.

In the year under review, no members of the Management Board of DBAG received benefits or promises of benefits from a third party with regard to their activities as a member of the Management Board.

Pension benefits for the Management Board for the 2018 financial year

During the year under review, an amount totaling € 1,222 thousand was added to the pension provisions.

Additions to pension provisions (€ thousand)	2018
INCUMBENT MEMBERS OF THE MANAGEMENT BOARD OF DBAG AS OF DEC 31, 2018	
Dr. Richard Lutz	236
Ronald Pofalla	0
Berthold Huber	471
Martin Seiler	202
Alexander Doll	136
Prof. Dr. Sabina Jeschke	177
Total	1,222

Pension provisions for former members of the Management Board € 236 are shown in total in the Notes to the consolidated financial statements.

Compensation of the Supervisory Board for the 2018 financial year

Compensation of the Supervisory Board of DBAG was most recently regulated by the Annual General Meeting resolution of September 21, 2010. In addition to being reimbursed for their cash outlays and the value-added tax due on their compensation and cash outlays, the Supervisory Board members each receive fixed annual compensation of € 20,000, plus performance-linked annual compensation. The performance-based compensation is calculated based on the relationship between operating profit (EBIT) as disclosed in the consolidated financial statements for the financial year compared to the previous year's figures, and the attaining of specific operational performance figures. Performance-based compensation is limited to a maximum of € 13,000. The Chairman of the Supervisory Board receives twice this amount, while his deputy receives one and a half times the above figure. This compensation is increased by a quarter for every position held on a committee by the individual Supervisory Board member. This compensation increases by 100% for the Chairman of the Executive Committee and the Chairman of the Audit and Compliance Committee, and by 50% for the Chairman of the Personnel Committee. This does not include membership or chairmanship of the committee that is formed under the terms of section 27 (3) MitbestG.

In addition, the members of the Supervisory Board of DBAG receive an attendance fee of € 250 for each meeting of the Supervisory Board and its committees at which they are present. The members of the Supervisory Board also have the choice between a personal BahnCard 100 First and five free train tickets.

The members of the Supervisory Board are covered by liability insurance against financial losses incurred due to DBAG's business operations (D&O insurance). This insurance is designed as a Group insurance policy with no deductible and provides coverage for financial losses that may occur during the performance of Supervisory Board activities. There is also a Group accident insurance policy in place for members of the Supervisory Board. The relevant company pays the premiums for these policies.

Supervisory Board members who have only been members for part of the respective financial year receive a twelfth of the total compensation for each month or part of a month of their membership. This rule also applies to the increase in compensation for the Chairman of the Supervisory Board and his or her deputy and to the increase in compensation for membership and chairmanship of a Supervisory Board committee.

Compensation is paid after the conclusion of the Annual General Meeting that votes to ratify the Supervisory Board's activities in the previous financial year.

Taxes due on compensation received, including the personal BahnCard 100 First and the five free train tickets, are the individual responsibility of each Supervisory Board member.

Supervisory Board members currently hold no shares in the company, nor do they hold options entitling them to purchase shares in the company.

Subject to the approval of the activities of the Supervisory Board by the Annual General Meeting on March 27, 2019, the members of the Supervisory Board of DBAG will receive the following compensation for their work during the year under review:

	Annual compensation 2018				
Total compensation of the Supervisory Board (€ thousand)	Fixed compensation	Variable compensation	Attendance fee	Ancillary fee	Total
INCUMBENT MEMBERS OF THE SUPERVISORY BOARD OF DB AG AS OF DEC 31, 2018 ¹⁾					
Michael Odenwald	61.7	18.5	3.8	0.9	84.8
Alexander Kirchner	40.0	12.0	3.5	7.2	62.7
Guido Beermann	26.3	7.9	2.8	-	36.9
Jürgen Beuttler	20.0	6.0	2.0	-	28.0
Dr. Ingrid Hengster	20.0	6.0	1.8	-	27.8
Jörg Hensel	25.0	7.5	3.0	0.9	36.4
Dr. Levin Holle	20.0	6.0	3.0	-	29.0
Klaus-Dieter Hommel	20.0	6.0	1.3	7.2	34.5
Prof. Dr. Susanne Knorre	20.0	6.0	2.0	7.2	35.2
Jürgen Knörzer	6.7	2.0	0.8	-	9.4
Dr. Jürgen Krumnow	40.0	12.0	3.0	0.9	55.9
Kirsten Lühmann	20.0	6.0	2.0	0.9	28.9
Heike Moll	20.0	6.0	1.8	7.2	35.0
Stefan Müller	3.3	1.0	0.5	-	4.8
Eckhardt Rehberg	6.7	2.0	0.8	-	9.4
Mario Reiß	20.0	6.0	1.8	7.2	35.0
Regina Rusch-Ziemba	25.0	7.5	2.5	7.2	42.2
Jens Schwarz	30.0	9.0	3.5	7.2	49.7
Veit Sobek	20.0	6.0	2.0	7.2	35.2
Oliver Wittke ²⁾	10.0	3.0	-	-	13.0
MEMBERS WHO LEFT THE SUPERVISORY BOARD OF DB AG DURING THE YEAR UNDER REVIEW ¹⁾					
Uwe Beckmeyer	6.7	2.0	0.8	-	9.4
Prof. Dr. Dr. Utz-Hellmuth Felcht	17.5	5.3	1.0	-	23.8
Dr. Michael Frenzel	11.7	3.5	0.8	-	15.9
Dr. Jürgen Großmann	11.7	3.5	1.0	-	16.1
Ludwig Koller	11.7	3.5	0.5	-	15.7
Compensation for further Supervisory Board mandates in DB subsidiaries					90.3
Total					865.0

Individual figures are rounded and therefore may not add up.

¹⁾ Some Supervisory Board members state that their compensation is to be donated to the Hans Böckler Foundation in line with the directive of the German Trade Union Confederation (Gewerkschaftsbund).

²⁾ Parliamentary Secretary of State Wittke did not accept the compensation for his activities as member of the Supervisory Board.

There are no pension obligations for members of the Supervisory Board.

The members of the Supervisory Board did not receive any compensation in the year under review for any personally provided services.