



Interim Results Press Conference 2010

Deutsche Bahn AG
DB Mobility Logistics AG

Speech of Dr. Richard Lutz
CFO

Berlin, July 28, 2010

- The spoken word takes precedence. -

Disclaimer

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Ladies and Gentlemen,

I would also like to welcome you to today's interim results press conference.

Dr. Grube has already provided you with the key data in relation to our performance, revenues and results.

As has been the case in the past, I shall now take you through the economic performance of DB Group in detail.

Overall, we can state that economic performance in the first half of 2010 has been positive. Following the considerable problems in the previous year due to the economic climate, we have again reported considerable growth in terms of performance and revenues. And **growth in terms of volumes and revenues** is of course good news for a group which operates transport networks and which accordingly has high fixed-costs.

Because we have always **focused, and still focus, strongly on efficient cost structures**, even in growth phases, it is of course not surprising that we are able to report **considerably improved results** compared with the corresponding previous year period.

We have also made further progress in **reducing our debt**. We are thus still able to finance our capital spending out of our own resources, and we are also able to reduce our existing level of debt. This is the course which DB Group has been following since the year 2005, when debt was running at almost € 20 billion.

DB Group has thus stood for **financial stability and performance** for many years. And we will continue to consistently follow this course because it is a **key condition for sustainable development**.

My presentation consists of **three main topics**:

- ◊ I would like first of all provide you with an overview of the major influences and developments of DB Group.
- ◊ I will then consider developments in key financials in greater detail, namely revenues, adjusted EBIT, capital expenditures and financial debt.
- ◊ And finally, I will provide you with an outlook for the whole of 2010.

H1 2010 - At a Glance		DB Mobility Networks Logistics
Highlights H1 2010		
General conditions	<ul style="list-style-type: none"> ◊ Positive impact from world-wide economic recovery on transport and logistics markets ◊ Stable framework for passenger transport ◊ No major special items 	
Passenger transport	<ul style="list-style-type: none"> ◊ Positive impact from one-time effects on performance and revenues (severe winter, strikes in air transport and ash clouds) ◊ Limited availability of vehicle fleet in long-distance transport ◊ Burdens on profits at S-Bahn Berlin due to limited availability of vehicles 	
Transport and logistics	<ul style="list-style-type: none"> ◊ Significant recovery of volumes in all relevant markets, rail freight transport increases performance and gains market shares ◊ Pre-crisis level in all relevant markets not yet reached ◊ Margins under pressure 	
Infrastructure	<ul style="list-style-type: none"> ◊ Increased train-path demand, especially in rail freight transport ◊ Trend of increasing non-Group usage continues ◊ Significant cost burdens due to severe winter 	

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If we intend to provide a qualitative and verbal description, as opposed to a quantitative description, of the climate and economic development in DB Group during the first half of 2010, it is necessary to point out a series of **highlights**:

- ◊ Without doubt, the predominant aspect is that we have seen a **rapid economic recovery** - which has been surprising to a certain extent - in the first half of the year. This has been applicable particularly for Germany, but has also been true for developments in Europe and throughout the world.

This economic climate has had **a positive impact on our transport and logistics markets**. The markets which were most severely affected by the economic crisis in the previous year, such as air, ocean and rail freight transport, are now reporting the strongest rates of growth. This is of course also due to the low base in the first half of 2009 and the restocking effect which is generally evident when the economy picks up again. However, there is absolutely no doubt: We have been feeling the effects of a considerable economic following wind in the first half of 2010.

- ◆ In the first half of 2010, we have again **not identified any major economic impetus for our passenger transport business**, which has emerged relatively stable from the crisis. In this particular field, the overall development has remained stable.
- ◆ **Nor do we have to report any major special items** in the first half of 2010. Neither exchange rate factors nor acquisitions have had a significant impact on our figures or the extent to which the figures are comparable. Arriva has not yet been included in the interim financial statements because, as we are all aware, the acquisition process has not yet been completed.

A glance at our operations shows a differentiated picture:

- ◆ On the positive side of the equation, there is of course the **growth in terms of performance and revenues in the Transport and Logistics business units**, reflecting the developments in the overall economy.
- ◆ We have also reported **growth in performance in the passenger transport business – to a certain extent due to exceptional factors** such as the restrictions in the aviation industry as a result of strikes and the volcanic ash clouds as well as the severe winter.
- ◆ On the other hand, we are still affected by a shortage of trains in the **Long-Distance** business unit because the frequency of the ultrasound tests for ICE T and ICE 3 has a negative impact on **vehicle availability**. And significant improvement in this respect is only likely when industry has supplied permanently robust wheel sets which are approved by the EBA. And unfortunately, this will not be the case in the near future.

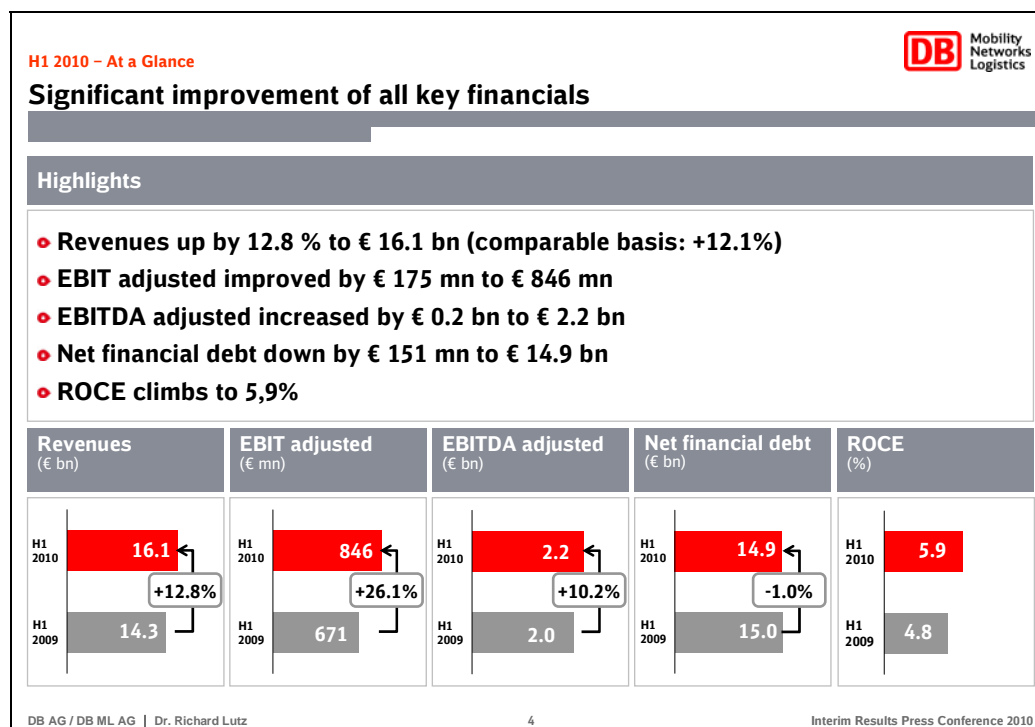
- ◆ The situation at **S-Bahn Berlin** is similar. These activities have also been affected by **significant restrictions in terms of service** as a result of problems with vehicle availability, and this has been reflected in **revenue losses and additional costs**. The service is being ramped up as planned, and also as promised to the Senate. However, it will not be possible for normal service to be resumed before the end of the year. And the problem with suspensions will not be completely solved before the timetable changeover in December 2011.
- ◆ We have also had to cope with **the severe winter**, which has resulted in **operational restrictions**. The associated **costs** particularly affected infrastructure, where winter service reached a level which had never previously been seen.
- ◆ In our entire **transport and logistics business, our margins are also under pressure**, with a correspondingly negative impact on our key financials.
- ◆ In the field of **infrastructure**, our business units have benefited from the **recovery in demand for transport services**. This has been applicable particularly for the rail freight transport routes. The trend of rising external demand which has been evident for many years has continued. A further key aspect of infrastructure was the implementation of the measures from the two economic stimulus programs.

H1 2010 – At a Glance		DB Mobility Networks Logistics													
Positive performance development, especially in transport and logistics															
Passenger transport		Transport and logistics													
Rail		DB Schenker Rail													
<ul style="list-style-type: none"> ↗ Total volume sold (+2.0%) DB Bahn Long-Distance ↗ Volume sold (+3.8%) DB Bahn Regional ↗ Volume sold (+0.5%) ↘ Volume produced (-0.8%) 		<table border="1"> <thead> <tr> <th>Volume sold</th> <th>DB</th> <th>Market^{1),2)}</th> </tr> </thead> <tbody> <tr> <td>European market (tkm)</td> <td>↗ +18.8%</td> <td>↗ >10%²⁾</td> </tr> <tr> <td>DB comparable³⁾</td> <td>↗ +14.9%</td> <td></td> </tr> <tr> <td>German market (tkm)</td> <td>↗ +14.6%</td> <td>↗ >3%</td> </tr> </tbody> </table>		Volume sold	DB	Market ^{1),2)}	European market (tkm)	↗ +18.8%	↗ >10% ²⁾	DB comparable ³⁾	↗ +14.9%		German market (tkm)	↗ +14.6%	↗ >3%
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Infrastructure															
Train-path demand		Station stops													
<ul style="list-style-type: none"> ↗ Train kilometers (+2.9%) ↗ Share of non-Group railways from 16.7 % to 18.6 % 		<ul style="list-style-type: none"> ↘ Stops (-0.4%) 													
<small>Change H1 2010 vs H1 2009</small> <small>DB AG / DB ML AG Dr. Richard Lutz</small>		<small>¹⁾ Preliminary DB estimates; ²⁾ Only rail transport; ³⁾ Excluding DB Schenker Rail Polska</small> <small>3</small>													
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I will only briefly consider the **performance side** of the equation, because the major effects have already been addressed.

- ◆ Our **passenger transport** business has reported a positive development in performance in rail as well as bus services. In the field of rail services, growth was driven by the development in long-distance transport. In this respect, we were able to additionally benefit from the severe winter and the problems affecting aviation as a result of the clouds of volcanic ash following the eruption of the unpronounceable Icelandic volcano - Eyjafjallajökull. The development in regional services was affected by the constraints in operations at S-Bahn Berlin and losses of market shares in Germany.
- ◆ In the field of Transport and Logistics, the following wind generated by the economy has had a significant impact on the development of our performance: Our **rail freight traffic** (DB Schenker Rail) has again achieved strong growth, namely almost 19%, and, based on our estimates, has also succeeded in gaining further market share.

- A positive development can also be reported for **Freight Forwarding and Logistics** (DB Schenker Logistics), namely for all market segments. In the European Land Transport segment, we have again achieved considerable growth of +14.6%; we have also achieved growth of +28.6% and +23.1% in the world-wide air freight and ocean freight segments respectively. Our growth rates were likely in excess of the corresponding development of the overall markets.
- The performance increases in rail freight traffic have also resulted in stronger **train path demand** of internal and external railways in infrastructure. The trend towards stronger train path demand of external railways is thus continuing. Compared with the corresponding previous year period, the percentage attributable to external rail transport companies has increased from 16.7% to 18.6%.
- On the other hand, the number of **station stops** declined slightly as a result of the restrictions affecting the services at S-Bahn Berlin.

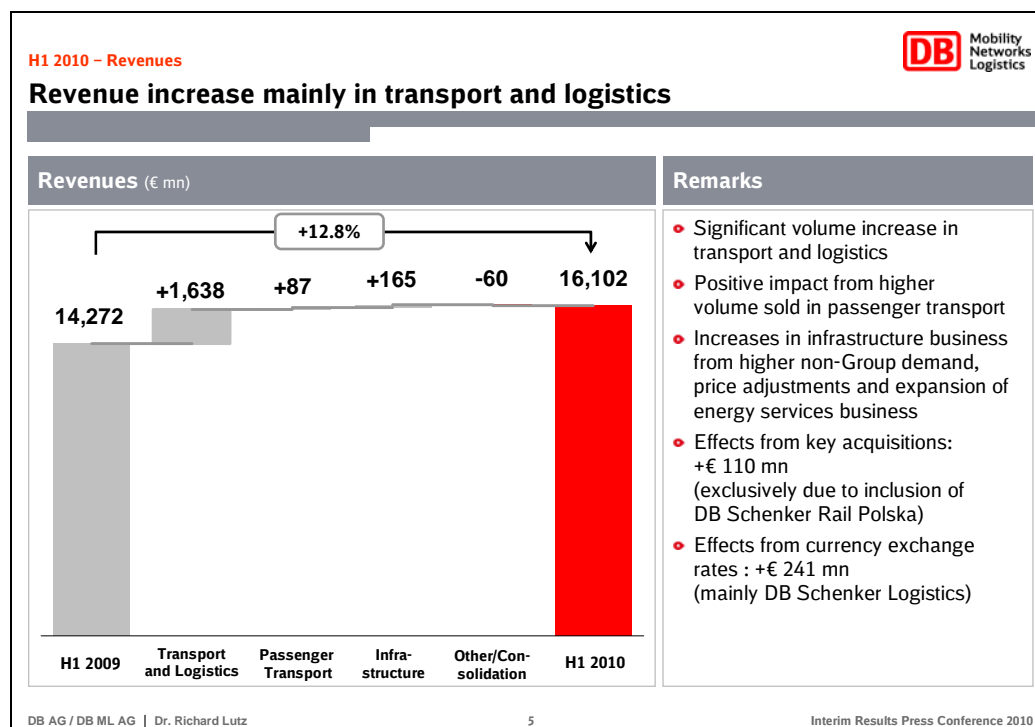


The positive development in performance is also clearly reflected in our **key financials**.

- We boosted our **revenues** in the first half of 2010 by almost 13% to the current figure of € 16.1 billion. On a like-for-like basis, we have still achieved an increase of around 12%.
- However, the absolute increase was not fully reflected in our **operating profit figures**. Cost increases attributable to higher volumes and in particular additional costs due to the severe winter and higher maintenance costs for our fleet have had a negative impact in this respect. Gross profit at DB Schenker Logistics increased in absolute terms; however, the gross profit margin also came under pressure as a result of higher freight rates for input services.

- ◆ The continuation of **disciplined cost management in all areas of DB Group** was a positive factor in terms of the development of profits. I have pointed out above that we have always devoted attention to the efficiency and competitiveness of our cost structures, even in phases of growth. As you are aware, we initiated the group-wide program reACT at the beginning of last year as a response to the challenges posed by the crisis, and set ourselves the ambitious target of attaining a sustainable improvement in EBIT of € 2 billion by the year 2013. In 2009, we achieved an EBIT effect of more than € 600 million. The program is still on track in the first half of 2010. Accordingly, we have seen positive contributions to earnings not only in the first half of the year; we are also expecting positive contributions to earnings in the remainder of 2010.
- ◆ Adjusted earnings before interest and taxes (**EBIT**) amounted to € 846 million, and were thus € 175 million higher than the corresponding figure in the first half of 2009.
- ◆ Adjusted earnings before interest, taxes, depreciation and amortization (**EBITDA**) amounted to € 2.2 billion in the first half of 2010, around 10% up compared with the corresponding previous year figure.
- ◆ We have been able to reduce our **net financial debt** in the first half of 2010 by around € 150 million compared with the end of 2009, to the current figure of € 14,860 million.
- ◆ We have again considerably improved our key value management figure, namely **Return on Capital Employed (ROCE)**. ROCE is now running at 5.9%, compared with 4.8% in the first half of 2009.

Following this general overview, I would now like to consider four key financials in greater depth; namely revenues, adjusted profit (EBIT), capital expenditures and financial debt. I shall begin with revenues:



- The positive **development in revenues** is mostly attributable to the development in the Transport and Logistics business units, which overall are up by around € 1.6 billion compared with the first half of 2009. On the other hand, the increase in passenger transport revenues was relatively moderate, namely € 87 million. The Infrastructure business units have reported somewhat stronger growth in revenues, namely € 165 million.
- The effect on revenues of **major acquisitions** was exclusively attributable to the rail freight transport company DB Schenker Rail Polska which was acquired in the previous year, and amounted to € 110 million. Adjusted by this factor, revenue growth was 12.1%.
- Exchange rate effects**, which were mainly attributable to the DB Schenker Logistics business unit, had a positive impact of € 241 million on revenues. Corresponding increases in expenses were working in the opposite direction, so in total there was only a minor effect on EBIT of € +6 mn.

A more in-depth presentation of the **development in revenues broken down according to business units** is shown in the following slide:

H1 2010 – Revenues

Revenue growth in almost all business units

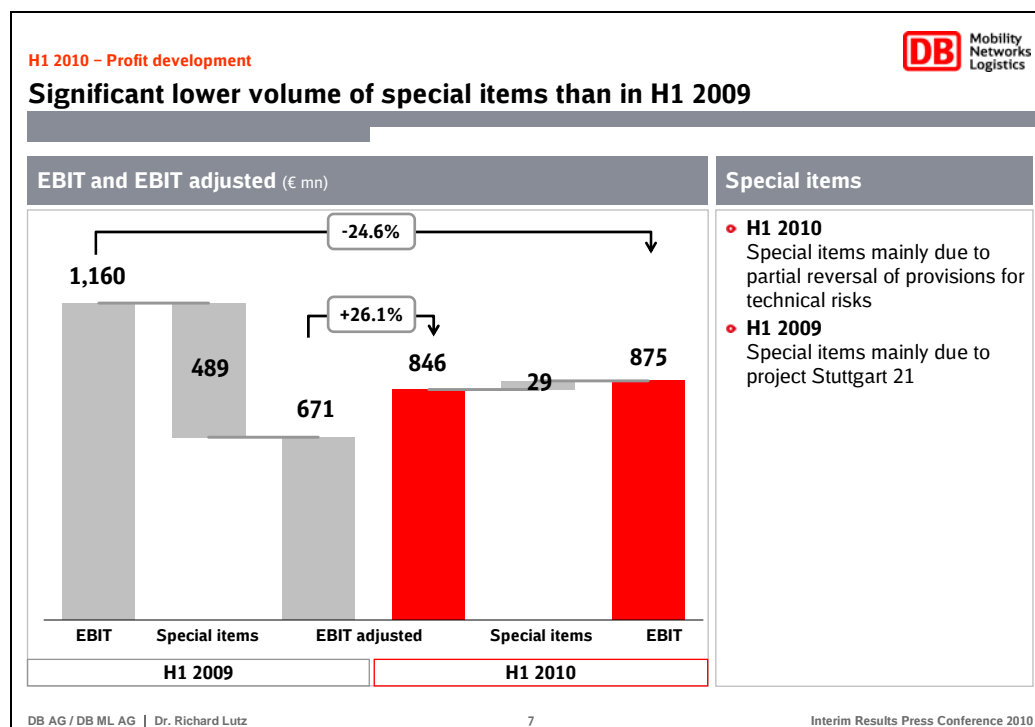
Total revenues (€ mn)	H1 2010	H1 2009	Change by business units (€ mn)	
DB Bahn Long-Distance	1,828	1,729	+99	+5.7%
DB Bahn Regional	3,753	3,782	-29	-0.8%
DB Bahn Urban	634	617	+17	+2.8%
DB Schenker Rail	2,268	1,899	+369	+19.4%
DB Schenker Logistics	6,746	5,477	+1,269	+23.2%
DB Services	557	575	-18	-3.1%
DB Netze Track	2,198	2,126	+72	+3.4%
DB Netze Stations	524	512	+12	+2.3%
DB Netze Energy	1,230	1,149	+81	+7.0%
Other	352	341	+11	+3.2%
Consolidation	-3,988	-3,935	-53	+1.3%
DB Group	16,102	14,272	+1,830	+12.8%

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- A glance at the development in revenues in the individual business units shows that the increase in revenues is mainly attributable to the two DB Schenker business units.
- The most significant increase in revenues in absolute and relative terms has been reported for the **DB Schenker Logistics** business unit. With revenue growth of € 1,269 million, or +23.2%, this business unit is the main contributor to the development in Group revenues. Around 70% of the increase in revenues or approximately € 0.9 billion is attributable to international ocean and air freight activities, where growth rates considerably in excess of 30% were achieved. European land transport has also reported double-digit growth of approximately +13% or around € 0.3 billion. It has to be noted that the exchange rate effects mentioned above are almost completely attributable to this business unit. They amount to € 233 million, and thus account for approximately 4 percentage points of the entire figure of 23% reported for revenue growth.

- ◆ Considerable growth in revenues was also reported for the **DB Schenker Rail** business unit. The revenue growth is stated as € 369 million or 19.4%. Total revenues of € 110 million are attributable to the acquisition of DB Schenker Rail Polska. This effect is thus responsible for about 6 percentage points of the increase in revenues. The growth in revenues adjusted for acquisitions focuses primarily on the “Central” region (revenue growth of around € 250 million) and in particular Germany.
- ◆ In the **Passenger Transport business units**, a positive development has been reported by long-distance and bus services. In particular, the DB Bahn Long-Distance Transport business unit has reported a positive increase in revenues of € 99 million or 5.7%. Approximately two third of this growth in revenues is attributable to volume-related factors (increase of 3.8% in volume sold). On the other hand, revenues in the DB Bahn Regional business unit declined by € 29 million. This has reflected the restrictions affecting the services at S-Bahn Berlin, with a corresponding decline in concession fees and ticket revenues. Overall, revenues at S-Bahn Berlin are € 54 million down compared with the corresponding previous year figure.
- ◆ All of the **Infrastructure business units** have reported an increase compared with the previous year figures. This is due to higher train path demand in infrastructure, price factors and expansion of our energy services business.

I shall now provide **details of the development in profits**. The following slide will first show the familiar link between the externally reported figures, which you will find in the published income statement, and our adjusted profit which we use internally as a parameter for the development in our operating results (= adjusted by special items):



- **Adjusted EBIT in the first half of 2010** increased by € 175 million to € 846 million. In the first half of 2010, only **special items** of a negligible amount have to be adjusted (€ 29 million). These essentially relate to the partial reversal of the provision for technology risks following the agreement reached in March with Alstom with regard to replacing the ICE T axles.
- **In the first half of 2009**, the special items were much higher, and were mainly attributable to the Stuttgart 21 project.

The following slide provides a more in-depth insight into the **development in profits broken according to business units**.

H1 2010 – Profit development

Differentiated EBIT development on business unit level

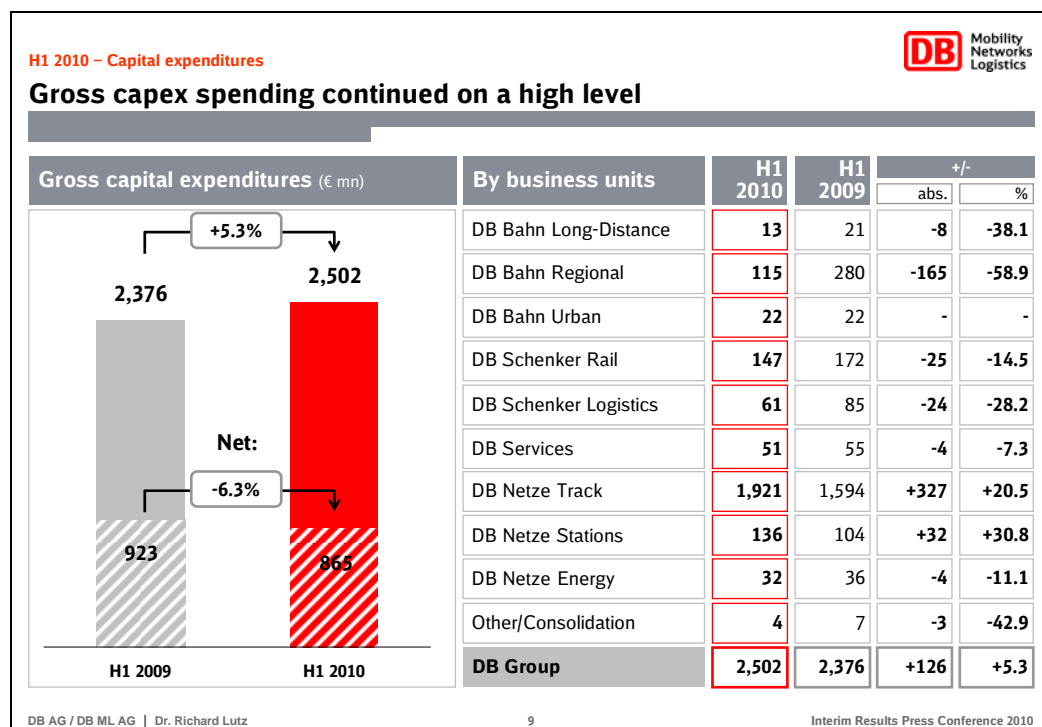
EBIT adjusted (€ mn)	H1 2010	H1 2009	Change by business units (€ mn)	
DB Bahn Long-Distance	80	57	+23	+40.4%
DB Bahn Regional	420	456	-36	-7.9%
DB Bahn Urban	27	55	-28	-50.9%
DB Schenker Rail	-19	-121	+102	-
DB Schenker Logistics	110	37	+73	+197%
DB Services	74	57	+17	+29.8%
DB Netze Track	237	243	-6	-2.5%
DB Netze Stations	123	127	-4	-3.1%
DB Netze Energy	40	54	-14	-25.9%
Other/Consolidation	-246	-294	+48	-
DB Group	846	671	+175	+26.1%

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- The adjusted EBIT figures broken down according to business units first show that, with the exception of DB Schenker Rail, all business units have generated positive results.
- The most significant contribution to profits was made by **DB Bahn Regional**, although adjusted EBIT at this business unit declined particularly as a result of the problems at S-Bahn Berlin.
- The most significant improvement in earnings was generated in the **DB Schenker Rail** business unit (€ +102 million). The additional revenues in this respect, adjusted for acquisitions around € 260 million, had a particularly strong impact on the bottom line in view of the fact that the cost structure is dominated by fixed costs. Further factors are the projects initiated within the reACT program for structurally optimizing the operating and cost situation in Germany and for improving the profit situation at selected foreign companies which have been particularly hard hit by the crisis and difficult ambient and competition conditions. Additional problems were caused by higher maintenance costs due to the replacement of freight car wheel sets.

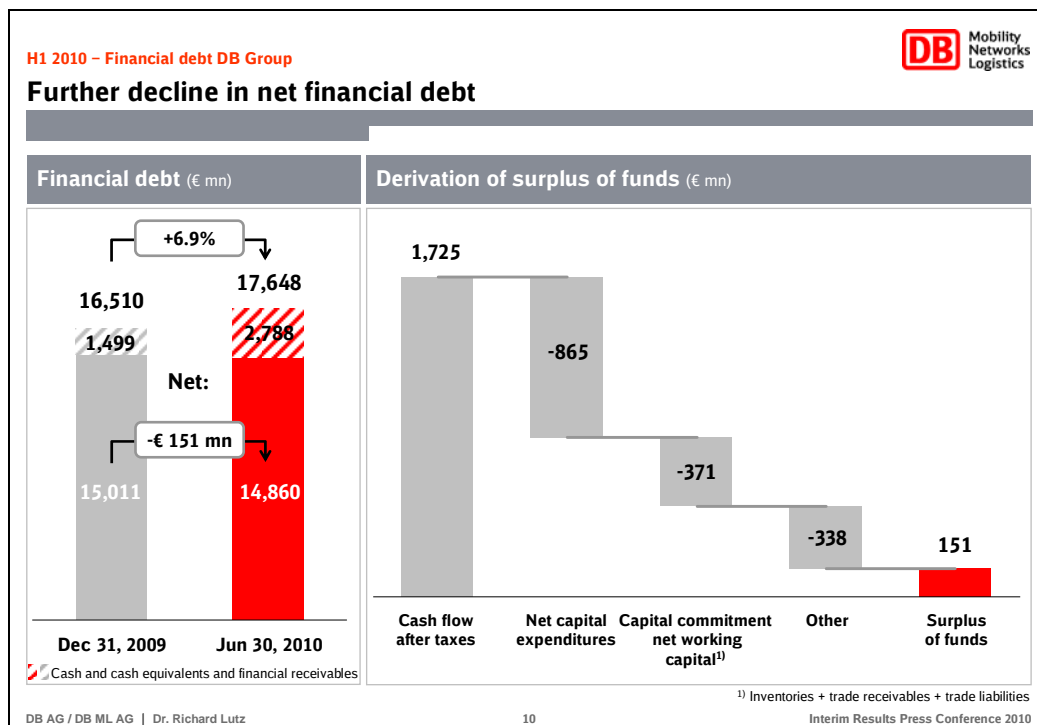
- ◆ Considerable growth in earnings has also been reported in the **DB Schenker Logistics** business unit (€ +73 million). Because the depth of added value is lower than at DB Schenker Rail, the profit effect of the additional revenues is however much more moderate because, as the volume of overall business rises, there is an even greater increase in the cost of materials as a result of the transport services purchased. Higher freight rates imposed additional pressure on gross profit margins. However, as a result of restrictive cost management, the growth in personnel expenses and other costs was lower than the growth in gross profit, so that overall, we have been able to report a positive increase in profits.
- ◆ The development in EBIT in **Passenger Transport** has also been affected by additional costs. These were attributable mainly to measures carried out on our vehicle fleet for rail and bus services. The development in revenues is therefore not fully reflected in the development in profits.
- ◆ The **Infrastructure business units** are slightly down compared with the corresponding previous year level. This is due mainly to higher winter service costs and higher personnel expenses.
- ◆ The **Other/Consolidation** area is overall better than was the case in the first half of 2009. This is due particularly to a positive development in profits in the Service center DB Bahn Sales (higher sales commission from increased revenues) and cost savings achieved for Group management functions and subsidiaries which are attributed to this field.

The **development in capital expenditures** at DB Group is set out in the following slide:



- We continued our capital expenditure program at a high level in the first half of 2010, with **gross capital expenditures** of around € 2.5 billion. Infrastructure accounted for most of the capital expenditures (more than 80% of the total).
- The increase in gross capital expenditures compared with the first half of 2009 is also attributable to the **Infrastructure** business units. The increase of around € 350 million in gross capital expenditures was opposed by an increase of around € 185 million in investment grants. This effect is also responsible for the fact that net capital expenditures are declining despite an overall increase in gross capital expenditures.
- In the first half of 2010, declines in the transport areas were reported particularly for the **DB Bahn Regional business unit**. This was due to deliveries from industry which were delayed in certain cases as well as the fact that some deliveries have not yet been accepted as a result of faults. However, we are assuming that it will be possible for this backlog to be worked off in the second half of the year and that we will see capital expenditures for the whole year in this business unit at the level seen in the previous year (i.e. around € 0.4 billion).

And I shall now consider my final topic, namely the **development in net financial debt**.




As of June 30, 2010, we succeeded in reducing **net financial debt** by a further € 151 million to € 14.9 billion compared with December 31, 2009.

- The considerable **increase in financial debt** from € 16.5 to € 17.6 billion was attributable to an increase in short-term debt in **preparation for financing the Arriva acquisition**.
- Accordingly, there has also been a parallel considerable increase in **cash and cash equivalents**, and this has therefore not had any impact on the overall level of net financial debt. The reason for this expansion in liquidity is that, under English take-over law, a take-over bid must be fully backed with liquid assets. After the purchase price has been paid – probably at the beginning of September – we will adjust the financing structure and convert the short-term debt into long-term debt.

- ◆ On balance, there has been an overall decline in net financial debt. The main **drivers behind this decline** are detailed in the right-hand half of the diagram. The operating cash flow generated in the first half of 2010 has enabled the capital expenditures to be financed and also the expansion of net working capital and other funding requirements to be covered, resulting overall in a cash surplus of € 151 million. The increase in net working capital is mainly attributable to the expansion of business at DB Schenker Logistics.

To conclude my presentation, I should now like to briefly consider our **estimates for the full year:**

2010 financial year – Outlook 

Noticeable positive development in 2010 financial year expected

€ mn	2009	2010	DB Group – Outlook 2010 financial year (as of July 2010)
Revenues - comparable	29,335	↗	• Increase expected due to recovery of economy and volumes
EBIT adjusted	1,685	↗	• Disproportionate increase of operating expenses compared to revenues expected
ROCE	5.9%	↗	• Slight improvement expected due to increase in adjusted EBIT and higher capital employed
Net financial debt	15,011	↗	• Increase due to Arriva acquisition expected (excluding Arriva: decline)
Gross capex	6,462	↗	• Modernization process should continue on a higher level

This outlook is still subject to substantial caveats regarding continuing uncertainties from to the economic development and is based on the following assumptions:

- Continuing of the economic recovery that started in 2009
- Positive effects from economic development in Germany and the Euro-Area
- Recovery of the German rail freight market after significant reductions in volumes in 2009
- Growth of the global air and ocean freight markets

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- Compared with our forecasts in March on the occasion of the balance sheet press conference, our outlook for the whole of 2010 is **to a large extent unchanged**. Please permit me however to make two additional comments.
- Of course, the planned **acquisition of Arriva** will mean that our **net financial debt** will not decline, and that it will instead increase. After making adjustments for this effect, which we were not aware of or which we were not allowed to publish in March, we will however not make any changes to our announced attention of further reducing our net financial debt.
- Secondly, I would also like to point out the still existing **uncertainty**, particularly **with regard to further economic developments**. There is no doubt that we are currently benefiting from the “economic following wind” to a much greater extent than we had anticipated at the beginning of the year. This is the case not only for our company, but also for many other companies. This can be clearly illustrated by a glance at the quarterly and six-monthly results which have been published recently.

- ◆ However, nobody is certain at present whether this is genuinely **a sustainable upswing**, if we “disregard” the economic stimulus programs and also consider that urgently necessary public spending cuts are about to be implemented – throughout the world. And the current policy of low interest rates will also have to come to an end at some time, because additional and cheap liquidity in the markets may be the basis of the next “price bubble” in the asset markets. And such a development is in nobody’s interest.

Do we have to be pessimistic with regard to the future in view of this uncertainty? Our answer is: “No!” And precisely the comments of Dr. Grube concerning our **initiatives in the fields of customers and quality, technology, investments and market** show that DB Group is already working on the key issues and that we also intend to actively and aggressively utilize our opportunities.

- ◆ We are in an excellent position with regard to the **ability of DB Group to respond to the challenges posed by the crisis**. And in this respect, there is no better proof than the year 2009 when we impressively passed the “stress test”. This stress test was not a “laboratory” simulation such as that which was carried out last week for European banks; instead it was a “test under genuine field conditions”.
- ◆ And as far as the **growth and future prospects** are concerned, there are not many companies which have such a good starting position as DB Group. This is because the transport markets in which we operate and in which we are consistently to be found among the top players are currently enjoying excellent prospects. And the mega trends of globalization, climate change and shortage of resources as well as liberalization will clearly have a positive impact on our market opportunities and our competitive position.

Together with our stakeholders, we will continue to pay close attention **to competitive cost structures**, because this is clearly the basis for the sustainable development of our business units and for job security in DB Group.

Ladies and Gentlemen,

I should like to thank you for your patience and attention. Dr. Grube and myself would now be pleased to answer your questions.



Thank you very much for your attention

175 Jahre Eisenbahn
in Deutschland

Speech given by Dr. Richard Lutz, CFO of Deutsche Bahn AG and DB Mobility Logistics AG, on the occasion of the Interim Results Press Conference held on July 28, 2010 in Berlin.

The spoken word takes precedence.

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