Die Bahn DB

Financial Statements and Management Report

Deutsche Bahn AG 2004

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Successful Financial Year in 2004

The development of Deutsche Bahn AG (DB AG) as the management company of Deutsche Bahn Group (DB Group) is mainly driven by the development of the Group. DB Group is enhancing its market success by expanding passenger and freight transport and logistics, by considerably improving the quality of its service and its competitive strength, and most importantly by attaining its scheduled goal of returning to a positive operating income after interest. DB Group maintains a strong position in its domestic market in Germany as well as in Europe, and already has a global presence in the areas of transport and logistics. With this foundation, we intend to draw new domestic and international customers to our company and to continue improving our economic situation.

Our development over the course of the financial year 2004 is simultaneously congruent with the long-term trend since the start of the German Rail Reform and with our strategy, "DB Campaign – restructuring, performance, and growth", which we presented in 2001. These measures were tied to a comprehensive capital expenditures and modernization offensive. In the context of the "DB Campaign" strategy, we defined 2004 at an early stage as an important indicator of progress towards preparing for the capital markets: Following the temporarily negative results in the financial years 2001 through 2003 and strong expansion of our interest-bearing debt to finance our accelerated capital expenditures program, all of which contributed to our further business development, 2004 indicates for DB Group a return to positive results and the transition to normal business development. Even though the development of the market and competitive situation was considerably worse than originally expected in 2001, we remained on track.

The market and competitive environment again proved challenging in the year under review. The economic impulses in Germany, which are important to the majority of our strategic business units, remained weak. The competition in nearly all relevant markets continued to intensify, putting the achievable margins under considerable pressure. In our competitive environment, the importance of large, internationally engaged companies has grown. At the same time, we also see the potential for a continuation of market consolidation and the tendency for competitors to limit their activities, as in the case of the urban transport market and logistics areas. In the year under review, the purchasing side was burdened by significantly higher energy prices.

The approach to our strategy, the structure of our Group portfolio and the package of operating measures has remained steadfast; thus in the financial year 2004, we have adhered to the principles established in previous years and continued to push ahead with the programs and measures set forth in the "DB Campaign". With the successful integration of Stinnes and the divestiture of Brenntag (chemicals distribution) and Interfer (materials) which were part of the original acquisition, we have consolidated our core business within the expanded structure.

In addition to ongoing programs effecting structural improvements, we have continued to push for further cost management in the second half of the year in order to reach our financial goals. The experience gained from our "Fokus" restructuring program since 2001 has also assisted us in this respect; the "Fokus" program was successfully completed in autumn of the year under review. Given our unchanged, ambitious market and profitability goals, we began the "Qualify" program at the end of 2004. From this new program, we expect continued improvements across all business units with regard to product quality, market presence, competitive positioning, and of course, profitability.

Reduced Level of Federal Funding for Infrastructure Capital Expenditures

Due to a significant decrease in federal funding for infrastructure financing, 2004 was characterized for DB Group by a comprehensive program for capital expenditures prioritization. Article 87e of the German Basic Law establishes, among other things, the federal government's obligation to provide infrastructure and to make funds available for capital expenditures to this end. For the years 2001 to 2003, based on the "Trilateral Agreement" concluded in early 2001 with the Federal Ministry of Transport, Building and Housing and the Federal Ministry of Finance, there was a multi-year agreement concerning federal funding for infrastructure financing (approximately € 13 billion for the aforementioned time period). Based on this agreement, we have systematically expanded our planned capacity over the past few years.

In March of 2004, the federal government announced that it would considerably reduce its projected grants for 2004 and the subsequent period through 2008, due to the difficult budgetary situation. This move highlighted the necessity to revise and streamline our plans for capital expenditures in infrastructure. In joint consideration of the federal government's transportation policy goals and the transportation and economic valuations of Deutsche Bahn, we agreed on the fundamental priority of capital expenditures in the existing railway network, and subsequently in new projects and in the expansion of existing projects, with signed financing agreements.

The expected medium-term grants from the federal government for infrastructure financing will not fall below the approximately € 2.5 billion per year required to maintain the existing infrastructure. This is in recognition of the fact that a well-functioning infrastructure relies on high quality and availability. However, the leeway with regards to new lines and the expansion of existing lines has been reduced significantly. Due to the new federal budget, it was necessary to re-prioritize required upcoming projects in accordance with the federal government's rail requirements plan.

A list of projects ("List 66") was developed with the federal government as of July 2004 and serves as the basis for our current capital expenditures and project planning. As a result, we have continued our plans to modernize the infrastructure with project expenditures immediately expensed in the Group Statement of Income, and a reduced level of capital expenditures. The contributions from own funds to infrastructure capital expenditures remained on a high level.

Overall, we strive to maintain a long-term, sustainable and up-to-date rail infrastructure partnership with the federal government. This involves simplifying processes and finding an accord between our business interests as owner and operator of a rail infrastructure which does not discriminate and is available to all, and the fundamental legal obligations of the federal government for the rail network. In order to do so, we have obligated ourselves to secure a high-quality rail infrastructure for the existing rail network.

Market-Oriented Structures: Strengthened Role of the Business Units

In July 2003, we decided to optimize our organizational structure for the Group Passenger Transport division with a view to further improving our internal processes, and with the primary objective of achieving a clear, strengthened market presence in the urban transport area growth segment; we also decided to establish the Group Services division. In this context, DB AG transferred shares in its wholly owned subsidiaries DB Fernverkehr AG and DB Regio AG to DB Personenverkehr GmbH. In accordance with our management approach, the respective domination contracts and profit transfer agreements were signed or amended accordingly. DB Fernverkehr AG, along with its subsidiaries, comprises the Long-Distance Transport business unit. Local transport structures were aligned with the structures of our customer base and our ordering parties and allocated to the Regional Transport and Urban Transport business units. In this context, the new DB Stadtverkehr GmbH assumed a management function for S-Bahn Berlin GmbH, S-Bahn Hamburg GmbH, as well as the subsidiaries in the bus transport segment. The corresponding structures were implemented as of January 1, 2004.

The Group Services division came into existence as part of the reorganization of the previous Services area. In this respect, the heavy maintenance business, previously the responsibility of DB AG, became an independent legal entity under the name DB Fahrzeuginstandhaltung GmbH and was integrated into the Group Services division as of the 2004 financial year. Additional business units in the year under review include DB Energie, DB Fuhrpark, DB Services, DB Systems, and DB Telematik. DB ProjektBau GmbH, on the other hand, as a directly controlled business unit, was not included in the Group Services division in the year under review.

With the approval of the Supervisory Board in March of the current financial year, we have decided on a comprehensive reorganization of the company and management structures, which will be implemented in the course of 2005. This process involves streamlining the management structures and levels, as well as establishing a more direct reporting line to the business units. In the Group Passenger Transport and Transport and Logistics divisions, the business unit structure will remain largely unchanged. In the future, however, the level between the holding company's Management Board and the business units, which was partially formed by subholdings under business law, will be eliminated. The management structures in the area of the former Group Passenger Stations division, Group Track Infrastructure division, and Group Services division will be reorganized. These divisions will be incorporated as business units into a new Group Infrastructure and Services division. In future, DB ProjektBau will also be allocated to this division. The main goal here is to further improve the operating process interfaces amongst the infrastructure businesses. Furthermore, we hope to improve the decision-making processes, both with the federal government, which is responsible for the common welfare and infrastructure, and with the governmental agencies which deal with infrastructure-related questions.

The planned reorganization corresponds both to the organizational regulations of the Law Governing the Founding of Deutsche Bahn (Deutsche Bahn Gründungsgesetz; DBGrG) and the legal regulations pertaining to other railroads and European law; the reorganization is also in compliance with the General Railways Act (Allgemeines Eisenbahngesetz; AEG) and the required independence of the DB Netz AG infrastructure provider as set forth in the EU Directive 2001/14 regarding the functions of train-path allocation and pricing.

A new Board division, "Integrated System Rail" has been established to assume a role as process driver regarding the necessary Group-wide coordination and reorganization of the Integrated Rail Operations.

Successful Divestments of Non-Core Businesses Brenntag / Interfer

At the time of the Stinnes acquisition, we announced that we would divest operations which we did not consider to be core businesses of the DB Group. With Interfer, we were already able to divest certain peripheral operations in 2003. Effective from January 1, 2004, a comprehensive deal was concluded regarding the divestiture of the Brenntag (Group Chemicals Distribution) and Interfer Steel businesses to Bain Capital.

Additional Changes to the Group Portfolio

In view of a planned transfer into the joint venture "intalliance", our subsidiary Regionalbus Braunschweig GmbH (RBB) was eliminated from the scope of consolidation effective as of January 1, 2004. Through additional changes, we have improved our competitive position and undertaken structural adjustments. Many of these changes involve the business units Regional and Urban Transport. ZugBus Schleswig-Holstein GmbH was merged into DB Regio AG, effective from January 1, 2004. DB Regionalbahn Rheinland GmbH, DB Regionalbahn Rhein-Ruhr GmbH and DB Regionalbahn Westfalen GmbH were likewise integrated into DB Regio NRW GmbH as of January 1, 2004. As of the same date, DB Regio AG holds an additional 30 % of the capital stock of Burgenlandbahn GmbH, which was acquired from the bankrupt Karsdorfer Eisenbahngesellschaft mbH, increasing its share to 100 %. Regionalverkehr Dresden GmbH was acquired by DB Regio AG, which now holds a 51% stake, as of January 1, 2004. Effective from the same date, a 100 % stake in Georg Schulmeyer GmbH was acquired by the Verkehrsgesellschaft mbH Untermain – VU. DB ZugBus Regionalverkehr Alb-Bodensee GmbH founded Kreisverkehrsbetrieb Sigmaringen GmbH as of March 30, 2004. With a purchase and transfer agreement from April 1, 2004, this company then acquired the dependent district transport company from the county of Sigmarigen in the form of an asset deal. Sumava Bus s.r.o. was founded in September as a subsidiary of RBO Regionalbus Ostbayern GmbH and will be employed in cross-border traffic to the Czech Republic. As of April 1, 2004, the shares of MITROPA AG held by DB Fernverkehr AG were sold to the British Compass Group.

Within the Schenker business unit, numerous mergers have taken place to simplify the company structure of Anterist+Schneider GmbH. Furthermore, the operations of ATG Autotransportlogistic Gesellschaft mbH and Railog GmbH, attributed to the Freight Logistics business unit in the previous year, are now included in the Schenker business unit.

The position of the Railion business unit has been strengthened by an acquisition. In June 2004, Railion Deutschland AG acquired a 95 % stake in Strade Ferrate del Mediterraneo s.r.l. (SFM), Messina/Italy. Conversely, Railion Deutschland AG divested its 10 % stake in ABX Logistics GmbH, Duisburg/Germany.

In June 2004, Stinnes AG acquired Nieten Fracht Logistik GmbH & Co. KG in order to strengthen its position in the Freight Logistics business unit. Furthermore, numerous participations previously held by Railion Deutschland AG (including participations in handling terminals, among others), were transferred to companies in the Intermodal business unit.

Through the realignment of maintenance and renewal functions in the Group Track Infrastructure division, a reorganization took place as of January 1, 2004, affecting DB Netz AG and DB Bahnbau GmbH. Related activities will now be combined in a services organization within DB Netz AG. Since January 1, 2004, DB Bahnbau GmbH also disposes of its own building and mounting capability; the former DB Bahnbau segment, which belonged to DB Netz AG, has outsourced its capacities in the areas of design engineering, control and safety technology, telecommunications, electronic energy units, overhead wire equipment, and the reuse of track superstructure materials. The activities of DB Bahnbau GmbH will continue to be included in the Others segment. Following the acquisition of DB Verkehrsbau Logistik GmbH's operating business by DB Netz AG in 2003, its integration under business law into DB Netz AG occurred in 2004, with retroactive accounting treatment from January 1, 2004.

Overall Economic Situation

Regardless of the strong international positioning of our Schenker business unit, the DB Group is still highly dependent on the development of the German economy. The German economy again exhibited a restrained development in 2004, but its economic recovery solidified.

- **Global economic development:** The strong upswing in the global economy lost pace in the course of 2004, due to the strong rise in oil prices and a weakening of economic and political impulses. Overall, however, global growth of around 4 % was better than in the previous year (+2.5 %). The driver of the global economy remained the USA, with gross domestic product (GDP) growth of 4.4 %. The Asian economies continued to show relatively high levels of overall economic momentum. In China, the second source of global economic growth, GDP increased by nearly 9.5 %. Japan had a GDP growth of nearly 3 %, which more than doubled compared to the previous year.
- **Europe:** In the euro zone, GDP growth of nearly 2 % marked a considerable improvement compared to last year but was still much weaker than in other regions of the world and the remainder of Europe. The economic recovery benefited from robust global demand, which compensated for the effects of rising oil prices. In comparison, domestic demand only showed a mild increase in the face of a relatively neutral fiscal policy and continued expansive monetary policy. Due to the above-average growth in Great Britain, EU-15 GDP growth of around 2.5 % was slightly higher than in the euro zone. Developments in the Central and Eastern European countries were considerably more positive.
- **Germany:** According to initial estimates from the Federal Statistical Office (Statistisches Bundesamt), real GDP in Germany increased by 1.7 % (previous year: – 0.1 %). Economic development was propped up by the growth in the export surplus, whereas weakness of the domestic economy continued. Despite a strong appreciation of the euro, exports grew strongly by 8.2 %. The decisive factor in

this growth was the global economic upturn and the subsequent increase in demand for capital goods. On the other hand, investor and consumer uncertainty hampered both domestic investment activity and private consumption. Triggered by exports and production, investment in equipment and machinery increased over the course of the year (+1.2 %), whereas construction investment remained below the level of the previous year (–2.5 %). Overall, investment expenditures recorded a modest decline. Weak labor market and personal income development led to a slight decline in consumer spending compared to the previous year (–0.3 %). Similarly, real retail sales also declined in the financial year (–1.7 %).

DB Group's Relevant Markets and Development of Transport Performance

Whereas the modest improvement in the overall domestic economy only helped to attenuate the decline in the German passenger transport market, the relevant markets for the Group Transport and Logistics division, in particular in the upper range of the value-added logistics services sector, experienced growth. In light of the macroeconomic data and increasing competitive pressure, we continued to show a positive development in both our Group Passenger Transport and Transport and Logistics divisions. In our Group Passenger Transport division, we were able to defy the declining market trend, improve our transport performance compared to the previous year, and gain market share. The performance of our Group Transport and Logistics division was once again positive. Increasing demand from non-Group infrastructure customers shows the high degree of competition on the rails.

Increased Market Share in Declining Passenger Transport Sector

According to current market data, transport performance in the German passenger transport market (sector breakdown: motorized private traffic, rail, public road passenger transport, domestic air traffic) declined by around 1 % in 2004 (previous year: –2.1 %). This represents the fifth consecutive year of declines in the passenger transport sector. A key factor, as in the previous years, was the decline in motorized private traffic by around 1.5 % according to preliminary figures (previous year: –2.6 %). In addition to the weak economy overall, steady increases in fuel prices played a major role in this development.

Despite the weak economic environment, we were able to increase our passenger transport performance by 0.5 % compared to last year (rail and bus; +1 % when adjusted for the effect of deconsolidating RBB). In comparison to motorized individual traffic, we were thus able to gain market share. Our transport performance in rail passenger transport grew by 1.0 % to 70.3 billion passenger kilometers (pkm). Thus, long-distance rail passenger transport grew by 2.2 % to 32.3 billion pkm (previous year: –4.7 %). In the financial year under review, the slowdown effects due to a weak employment market recovery and lower personal incomes could be more than compensated for by the effects of improved punctuality, additional demand from special offerings in the summer and autumn of 2004, and increased travel on the newly built Cologne–Rhine/Main high-speed line. Demand for our regional trains and S-Bahn (metro) trains was also positive. The previous year's level of 37.9 billion pkm was reached, despite a lower operating performance due to the transfer of numerous strongly frequented lines to other railroads. Once again, the continuing difficult economic situation on the labor market had a dampening effect. All-inclusive tickets, such as those which allow unlimited travel within a particular German state, have proven to be successful.

Non-Group rail companies, mainly non-state-operated (NSO) railroads operating primarily in local German rail passenger transport, were able to increase their transport performance according to our estimates by 20–25 % (previous year: +15.8 %). This growth is primarily attributable to the acquisition of former DB business at the time of the change in the train schedule in December 2003.

Demand in public road passenger transport increased by around 0.6 %, somewhat greater than the previous year's increase of 0.2 %. On a comparative basis, the bus companies of the DB Group grew by a similar amount. As in the previous year, the growth in public passenger road transport was driven solely by the improved performance in regular line operations, whereas unscheduled services witnessed a decrease.

Transport performance in domestic air traffic slowed down considerably in the financial year with growth of just 1.3 % (previous year: 4.9 %). International air traffic developed far better than domestic air traffic, where there were few increases in travel offerings. Especially the low-cost carriers were not able to repeat their strong gains from the previous year, as price increases in the second half of the year reduced demand.

Competition in the passenger transport segment continued to intensify in 2004. This applies to both intermodal competition and competition on the rails. In local rail passenger transport in particular, our competitors include municipal or state-operated railroads as well as mid-sized railroad companies, with international railroad companies becoming increasingly active in this segment. Non-Group railroads in the passenger transport segment now have a market share of 3 % (in terms of transport performance) or, respectively, nearly 11 % (in terms of operating performance in regional transport).

International Transport and Logistics Market Segment Growth Continues

The relevant markets for our Group Transport and Logistics division continued to grow in the year under review. In light of the differing economic developments, international market growth was in many cases higher than that achieved in the German and pan-European freight transport markets.

European land transport volumes, especially on the European continent, were impacted by the restrained economic development. This was true for both the Northern European countries and Continental Europe. Due to increasing market consolidation and intensified competition, growing pressure on margins was experienced in both Northern and Central Europe. On the other hand, Southwestern Europe and Eastern Europe experienced positive growth rates. High growth rates were particularly evident in Eastern Europe, due especially to the increasing transfer of production by international corporations to countries with better wage conditions. As a result of the high volume growth, margins came under very little pressure.

Volumes in the global air freight sector continued at a high level in 2004. Once again, volumes benefited from the strong economic growth in Asia, but mismatched flow of goods remained. Asian export volumes were again significantly higher than imports. Base rates were impacted by higher energy prices, which resulted in freight rate surcharges.

Growth in the sea freight sector developed positively in 2004, with the Asian region driving growth in the entire sector. Continued transfers of production and purchasing decisions in favor of Asian, and especially Chinese, producers were a key factor in the continuation of stable growth for the eastward-bound transpacific routes, relations from Asia to Europe and back, as well as routes within the Asian region. Exports of container shipments originating in Asia now comprise around 51% of the global sea freight market. Shipments originating in North America met the low growth forecasts. Higher capacity utilization, especially for shipments originating in Asia, resulted in increasing shipping rates. All market participants expect a continuation of this growth trend. This is evident in the start-up of numerous shipping lines along the main routes.

German Rail Freight Transport also Shows a Significant Performance Increase

Based on preliminary data, the overall transport performance in the German freight transport market (rail: Railion Deutschland AG and other railroads, road: German trucks, excluding local haulage, plus foreign trucks, and inland waterway transportation) witnessed strong growth stemming from a considerably positive economic environment. Growth of 6% in 2004 was more than three times the growth in the previous year (1.7%).

Railion Deutschland was able to improve its transport performance, despite the negative baseline effect, which resulted from a shift away from inland waterway transportation following the low water levels due to drought in 2003, and despite the continuation of strong intermodal and intramodal competition. Strong increases in raw steel production helped enable the company to increase its transport performance by 5% (previous year: +2.1%) to 77.6 billion ton kilometers (tkm). In addition to the positive performance in the iron/steel and iron ore segments, forestry, petroleum and chemical products also witnessed considerable growth. The strong growth of the previous year in the combined rail/road transport sector could not be repeated, although the trend remained positive. Only agricultural products experienced a decline, due to the lack of grain exports which supported this area in the previous year.

As in the previous year, the share of international transports continued to increase. This segment's share of Railion Deutschland AG's overall transport performance has now reached nearly 60 %.

In our Railion business unit (including our international subsidiaries Railion Nederland N.V. and Railion Danmark A/S), we were again able to surpass the previous year's growth rate (2.4 %) by boosting our transport performance by 5.2 % to a total of 84.0 billion tkm.

Other railroads, either as partners of Railion Deutschland or, ever more frequently, as its competitors, again managed to record a significant increase in transport performance. These companies grew by around 50 %, nearly reaching the growth rate of the previous year (52.6 %). Their market share in the rail freight transport sector also continued to grow and now amounts to over 10 % in terms of transport performance.

Overall, rail freight transport in Germany in 2004 grew by 8.2 % following the previous year's good growth rate (4.7 %); once again this sector acted as the driver of the transport market. The market share of rail freight transport, as a share of the overall transport sector, reached 16.8 % and thus continued its upward trend.

In road freight transport (German trucks, excluding local haulage, and foreign trucks), transport performance increased by 5 % (previous year: + 3.1 %). With high monthly growth rates in cross-border traffic, this growth was driven above all by strong international commerce and the eastward expansion of the EU. Foreign trucks have particularly benefited from this development. Growth was curbed by the ongoing sluggish business in the construction sector, although the pace of the decline has slowed. Classified by the type of goods transported, the greatest increase was experienced in the segments of vehicles/machinery/finished and semi-finished goods, as well as special freight (especially containers).

Following the weak development in the first half of the year, transport performance in inland waterway transport grew considerably in the second half of 2004. The main reason for this growth was the positive baseline effect from the low water levels and the subsequent drastic reductions in payloads in the previous year. The largest increases occurred in the areas of coal, stone, soil, chemicals, and finished and semi-finished goods. Agricultural and petroleum products both experienced declines. The transport performance increase of around 9.5 % was not enough to fully compensate for the losses in the previous year.

Infrastructure Divisions Report Increasing Demand From Non-Group Customers

Since non-discriminatory access to the German rail infrastructure was granted in 1994, more and more non-Group railroads are entering or expanding in this market. This is reflected by the development of station stops and train-path usage. For instance, the number of station stops made by non-Group railroads increased by 20.4 % to 11.2 million stops; demand for train-path usage increased ever more, growing 25.0 % to 88.0 million train-path kilometers (train-path km). In total, some 290 non-Group railroads utilized DB Group infrastructure in 2004.

Business Performance

Limited comparability of financial years 2004 and 2003

DB AG sold the heavy maintenance facilities for vehicles to its subsidiary, DB Fahrzeuginstandhaltung GmbH, at the beginning of the year under review. This sale resulted in fundamental changes compared to the previous year, primarily affecting the balance sheet positions properties (excluding real estate), inventories and provisions, and the financial statement items internally produced and capitalized assets, overall performance, other operating income, cost of materials, personnel expenses, and depreciation. Hence, various positions on the balance sheet and income statement of the 2004 financial statements are either not comparable to the previous year or are only comparable to a limited extent.

Revenue and Earnings Development

As in the previous year, DB AG did not generate any revenues in the 2004 financial year. Changes in inventory were also not significant in terms of the overall economic development. Internally produced and capitalized assets were reduced to € 0 (previous year: € 532 million).

Other operating income of € 1,711 million was considerably lower than last year (previous year: € 3,082 million). This item mainly consisted of income from services rendered to affiliated companies and non-Group third parties, rents and leases, and income produced by the disposal of fixed assets in the context of the scheduled economic use of real estate assets.

Cost of materials of € 147 million was also considerably below last year's level (previous year: € 1,328 million). Personnel expenses of € 450 million (previous year: € 720 million) included salaries and wages as well as the necessary social security expenses for those employed at DB AG. Depreciation was reduced to € 28 million in the year under review (previous year: € 102 million). The decline in cost of materials and personnel expenses, as well as in depreciation, is primarily the result of the disposal of the maintenance facilities.

Other operating expenses of € 1,456 million (previous year: € 1,614 million) contained among other items rents and leases and miscellaneous operating expenses, which include fees, duties, insurance premiums, payments for third-party services, and compensations. In addition, the other operating expenses line was also impacted by contributions to provisions for restructuring measures and real estate risks.

The considerable improvement in income from investments to € 195 million (previous year: € – 535 million) was primarily influenced by the positive earnings trend of the subsidiaries, which led to higher income from the transfer of earnings.

DB AG assumes the central financing responsibility for the DB Group according to the financing needs of the subsidiaries; it then passes on these funds to the subsidiaries under predominantly the same conditions. The interest balance in the year under review amounted to € – 205 million (previous year: € – 236 million).

Overall, DB AG showed a negative income after taxes of € – 385 million (previous year: € – 929 million). The net loss for the year equaled the income after taxes. Combining this result with the net loss carried forward from last year of € – 1,393 million resulted in a balance sheet loss of € – 1,778 million (previous year: € – 1,393 million).

Balance Sheet Trends

Total assets as of December 31, 2004 were € 30.8 billion (previous year: € 28.2 billion). The rise is primarily due to the provision of additional funds to the Group companies.

Financial assets comprise the majority of the assets side, based on the holdings in the management companies. As in the previous year, fixed assets in the amount of € 2.9 billion (previous year: € 3.1 billion) were comprised of land and land-related rights. Of the financial assets, which amounted to € 24.7 billion (previous year: € 20.1 billion), 57.4 % or € 14.2 billion was related to shares in affiliated companies and 39.3 % or € 9.7 billion was related to loans to affiliated companies. Current assets of € 3.2 billion (previous year: € 5.0 billion) consisted mostly of receivables and other assets (€ 2.4 billion) as well as liquid funds and securities (total of € 0.8 billion).

Equity capital was reduced from € 7.5 billion to € 7.2 billion as a result of the net loss for the year respectively the higher balance sheet loss. Due to the rise in total assets, the equity ratio declined from 26.8 % to 23.2 %. As a result of additions to provisions, also in connection with the reallocation of the restructuring provisions within the DB Group, provisions increased to € 7.0 billion (previous year: € 6.8 billion). Liabilities of € 16.6 billion (previous year: € 13.8 billion) consisted primarily of liabilities to affiliated companies (€ 12.5 billion). The rise was mainly the result of higher liabilities due to the subsidiary DB Finance B.V., Amsterdam/Netherlands, and was based on the passing on of debt issued by DB Finance B.V. in the 2004 financial year in the form of loans.

Capital Expenditures

DB AG's gross capital expenditures for fixed and intangible assets amounted to € 64 million (previous year: € 123 million). The main items here included the acquisition of land and the purchase of office equipment and information technology.

Finances

Bundling of resources through a centralized treasury

Within the DB Group, DB AG serves as the central treasury center. This allows us to ensure that all Group companies are able to lend and invest under optimal conditions. Before utilizing external funds, we conduct an equalization of funds within the Group. When receiving financing from external sources, DB AG procures short-term funds under its own name and long term capital primarily through the Group's financing company, DB Finance B.V., Amsterdam/Netherlands. These funds are then passed on to the Group companies in the form of time deposits or loans. This concept allows us to pool risks and resources for the entire Group, as well as to bundle know-how, capture synergy effects, and minimize refinancing costs.

Rating Agencies Reconfirm Outstanding Creditworthiness

In May 2004, the rating agencies Moody's and Standard & Poor's conducted their annual rating reviews. Both rating agencies once again confirmed their positive ratings regarding Deutsche Bahn's creditworthiness. Since its first rating issuance in 2000, the rating from S & P remained unchanged at "AA", and Moody's rating was "Aa1". Both ratings are accompanied by a "stable" outlook.

As in previous years, we tapped the international financial markets. Through our debt issuance program of € 10 billion and our outstanding credit rating, we were also able to issue debt on the global securities markets in 2004 in a timely and flexible manner and under excellent terms. The issuances under this program allowed us to once again focus on the needs of those investors relevant to us. This led in turn to attractive financing costs as a result of the specific demand. In this way, our broad investor base, with a focus in Europe and Asia, had a positive effect.

In the year under review, we profited from strong investor interest for corporate bonds with high credit ratings. Through our financing subsidiary, Deutsche Bahn Finance B.V., Amsterdam/Netherlands, we issued a total of 8 bonds in the following currencies: EUR, USD, JPY, HKD and CHF. Furthermore, we once again increased the amount of a bond issued in the previous year. The total bond issuance volume amounted to over € 1.6 billion. For the first time ever, we were able to take advantage of the euro-yen market in the amount of JPY 50 billion, where we found a broad investor base in part as a result of our yearly road show in Japan. With one USD and one CHF bond, we focused specifically on private investors. However, the predominant share of our debt issuances remained concentrated on institutional investors. The weighted average maturity of the bonds issued in the year under review was 10.5 years.

On the short-term side, as in the previous year, the DB Group had access to credit facilities of some € 2.2 billion and a multi-currency, multi-issuer commercial paper program of over € 2 billion.

No large leasing transactions were completed in the 2004 financial year.

Employees

At the end of the 2004 financial year, the number of employees amounted to 6,062 (previous year: 13,989). This decline is primarily the result of the sale of the maintenance facilities.

Technology

Our customers expect high-quality products and services from the Group companies. To achieve this, we must include quality and reliability as decisive criteria for our internal processes and the condition of our technological means of production. As a result of our focus on premium mobility and logistics services, these quality expectations apply to us, our suppliers, and our partners in service execution – such as in cross-border transports. In light of the sharp competition we face, our primary goal must be high-level reliability of our means of production, as this reliability is a basic prerequisite for cost-effective operations suitable for our customers. We must also maintain the high safety standards we have established, continue to optimize the integrated rail system and integrate it more comprehensively into mobility and logistics services. Furthermore, a central challenge is to continue improving our cost position.

With this as a focus, we have merged our technology and purchasing units into product segments in the year under review, and we have combined our technological know-how in the engineering pool of DB Systemtechnik. Through more comprehensive responsibility for the means of production, we are able to ensure a high level of quality and can expect further improvements in our efficiency and cost position. In the interest of improving the competitiveness capability of the rail transport mode, a continuous and intensive exchange between railways and manufacturers is necessary in areas ranging from system development and service, to maintenance and repair. Further improvements in the rail system with fully developed, reliable and cost-efficient technology are the foundation for bringing more traffic to the rails across Europe. Furthermore, forecasted traffic growth in the coming years makes the optimal utilization of all modes of transport, with their respective system strengths, a necessity. The resulting demands for greater availability, efficiency and pricing value will also increase. We regard it as our duty to force pan-European, competitive product development in passenger and freight transport through modularization and standardization of components, while also taking customer preferences into consideration. We expect the industry to deliver reliably functioning rail technology and to promote technological innovations.

Quality Management and High-Level Safety as the Foundation for a Sustained Competitive Advantage

With the track-guided wheel and command and control technology, the intrinsic nature of the integrated rail system gives it a significant safety advantage over other modes of transport. We combine this advantage with our high safety requirements, which are reflected in the safety standards of our production systems and means of production, as well as in our corporate culture. We make every effort to continue improvements in these high safety standards through ongoing improvements in our systems and processes. We also continue to invest a great deal in comprehensive training measures.

We have enhanced our quality management in the year under review. Clearly defined process responsibilities, streamlined structures and further improvements in our quality key data system form the foundation for extensive quality control and thus ensure that our customers receive the services promised. In our “Driving and Building” process, for instance, quality monitoring tracks the most important quality drivers. Our “quality gates” guarantee the successful implementation of important processes, such as vehicle procurement, and enable subsequent adjustments when required. We were able to achieve qualitative improvements in service in the year under review, in the form of considerably improved punctuality. Furthermore, the technological availability of the vehicle fleet was increased. We were able to achieve this through the consistent monitoring of our operations, as well as through the measures derived from this monitoring, which were used to eliminate technical defects and improve interdisciplinary work processes. The current year is directed at safeguarding and expanding these levels of quality.

Further Incremental Implementation of Technology Strategy

We have systematically augmented our technology strategy, which we are implementing incrementally. Our main tools are modularization and standardization, which are increasingly characterizing our capital expenditures strategies for technological means of production. Our aim is to boost cost effectiveness over the entire useful life of the technology and to increase the efficiency of operational workflows and maintenance measures.

In view of our rolling stock, we concluded the refitting of vehicles to the new digital GSM-R (Global Standard for Mobile Communications-Rail) train communications in the year under review in a timely manner. As the largest refitting project to date, involving around 100 different series and more than 8,500 multiple units and locomotives, this project was carried out in our facilities under our direction.

The first six multiple units of the second generation of ICE tilting technology vehicles (ICE T2) went into operation in the year under review. For the first time, the new trains can be coupled with the vehicles of the first model series without difficulty, and individual cars within the model series are likewise interchangeable. As a result, these units offer high operational flexibility. In addition, the ICE T2 is the first interoperable high-speed train according to the European Directive 96/48/EG.

With the accomplishment of ICE 3 certification abroad, we created the precondition for international operation. As of the timetable change on December 12, 2004, the ICE 3 also operates in Belgium on the high-speed Brussels–Cologne route. With this, a perennial procedure has been successfully completed. We are also hoping for prompt completion of the certification process for the ICE 3, currently underway in France.

The modernization of the ICE 1 trains, which have been in operation since 1991, was prepared in the year under review. Through the assembly of innovative and cost-efficient components, the ICE 1 should be technically in shape and aligned to the interior of the ICE 3 for an additional 15 years. The redesign is carried out at our facilities in Nuremberg. Interdisciplinary project teams have identified and realized systematic cost savings potentials in the purchase of spare parts and components.

Our track infrastructure strategy is also aimed at capturing additional cost savings through ongoing standardization and quality improvements. We have developed differentiated strategies for our command and control technology which define sensible route-path standards dependent on the specific operating requirements. A new interlocking technology has been put into operation in the year under review. With the gradual introduction of this interlocking technology for routes with simple operating requirements as well, a significant savings potential can be expected in the mid-term. We have thereby not only established technical alternatives, but also expanded the range of potential suppliers.

European Standardization of Command and Control Technologies

Our strategic considerations are based on the current and foreseeable legal framework. EU demands for an increase in interoperability among national rail systems are an especially important factor. In the interest of optimizing cross-border rail traffic, we also strive to achieve increasing technical interoperability with our European neighbors through the optimized disposition planning of multi-system locomotives.

With the enforcement of the Railway Interoperability Act on May 20, 1999, infrastructure operators of the Trans European Network (TEN) and operators of vehicles on this network in Germany are committed to implementing the Technical Specifications Interoperability (TSI) on the high-speed network of the DB Group as well. Further conditions are included in the TSI for the conventional network, which were adopted on November 23, 2004. The TSI require new vehicles Europe-wide to be equipped with the European Train Control System (ETCS), the internationally standardized command and control system. For existing vehicles in Germany and abroad, achieving interoperability requires the creation and provision of national Specific Transmission Modules (STM) for free third-party network access.

Our pilot project on the Berlin–Leipzig route plays a major role in the overall certification process and the introduction of ETCS. After extensive preparatory work in the year under review – in addition to preparation of the route with the refitting of 5 locomotives of the 101 series – the reliability test will begin in spring 2005 on the 100 km-long southern section between Leipzig and Jüterbog.

Consulting Activities and Business on the Third-Party Market

Our specific technical expertise, certified and attested by the regulatory agency, is increasingly in demand by the industry and foreign railroads. We therefore make use of our expertise in national and international markets. Activities in the year under review included one project in the area of track superstructure and rigid track for Mitsubishi Heavy Industry – Shinkansen Trackwork Construction Office, Japan, and one project of constructing a track superstructure for the high-speed line between Taipei and Kaoshung, Taiwan.

Systems Know-How for the Magnetic Levitation Technology as well

Since the spring 2004 inauguration of the first commercial route in China and the start of official passenger transport, the project planned in Germany to connect the Munich airport to the central station has also been progressing. The company Bayerische Magnetbahnvorbereitungsgesellschaft mbH has compiled the materials for the magnetic levitation project plan’s official approval, the request for which has been submitted in the meantime.

We are preparing to implement an operational program of the Transrapid test facility in the Emsland close to real operations parallel to the planning in Bavaria. Since 2003, the Lathen-based facility has been enhanced for automatic operation according to timetable, under the responsibility of the manufacturing industry.

Purchasing

Confident Collaboration with Our Suppliers

With a total purchase volume of more than € 9.2 billion, excluding the domestic and international contracts of the Schenker business unit, we were again among the biggest investors in Germany in the year under review. With this, we have both directly and indirectly secured more than 600,000 industrial jobs. The focus was again placed on industrial products as well as construction and engineering services, with a considerably lower order volume in the latter field. Services received from third parties were also slightly decreased. In return, high energy prices led to an expansion in the field of utilities and fuel. Major purchasing items primarily occurred in the area of numerous infrastructure and station projects such as the construction of the Berlin Central Station or in the context of the GSM-R network set-up. One major purchasing item in the area of rolling stock referred to the imminent and extensive redesign of the ICE 1 vehicle sets.

Due to systematic care and a standardization of our business relationships with more than 40,000 suppliers, we are enhancing the quality of the collaboration. We have further advanced our purchasing strategy in the year under review. With the pilot project “Uniform Ordering and Addendum Calculation” in the purchasing of construction equipment, we have facilitated the handling and review of addenda. This has a positive influence on our business with the suppliers and enhances the transparency.

In order to stabilize the sustainable quality of the constructions created, the prequalification of suppliers has been further advanced. As has already been practiced in the field of electro-technical equipment, parties interested in construction orders can now prove their qualifications and are able to qualify for orders in general. This accelerates the commissioning of orders and ensures high quality in regard to execution.

We are in intense dialogue with associations of the construction industry in order to improve collaboration, enhance transparency and accelerate processes. Information about our electronic marketplace, the standardized “New Building Contract” and the introduction of a “Supplier Assessment” were the points of focus in the year under review.

In September 2004 we entered into the eCl@ss Association, which collaborates with the Institute of Standardization (Institut für Normung). eCl@ss meets the requirements of an international classification standard. Targets include the standardization of all product and service descriptions without language barriers for all sales and purchasing activities in the suppliers management, an opening of the markets to stimulate competition, bundling effects, and assortment and process cost reduction. Collaboration began with the spare parts business for rolling stock.

Supplemental Information

Customer Charter for Long-Distance Passenger Transport Implemented

Consumer protection in the field of long-distance transport has been strongly reinforced with the commencement of the Customer Charter on October 1, 2004. For the first time, customers receive a standardized and legally binding promise of compensation if their long-distance transport ends with a delay of more than one hour and DB is responsible for the delay. The Customer Charter is a substitute for the former fair dealing regulations and is documented in the transport conditions. As opposed to previous regulations, the compensation claim now encompasses the total journey in the field of long-distance transport. This applies to delays which lead to a missed connection at the station where customers change trains. In addition to compensation for delays, the Customer Charter comprises additional service promises in regard to customer orientation and friendliness towards customers. The program was designed by DB together with the Federal Ministry of Transport, Building and Housing and the Federal Ministry of Consumer Protection, Nutrition and Agriculture.

2005 Timetable off to a Successful Start

The Europe-wide coordinated timetable change went into effect at the end of the financial year. The transition to the “2005 Timetable” on December 12, 2004 went off without a hitch. Further improvements in offerings went into effect with the timetable change.

Risk Report

The business activities of the DB Group pose risks as well as opportunities. Our risk management activities aim to proactively minimize these risks. Our risk management system processes all the relevant risk-related information. The DB Group operates an integrated risk management system in line with the requirements of the German

Act on Corporate Control and Transparency (KonTraG). This system, which is continually being enhanced and refined, allows us to quickly introduce offsetting measures.

Active Risk Management in the DB Group

The risks inherent to the DB Group include:

- **Market risks** such as overall economic development and the partially cyclical demand for services. The major factors influencing passenger transport – consumer spending and the number of gainfully employed persons – showed a downturn in the year under review, but are forecasted to stabilize in the current financial year. In addition, the market has been building up momentum due to competitive pressure and aggressive pricing strategies in air traffic; overall growth was negative in the year under review and is expected to be only slightly positive in the current financial year. In regional transport we are exposed to fierce competition for long-term orderer contracts.

  The most important factor in rail freight transport is the transport demand for consumer products, steel and mining products, petroleum products, chemical products, and building materials, some of which are subject to cyclical and structural fluctuations. The domestic and international market risks in the Group Transport and Logistics division have increased with the growing levels of globalization and intensifying intermodal competition. The dynamic consolidation process in the logistics sector, increasing liberalization in the European transport markets, and highway toll charges in Austria and Germany are also presenting new challenges. We are addressing these issues with extensive measures aimed at improving efficiency and reducing costs, in addition to optimizing our service offerings.

  Due to the special nature of its business, the Schenker business unit faces risks from the granting of customs guarantees and – particularly after the terrorist attacks of September 11, 2001 – the submission of non-objection certificates to airlines, which could have serious consequences in individual cases. Schenker has continually revised and improved its rules for granting customers guarantees over the past few years. Schenker purchased insurance to cover the risks related to air transport and monitors strict compliance with country-specific regulations on security measures for the transport of air and sea freight.

  We respond to risks resulting from changes in customer demand, including the ordering organizations, and from shifts in traffic patterns with intensified market monitoring and adjustments of our service portfolio. To deal with market risks due to changes in legal framework conditions at both the European and the domestic level, we proactively represent our position in the ongoing consultations and discussions.

- **Operating risks:** In its rail transport operations, the DB Group runs a networked production system of high technological complexity. We deal with the risk of interruptions in service through systematic maintenance, the deployment of qualified staff, and ongoing quality assurance and improvements in our processes.

  Moreover, the quality of our service offerings depends on the reliability of the means of production we use. Sustained quality improvements stemming from our modernization programs are visible. In response to several cases in which newly commissioned vehicles did not meet our expectations, we have established quality round-table meetings with manufacturers for in-depth and constructive discussions in order to achieve sustained quality improvements.
- **Project risks:** The modernization of the overall rail system involves significant capital expenditures, as well as a number of highly complex projects. Changes in the legal framework, delays in implementation or modifications that become necessary over the course of the project life cycles – which can extend over several years – result in project risks that can often affect multiple areas due to our networked production structures.

  Our risk management activities are especially focussed on major projects such as the Berlin hub (including the Berlin Central Station), the new Nuremberg–Ingolstadt–Munich line and the extensive deployment of GSM-R. An incremental commissioning concept has been developed for the Berlin hub/Central Station. Extensive monitoring has been implemented for the new Nuremberg–Ingolstadt–Munich line as well as for the introduction of GSM-R.

  In general, every new project must pass a full plan approval before implementation can begin. The progressions of major projects are subject to an extensive project controlling. As a general rule, identified risks were compensated for by introducing offsetting measures in our operating business and setting up adequate reserves.
- **Financial risks:** We use financial instruments and derivatives to hedge our exposure to the risks of interest rate changes, currency fluctuations, and energy prices. These instruments are described in the Notes.
- **General uncertainties and risks:** Our political, legal and social environment is subject to constant change. A stable framework is needed to effectively plan our future corporate activities. We strive to positively influence these framework conditions and eliminate existing hindrances with open dialogue.

In addition to continuous efforts to protect and improve operating quality in the context of project and market-related risks, the focus of our risks and therefore our main focus can be found in the effects resulting from stiff competition and in the infrastructure area due to the high project volumes. Extensive analyses are conducted on a regular basis for this reason. In the year under review we particularly re-evaluated market risks. A trend spanning several years showed that competition has been constantly increasing. When combined with the weak economic perspectives in the domestic market, positive impact on revenues can only be expected to a limited degree in the future. In addition to the intensification of our efficiency and rationalization programs and the initiation of the "Qualify" program, we have also reassessed and partly cut the revenue perspectives of individual business units in the current mid-term planning.

We consistently anchor risk management in our standard processes. In addition, we have taken out insurance policies to secure unavoidable risks in order to limit financial exposure to potential damages and liability risks for the DB Group.

Effective Risk Management System

The principles of our risk management policy are formulated by Group management and implemented at DB AG and its subsidiaries. Our system for the early recognition of risks entails quarterly reporting to the DB AG Management Board and Supervisory Board. The risks included in the risk report are categorized and classified by the probability of occurrence; in addition to the possible consequences, we also analyze potential offsetting measures and their costs. Any suddenly detected risks and unfavorable developments must be reported immediately. Group controlling is responsible for coordinating all risk management activities for the DB Group. In addition, planned acquisitions are subject to intensified monitoring. The central Group Treasury department is responsible for limiting and monitoring credit risks, market price risks, and liquidity risks associated with corporate refinancing, which is strictly limited to our operations. Consolidating these transactions (money market, securities, foreign exchange, and derivatives) with DB AG enables us to manage and limit the associated risks. The Group Treasury is organized based on the Minimum Requirements for Trading (MAH), formulated for financial institutions, the derived criteria for which meet all the requirements of the German Act on Corporate Control and Transparency (KonTraG).

Risk Portfolio Free of Existence-Threatening Risks

The risk management system of DB Group provides an overview of the sum total of risks exceeding defined materiality thresholds in a risk portfolio, in addition to a detailed individual listing. Based on our current assessment of risks, offsetting and hedging measures, and provisions, no risks capable of threatening the Group's continued existence are discernible either now or in the foreseeable future.

Management Board Report on Relations with Associated Companies

The Federal Republic of Germany is the sole shareholder of DB AG. Pursuant to Sec. § 312 of the German Stock Corporation Act (AktG), the Management Board of DB AG has compiled a report on its relations with associated companies. The report concludes with the following (translated) statement:

"We hereby declare that, according to the circumstances known to us at the time when legal transactions were carried out, our company received adequate consideration in each and every legal transaction.

In the year under review, no measures were taken or omitted on the initiative or in the interest of the federal government or of any company associated with it."

Events After the Balance Sheet Date

Adopting the "EC Infrastructure Package" into German Legislation

The General Railways Act (Allgemeines Eisenbahngesetz; AEG) and the Ordinance on the Use of Rail Infrastructure (Eisenbahninfrastruktur-Benutzungsverordnung; EIBV) are in the process of being amended with regards to the adoption of the "EC Infrastructure Package" into German law. At the same time, the recommendations of the "Future Rail" task force made in September 2001 are also being implemented into German legislation.

The AEG, which has already been amended and passed into law, provides for certain essential changes. For one, regulatory oversight has been concentrated and assigned to the Regulatory Agency for Telecommunication and Post (Regulierungsbehörde für Telekommunikation und Post; RegTP). At the same time, regulatory authority is being expanded to include service facilities and the services provided, the terms of use, and the base compensation policies and level of amounts. Finally, the committee on anti-trust affairs (Monopolkommission) will provide a regular assessment of the market situation. A subsequent adaptation of the EIBV is expected in the near future. Overall, a broad consensus has been formed regarding the regulation of the DB Group as a vertically integrated railway business on the basis of these proposed changes.

Further Development of the Station Pricing System

Beginning January 1, 2005, DB Station & Service AG introduced a new station pricing system. The system contains a price catalog with – in each federal state – six category prices oriented towards the importance of the stations for rail traffic. The system also accounts for the federal state-specific infrastructure requirements and infrastructure funding modalities. In this respect, the specific regionalization agendas of the federal states are thoroughly taken into account. Each station is assigned to a particular category based on a uniform set of nationwide standards. The importance of the stations for rail traffic, including the number of train stops, the number of travelers and the station's importance as a hub, plays a decisive role in this respect. With the new station pricing system, the number of station prices has been reduced to just 96 state-specific prices (16 German states times six categories), each with two factors of train lengths. Compared to the previous station pricing system, the new system boasts a simplified accounting mode and appropriately takes into account the higher demands on the train station infrastructure from longer trains.

Successful Completion of the Future-Securing Program for Efficiency and Employment

In light of the challenging market environment, competitive employment conditions in order to secure and strengthen the competitive ability and efficiency of the DB Group are a necessity. For this reason, we are continuously working on enhancing our wage structures in order to create both attractive working conditions and employment perspectives for our employees.

In the first quarter of this year, we were able to conclude important collective labor agreements, enabling us to reduce our employment costs by around 5.5 %. Within this framework, the majority of our Group companies will increase their annual reference working time from 1,984 (38) to 2,088 (40) hours (per week) and employee vacation days have been reduced by one day. At the same time, the Employment Guarantee Collective Agreement (Beschäftigungssicherungs-Tarifvertrag), which expired at the end of 2004, was prolonged until December 31, 2010, and its scope was extended. In order to guarantee jobs within the Group, a temporary collective reduction in work time was agreed to start on July 1, 2005. Furthermore, our local partners can implement individual annual working times to secure employment. We have also introduced an employee participation plan based on company performance, which was retroactively applied based on the economic development of the 2004 financial year. We also reached an agreement to make an additional monthly payment of € 50 between July 1, 2005 and June 30, 2007, and to increase our wage scale by 1.9 % as of June 30, 2007.

An additional step was made in increasing the flexibility of our work time regulations, especially regarding the formulation of our transport personnel's work schedules, with the signing of a new work time wage agreement. Flextime and long-term compensation time accounts will be introduced and will span the employee's entire term of employment. With these two work time accounts, employees can systematically save additional hours worked and use the balance in the short-term for time off (work time account) or in the long-term for additional qualification, early retirement or towards their retirement plan (long-term compensation time account). Employees also have the possibility to convert compensation into time credits on their long-term compensation time account.

Strengthening of the Railion Business Unit through the Acquisition of RAG AG's Rail Logistics Activities

We have signed a contract with RAG AG to acquire its subsidiary, RAG Bahn und Hafen GmbH (RBH), based in Gladbeck/Germany. Subject to the approval of anti-trust authorities, the contract will take effect retroactively on January 1, 2005.

RBH employs around 950 workers and possesses over 110 locomotives and 2,300 freight cars. The company turns over, transports and temporarily stores volumes of around 48 million tons of bulk goods per year.

The acquisition of RBH will enable us to expand our position in European bulk goods logistics and deepen our relationship with one important customer.

Divestiture of the DB Fernverkehr AG Stake in Deutsche Touring GmbH

DB Fernverkehr AG divested its stake (82.8 %) in Deutsche Touring GmbH (DTG). The sale goes into effect retroactively on January 1, 2005. The buyer is Ibero Eurosur S.L., a Spanish-Portuguese consortium of long-distance bus line companies. The divestiture has allowed DB Fernverkehr AG to focus more on its core business.

Strategy

A Focused Group Portfolio

Since the start of the German Rail Reform in 1994, we have implemented far-reaching changes in our integrated rail system and realigned the Group's strategic focus. It has been and continues to be our objective to offer top-quality, competitive products to our customers. Since the German Rail Reform began, we have significantly increased our productivity, settled the backlog in capital expenditures to a large extent and witnessed a sustainable participation in the market growth of passenger and freight transport.

As part of the German Rail Reform, we have also taken on the task of turning DB Group into a capital market-oriented company. Building on the foundation of ongoing increases in productivity and competitive positioning, this task requires us to further strengthen our profitability and allocate financial resources in a targeted, value-oriented manner. To direct this development, we have established a comprehensive value management system and set a mid-term profitability target for ourselves in keeping with capital market standards.

In the context of our business portfolio, we are a vertically integrated company. We consider a focus on closely linked business units to be critical to our success. The core business will continue to be defined by the rail activities in the German domestic market. Our core focus lies in maintaining our strong market position in passenger and freight transport and improving the competitiveness of the overall rail system amongst the other modes of transport. Our vertical integration, which includes infrastructure, is a necessary prerequisite to further develop the entire rail system in a comprehensive and responsible manner. Accordingly, we are able to guarantee that the market pressure constantly affecting the transport areas can also be passed on to the infrastructure and services businesses. Therefrom and from the results of our modernization programs, all infrastructure users are able to benefit equally and on a non-discriminatory basis. In order to maintain a sustainable, high-quality infrastructure and continue developing our rail network, we strive to maintain a long-term and up-to-date rail infrastructure partnership with the federal government. This involves finding an accord between our business interests as owner and operator of the rail infrastructure and the fundamental legal obligations of the federal government for the rail network.

We have also carried out a purposeful expansion of our core business over the past few years, especially in the area of transport and logistics, in order to adapt to the changing demands of our customers and markets. With the addition of Schenker to our Group Transport and Logistics division, we have secured additional growth opportunities in the areas of European land transport, international air and sea transport, as well as logistics. In return, rail freight transport will benefit from Schenker's highly capable European distribution network. Better access to customers and the broad portfolio of services are therefore essential factors in securing the future of rail freight transport.

Our Group Passenger Transport division and Group Transport and Logistics division already hold a leading position in the European transportation market, and these divisions have established a solid position for successful future growth.

Improving Our Performance Quality, Competitive Positioning and Profitability

To promote the process of change in this final phase of the German Rail Reform, we initiated our strategic program "DB Campaign" in 2001. In addition to the large number of measures designed to improve performance and new business development efforts, the program included numerous projects to ensure the consistent continuation of the restructuring process. Our "Fokus" restructuring program was successfully completed in September 2004. The subsequent program, "Qualify", places special emphasis on improving our operating performance and quality, in addition to significantly improving profitability.

In the financial years 2001 through 2003, we knowingly accepted a temporary drag on profits as a consequence of our accelerated restructuring and modernization programs aimed at our infrastructure in particular. Now that we have returned to profitability in the year under review, we must face the challenge of improving the profitability of the DB Group in the coming years to a level acceptable in the capital markets. We must also continue to strengthen the Group's cash flow and balance sheet structure.

On Track to Becoming a Leading Provider of International Mobility and Logistics Services

Our strategic development is progressing according to a strict market and competition-oriented philosophy. However, our market environment is characterized by a high degree of change and intense competition. These conditions result in considerable challenges, but also in considerable chances for the future development of the DB Group. The increasing globalization of the economy and in modern society, as well as ongoing restructuring processes in production structures and transnational flows of goods and products, result in increasing demand for international mobility and logistics services. This trend has been reinforced in the year under review by the most recent steps in EU enlargement. The importance of our domestic market as a transit country in the middle of today's Europe has continued to increase. This position places considerable demands on all modes of transport. Our core business, rail transport, has become particularly indispensable for coping with the increasing flow of traffic in an economical and environment-friendly manner.

For the rails as a mode of transport and ourselves as a major player, enormous opportunities are arising from the pending deregulation at the European level: The national rail markets will be open to rail freight transport by 2007 and to passenger transport by 2010. In this respect, opportunities on the rails abroad will be available to us to the same extent as they have been to international transport companies in Germany, that are already taking advantage of the open market access here.

We are also witnessing changes in the demands of our customers, as the need for international logistics solutions from one source and involving multiple modes of transport continues to grow exponentially. In the passenger transport segment, the challenges of mobility are being combined with the necessity to intelligently connect various modes of transport and allow for integrated solutions.

In light of this trend, expanding the DB Group's position as a leading mobility and logistics service provider remains a top priority. We will therefore continue to enhance performance in our core businesses, offer integrated solutions which combine the inherent strengths of various modes of transport, and establish customer-friendly interfaces with upstream and downstream added-value services. The future expansion of our businesses will only occur in areas deemed appropriate by market potential or those where our competence and resources can be appropriately utilized. With a core-business-focused expansion of our service offerings, we are also able to ensure that the German rail system will continue to participate in mobility market growth in the future.

Considerable profit improvements can also be achieved through additional internal process optimization and cost savings. These measures are indispensable for improving our competitive positioning and securing our position in existing markets. Furthermore, we see growth opportunities across all market segments resulting from continued international expansion and entry into related markets. In preparation of the market opening of the European passenger rail transport segment by 2010, we are focusing on expanding our international presence and our position in the urban transport area, as well as offering attractive mobility chain solutions. Continued strengthening of the Railion business unit's international positioning in the rail freight transport area will also improve our competitive stance versus other modes of transport. Regarding the Schenker business unit, the focus lies in expanding its know-how across the entire logistics chain and extending its network in consolidating markets. We expect to expand our business with non-Group customers in the areas of infrastructure and services.

Transport and Logistics: Efficient, Global Networks and Logistics Competence

The international freight transport and logistics markets remain clear growth markets in the mid-term. The road, sea, and air freight transport markets have been liberalized to a large extent and are geared towards international business. Advancements in European rail freight transport are beginning to look attractive. Independent of questions concerning legal market access, international rail transports must overcome obstructions such as historically different track gauges, power supplies, and command and control technologies, in addition to statutory provisions.

The major task for our Railion business unit is to further increase its competitive position in rail freight transport in the face of significant intermodal competition. Our customers demand additional advancements in productivity, high reliability in production regarding the service, and consistent quality extending beyond national borders. Complementary strategic options involving the expansion of the Railion network include the addition of other railways, participations, partnerships, or direct market entries on our own. We are also meeting the challenges posed by technical issues, as with cross-border passenger rail transport, by investing in multi-system, internationally approved vehicles.

Our clients expect comprehensive logistics solutions, and we are able to deliver these offering one-stop shopping for logistics, forwarding, and transport services. Our focus is on offering top-quality solutions customized to the special requirements of individual industries. In doing so, we see tremendous opportunities extending beyond our historical customer base. With the Schenker business unit, we are already in possession of a global shipping and logistics service company which is actively participating in global market growth. This participation is due to Schenker's foundation of high-quality networks on the road, for sea and air freight, as well as its strong logistics competence in important industries (e.g. automotive, high-tech). We are aiming for further expansion of our globally linked transport networks and a focused improvement in our logistics competence in order to maintain and continue to expand our market-leading positions.

All current forecasts for combined rail/road transport by our Intermodal business unit also point to steady growth. Efficient network design for combined rail/road transport, reduced production costs, and continued quality improvements will make us even more attractive to customers in this market, in which we already have a strong position. We also maintain a strong position in the European transport business for bulk products and are currently working on expanding our industry-specific services and strengthening our position in European cross-border transport.

Our Goal in Passenger Transport: Integrated Mobility within Germany and Positioning in the European Market

Forecasts for the European passenger transport markets point to continued growth. Deregulation of these markets is underway, but the pace of progress varies widely across Europe. In long-distance passenger transport, Germany is a clear forerunner in Europe in terms of providing free market access to the German rail infrastructure. In contrast, the number of tender offers for local rail passenger transport has been increasing throughout Europe.

In light of this trend, our number one priority continues to be defending our position in our home market of Germany. This involves expanding our individual business units Long-Distance, Regional and Urban Transport by creating closer links and establishing mobility services for intermodal transport. DB's electronic travel information platform, covering train connections throughout Europe and almost all connections in public regional and urban transport within Germany, provides comprehensive mobility information on the web at "www.bahn.de".

Through the extended coverage of the BahnCard, for instance to include CityTicket functionality, and our DB Carsharing and Call-a-Bike services, we offer attractive mobility services that go beyond conventional rail and bus transport. Furthermore, we will continue to expand cross-border traffic and look for opportunities to make inroads into foreign markets.

Our goal in the Long-Distance Transport business unit is to ensure competitive services for fast links between German metropolitan areas and to neighboring countries. To reach this goal, we will leverage the inherent advantages typical of rail transport: fast, relaxed traveling and comfortable city-to-city connections with a lot of time to spend doing something useful. Improving our information and service quality, along with our on-time performance, will be top priorities. In addition, we will continue to enhance and extend our service and pricing concepts, along with our tools to increase customer loyalty. In international traffic, we will continue to intensify our cooperation with railroads in neighboring countries.

An important task for our Regional and Urban Transport business units will be to offer affordable services, ensuring seamless mobility in cities and beyond. We are in a unique position to leverage integration of the various transport systems. We will also continue to focus on measures to further improve our productivity, quality and efficiency. At present, the German urban transport market is still highly fragmented and served primarily by municipal transport operators. However, this market is beginning to open up. With acceptable access conditions and a proper focus on profitability in urban transport, including efficiency improvements and the exploitation of synergies, this market holds significant potential for the DB Group. Taking advantage of growth opportunities in neighboring European urban transport markets may also prove to be attractive.

Building on a Reliable, Affordable Infrastructure and Cost-Efficient Services

Our infrastructure business and internal service providers have a major impact on the long-term competitiveness of the integrated rail system. Cost reductions and performance improvements are the most important means for enhancing our cost-effectiveness and the competitiveness of rail transport in general. All our services and related pricing systems for the use of the infrastructure are designed to be non-discriminatory.

The Group Passenger Stations division continues to pursue its course of station modernization as required and in keeping with the intended usage in close cooperation with the federal government and municipal authorities. The division is also moving forward with the implementation of our programs for safety, cleanliness and service. In this context we are implementing differentiated development concepts for various types of stations. Increasing rental income from commercial floor space at high-traffic locations provides additional potential. We will continue to sell off unprofitable concourse buildings that are no longer in demand and make the necessary adaptations to the infrastructure of the stations.

Increasing capacities through cost-efficient modernization and eliminating bottlenecks in the existing network continue to be the primary challenges for our Group Track Infrastructure division. Our “Net 21” (Netz 21) strategy aims towards segregating faster-moving from slower traffic and harmonizing speeds. The “Net 21” strategy will be implemented in three medium and long-term capital expenditure programs. The largest of these programs aims at releasing the dormant potential of our existing network. The second program involves investing in modern command and control technology, which will increase network flexibility and availability. Lastly, our third capital expenditures package is aimed at supplementing the infrastructure through new and expansion projects, where it will have the greatest effects on the network. This program should eliminate bottlenecks, especially at railway hubs, and further reduce travel times. The speed and extent of our network expansion will depend largely on transport policy targets and the amount of funds provided for infrastructure by the federal government.

Our service activities also make a considerable contribution to the value chain for our customers and the rail system. A positive reception by non-Group customers is an indication of future growth opportunities.

Outlook and Expectations for the Financial Year 2005

Economic Outlook: Falling Growth Trend

According to the views of economic research institutes at the time this report was prepared, economic conditions are expected to slightly moderate in the 2005 financial year. Forecasts for global economic indicators continue to be more upbeat than for the German economy. The following forward-looking statements are based on the assumption that the overall global political climate remains stable.

- **Global Economy:** The growth trend of the global economy is expected to slacken in the current financial year. In the U.S., a continuation of rising interest rates and a mildly restrictive fiscal policy should result in weaker growth than in 2004 for both private consumption and capital expenditures. Japan's real GDP will expand, albeit at a considerably slower rate; this is due to lower expected capital expenditures in the public sector resulting from forced consolidations, and to the strong yen and weak foreign demand, which have slowed export growth. The gradual weakening of the East Asian economies has also contributed to this trend. China, which was driving the growth in this region, attempted to avoid economic overheating by raising interest rates in order to halt the expansion of credit. A central risk factor continues to be the development of energy prices. Should oil prices remain at their currently high levels, a considerable burden on the global economy would result.
- **Europe:** In the euro zone, a sweeping economic recovery remains elusive. Low interest rates and improved profit situations at many companies should have a stabilizing effect on the investment upswing, but weaker foreign demand is serving as a counter-balance and is being further slowed by the weakness of the US dollar. On the other hand, the weakness of the US dollar helps partly to compensate for

the pressure on consumer spending. However, ongoing consumer uncertainty has slowed the expansion of consumer spending due to pending reforms in several member countries, the concrete consequences of reforms already implemented, and the continuation of consolidation pressure on national budget deficits. GDP growth rates in Central and Eastern Europe will continue to considerably exceed average EU levels, but the necessary consolidation of these countries' budget deficits has contributed to a slowdown in growth.

- **Germany:** The majority of recent forecasts point to only minor growth in 2005. The growth trend in exports should be weaker than in the 2004 financial year due to the slowdown of the global economy and will continue to suffer due to the strength of the euro. We expect a modest strengthening in the recovery in capital expenditures as a result of increasing capacity utilization, more favorable profitability expectations, stagnating labor costs, and only moderately rising interest rates. Due to slightly improved growth in private households' income and increasing transparency of reforms which has somewhat diminished consumer uncertainty, consumer spending should grow slightly in 2005 for the first time in three years.

Trends in the Political and Legal Framework

Current debates on the political and legal framework and pending modifications of basic conditions are unlikely to generate any considerable momentum in 2005. In the political arena, particularly at the European level, discussions on transport market liberalization will remain on the agenda, with a focus on the differing pace of progress in providing unrestricted access to the individual national rail transport markets. In Germany, the implementation of European regulations has become manifest in the form of the General Railways Act (AEG). Germany boasts a leading role in this context. Any progress made towards pan-European harmonization along the lines of the open rail infrastructure access already accomplished in Germany will be welcome. Another transport issue is the creation of equal competitive conditions for the different modes of transport. We continue not to expect any significant contemporary changes in this area in 2005. We will continue to advocate the interests of the rail transport sector in policy debates on key transport issues.

Further Challenging Market Prospects for the Group Divisions

In essence, forecasts for the performance of the individual Group divisions of the DB Group are as follows:

- **Group Passenger Transport division:** Despite a lower GDP increase in 2005, the positive impulse for the German passenger transport market is strengthening. Both real income and private consumption will slightly rise after the declines in 2004. Against this background, the transport market will also see a slight recovery again in the current year. However, with an expected rise in transport performance of around 1%, growth still remains modest. The slight recovery in individual transport, which among other things profits from sinking fuel prices, supports the increase. The growth rate in Germany's domestic air traffic sector will be reinforced, whereas a mere continuation of the slight growth in demand is assumed for public road passenger transport. This also accounts for positive impulses from the area of non-scheduled services. On the one hand, the situation in rail transport in Germany will benefit from a slight recovery in the job market and a continuing rise in real income; on the other hand, the positive impulse from rising fuel prices is discontinued. Overall, only a slight rise in transport services can be assumed from this.

Group Transport and Logistics division: The international transport and logistics markets will continue to develop positively in the current financial year as well. Particularly Asia and America will again be the regions with the most growth. It is thereby forecasted that providers of high-value services in particular will achieve increases. Furthermore, in light of the fragmented structure, further market consolidation is expected, whereas the cyclical impulse for the German freight transport market will level off compared to the year under review. Foreign trade will not reach the high growth rate it saw in 2004, and a slight pick-up in domestic demand will not be enough to completely compensate for this leveling off.
As a result, the rise in production in the manufacturing industry and with crude steel will only continue cautiously. In this macro-economic environment, the transport market development is also losing its dynamics – though it remains considerably positive with an assumed growth of 3%. This development is primarily carried by road freight transport. Competition and price pressure from foreign trucks continue to increase and have an impact on the other modes of transport. No noticeable shift to other modes of transport is expected from the road toll for heavy trucks, which was implemented at the beginning of 2005. Inland waterway transport will most likely return to a moderate rate of growth after a considerable loss in view of the low tide in 2003 and the successful race to catch up in 2004. After two very successful years, rail freight transport is only expected to grow moderately, in particular due to the low rise in crude steel production. The intermodal competitive pressure continues to increase, likewise holding true for the intramodal rivalry between the individual providers of rail freight transport. In this respect, a continuation of the strong growth in the year under review is expected for the development of other railways in Germany.

- **Group Passenger Stations division:** The outlook in the rental business remains negative in the current year due to the repeatedly weak forecasts for the retail sector. As a result of rising demand from non-Group railroads, a slight increase in the number of station stops is expected.
- **Group Track Infrastructure division:** Train-path usage from non-Group customers is forecasted to grow once again in the 2005 financial year.

DB AG Business Performance Forecast

In the 2005 financial year the business development of DB AG again will be driven by the development of the subsidiaries and therewith the investment income. The primary Group-wide economic goal refers to the sustainable enhancement of our profitability and efficiency. At the same time, we hope to achieve a financial balance between cash flow financing and our capital expenditures program, and the targeted reduction of financial debt in the mid-term.

Given the aforementioned forecasts and expectations concerning market, competition and framework conditions, our subsidiaries heavily rely on the effectiveness of internal measures in the year under review.

As usual, our outlook is subject to the reservations set forth below:

Forward-looking Statements
This Management Report contains forward-looking statements on forecasts based on beliefs of Deutsche Bahn AG management. When used in this document, the words “anticipate”, “believe”, “expect”, “intend”, and “plan” are intended to identify forward-looking statements. Such statements reflect the current views of Deutsche Bahn AG, Deutsche Bahn Group, its Group divisions and individual companies with respect to future events and are subject to risks and uncertainties. Many factors could cause the actual results to be materially different, especially those described in the “Risk Report”. Actual results may vary materially from those projected here.

Deutsche Bahn AG does not intend or assume any obligation to update these forward-looking statements.

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Balance Sheet
on December 31, 2004

Assets

in € million	Note	2004	2003
A. Fixed assets			
Intangible assets	(2)	0	0
Properties	(2)	2,934	3,071
Financial assets	(2)	24,662	20,059
		27,596	**23,130**
B. Current assets			
Inventories	(3)	1	258
Accounts receivable and other assets	(4)	2,373	4,263
Securities	(5)	0	0
Cash and cash equivalents		821	493
		3,195	**5,014**
C. Prepayments and accrued income		15	17
		30,806	**28,161**

Equity and Liabilities

in € million	Note	2004	2003
A. Equity			
Subscribed capital	(6)	2,150	2,150
Capital reserves	(7)	5,310	5,310
Retained earnings	(8)	1,471	1,471
Balance sheet loss		– 1,778	– 1,393
		7,153	**7,538**
B. Provisions	(9)	**7,026**	**6,824**
C. Liabilities	(10)	**16,585**	**13,761**
D. Accruals and deferred income	(11)	**42**	**38**
		30,806	**28,161**

Statement of Income

January 1 through December 31, 2004

in € million	Note	2004	2003
Inventory changes		– 5	– 8
Other internally produced and capitalized assets		0	532
Overall performance		**– 5**	**524**
Other operating income	(15)	1,711	3,082
Cost of materials	(16)	– 147	– 1,328
Personnel expenses	(17)	– 450	– 720
Depreciation		– 28	– 102
Other operating expenses	(18)	– 1,456	– 1,614
		– 375	**– 158**
Investment income	(19)	195	– 535
Net interest	(20)	– 205	– 236
Income before taxes		**– 385**	**– 929**
Income taxes		0	0
Income after taxes		**– 385**	**– 929**
Loss carried forward		– 1,393	– 464
Balance sheet loss		**– 1,778**	**– 1,393**

Statement of Cash Flows

January 1 through December 31, 2004

in € million	Note	2004	2003
Income before taxes		**– 385**	**– 929**
Depreciation of properties[1]		28	102
Changes to pension provisions		5	26
Cash flow before taxes		**– 352**	**– 801**
Changes to other provisions		60	67
Depreciation/write-back on financial assets		447	285
Gains/losses from disposal of properties[1]		– 30	– 104
Gains/losses from disposal of financial assets		– 5	– 3
Changes to current assets (excl. cash and cash equivalents)		– 416	– 1,413
Changes to other liabilities (excl. financial debt)		– 153	1,079
Income taxes		0	0
Cash flow from business activities		**– 449**	**– 890**
Proceeds from disposal of properties[1]		98	206
Payments for purchase of properties[1]		– 63	– 117
Proceeds from sale of business activities		94	0
Proceeds from disposal of financial assets		6	8
Payments for the purchase of financial assets		– 84	– 20
Investing activities		**51**	**77**
Proceeds/payments from long-term Group financing		– 2,945	3,025
Proceeds/payments from short-term Group financing		3,249	– 1,642
Proceeds from issuing bonds and new loans and commercial paper		422	5
Repayment of bonds and loans and commercial paper		0	– 500
Financing activities		**726**	**888**
Net increase (decrease) in cash		**328**	**75**
Cash and cash equivalents, beginning of year	(21)	493	418
Cash and cash equivalents, end of year	(21)	**821**	**493**

[1] including intangible assets

Fixed Assets Schedule

in € million	Acquisition and manufacturing costs Balance at Jan 1, 2004	Transfer to/from Group companies[1]	Additions	Transfers	Disposals
Intangible assets					
1. Licences, patents, trademarks, and similar rights	3	0	0	0	– 2
	3	**0**	**0**	**0**	**– 2**
Properties					
1. Land, leasehold rights, and buildings including buildings on land owned by others					
a) Land and leasehold rights	2,661	0	32	0	– 66
b) Commercial, office, and other buildings	430	0	16	32	– 6
c) Permanent way formation and structures	5	0	0	0	0
	3,096	0	48	32	– 72
2. Track infrastructure, signaling and control equipment	14	0	0	4	– 1
3. Rolling stock for passenger and freight transport	1	0	0	0	0
4. Technical equipment and machinery other than No. 2 or 3	218	– 187	1	1	– 3
5. Other equipment, operating and office equipment	115	– 36	6	5	– 4
6. Advance payments and construction in progress	62	– 18	8	– 42	0
	3,506	**– 241**	**63**	**0**	**– 80**
Financial assets					
1. Investments in affiliated companies	14,071	0	84	0	0
2. Loans to affiliated companies	5,105	0	4,785	0	– 205
3. Investments in associated companies	673	0	0	0	– 2
4. Loans to associated and related companies	495	0	0	0	0
5. Other loans	3	0	0	0	0
	20,347	**0**	**4,869**	**0**	– 207
Total fixed assets	**23,856**	**– 241**	**4,932**	**0**	**– 289**

[1] Transfer to DB Fahrzeuginstandhaltung GmbH

	Accumulated depreciation						Book value	
Balance at Dec 31, 2004	Balance at Jan 1, 2004	Transfer to/from Group companies[1)]	Depreciation financial year 2004	Transfers	Disposals	**Balance at Dec 31, 2004**	**Balance at Dec 31, 2004**	Balance at Dec 31, 2003
1	– 3	0	0	0	2	– 1	0	0
1	**– 3**	**0**	**0**	**0**	**2**	**– 1**	**0**	**0**
2,627	– 115	0	0	0	3	– 112	2,515	2,546
472	– 101	0	– 17	0	2	– 116	356	329
5	– 1	0	0	0	0	– 1	4	4
3,104	– 217	0	– 17	0	5	– 229	2,875	2,879
17	– 9	0	0	0	0	– 9	8	5
1	– 1	0	0	0	1	0	1	0
30	– 135	113	– 3	0	2	– 23	7	83
86	– 73	24	– 8	0	4	– 53	33	42
10	0	0	0	0	0	0	10	62
3,248	**– 435**	**137**	**– 28**	**0**	**12**	**– 314**	**2,934**	**3,071**
14,155	– 2	0	0	0	0	– 2	14,153	14,069
9,685	0	0	0	0	0	0	9,685	5,105
671	– 286	0	– 60	0	1	– 345	326	387
495	0	0	0	0	0	0	495	495
3	0	0	0	0	0	0	3	3
25,009	**– 288**	**0**	**– 60**	**0**	**1**	**– 347**	**24,662**	**20,059**
28,258	**– 726**	**137**	**– 88**	**0**	**15**	**– 662**	**27,596**	**23,130**

Notes

for the Financial Year 2004

The annual financial statements of Deutsche Bahn AG (DB AG) have been drawn up in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch; HGB) and the German Stock Corporation Act (Aktiengesetz; AktG) as well as the Ordinance relating to the structure of annual financial statements of corporations engaged in the transport sector (Verordnung über die Gliederung des Jahresabschlusses von Verkehrsunternehmen). In order to improve the clarity of the presentation, legally required items have been consolidated in the Balance Sheet and in the Income Statement. The Notes contain the required details and explanatory remarks.

1 Accounting and Valuation Methods

There have been no major changes in accounting or valuation methods compared to the previous year.

Intangible assets acquired for valuable consideration are carried at acquisition costs and written down on a straight-line basis. Acquired software that constitutes a low-value asset in each individual case is fully written off during the first year.

Properties (property, plant and equipment) are carried at acquisition or manufacturing cost less scheduled depreciation, where applicable. Write-downs for asset impairment are recognized if recovery of the carrying amounts is no longer to be expected.

Manufacturing costs include direct costs, prorated material and production overheads, and scheduled depreciation. Prorated material and production overheads as well as depreciation are determined on the basis of actual capacity utilization. Neither interest on borrowed funds nor administrative overhead is included in manufacturing costs.

Scheduled depreciation is recognized using the straight-line method based on the normal useful lives. The simplification rule provided for in Section 44 (2) Income Tax Regulations (Einkommensteuer-Richtlinie; EStR) was applied up to December 31, 2002. Starting in the 2003 financial year, depreciation is recognized “pro rata temporis”. Depreciation is determined in accordance with the tax depreciation tables. The useful lives of the main groups are shown in the table below:

	Years
Software, other licenses	5
Permanent way structures, bridges	75
Track infrastructure	20 – 25
Buildings and other constructions	10 – 50
Signaling equipment	20
Telecommunications equipment	5 – 20
Rolling stock	15 – 30
Other technical equipment, machinery, and vehicles	5 – 25
Factory and office equipment	5 – 13

Properties of minor value with individual values of up to € 2,000 are fully depreciated in the year of acquisition and carried as disposals.

Financial assets are carried at acquisition cost and are subject to write-downs for asset impairment, where appropriate.

Inventories are valued at acquisition or manufacturing cost; raw materials and manufacturing supplies are valued on the basis of average acquisition costs. Risks in inventories resulting from a decline in economic usefulness, long storage periods, price changes in the procurement markets, or any other decline in value are taken into account by adjusting such values accordingly.

Accounts receivable and other assets are stated at nominal or face value unless a lower carrying amount is required in individual cases. Discernible risks have been taken into account by individual or lump sum valuation adjustments.

Securities held as current assets are valued at acquisition cost.

Pension provisions are carried as liabilities at their going-concern value in accordance with Section 6a of the German Income Tax Act (Einkommensteuergesetz; EStG). As in previous years, the calculations are based on the 1998 mortality tables of Prof. Dr. Klaus Heubeck. The amounts of pension provisions are calculated according to actuarial principles and at a fixed 6% p.a. interest rate for discounting purposes.

All other provisions are stated at the amount required, based on sound business judgment. Provisions take all discernible risks into account. Furthermore, reserves for contingencies are accounted for in accordance with Section 249 (2) German Commercial Code (HGB). The remaining provisions are determined at full cost.

Liabilities are carried at the expected settlement amount.

Receivables and liabilities stated in foreign currency are translated at the selling or buying rate on the creation date. Adjustments are made if the exchange rates effective on the balance sheet date lead to lower receivables or higher liabilities.

Notes to the Balance Sheet

DB AG sold its heavy vehicle maintenance facilities to the subsidiary DB Fahrzeuginstandhaltung GmbH at the beginning of the year under review. This resulted in significant changes compared to the previous year in the balance sheet positions of properties (excluding real estate), inventories and provisions, in the income positions of total performance, other operating income, cost of materials, personnel expenses and depreciation, as well as in the employee numbers.

DB AG's 2004 financial statements are therefore either not comparable with the previous year in different positions of the balance sheet and the income statement, or only comparable to a limited extent.

2 Fixed Assets

Movements in fixed assets are shown on the pages 40 – 41.

Write-downs for impairment of properties amounted to € 4 million (previous year: € 56 million) in the 2004 financial year.

As of December 31, 2004, fixed assets included real property totaling € 1,024 million (previous year: € 1,056 million) that were part of the Aurelis portfolio. Unless sold by Aurelis, these properties have to be accounted for by DB AG until 2013 because beneficial ownership will not pass to Aurelis until the expiration of its right of rescission of the agreement in 2013. Movements in the Aurelis property portfolio will correspond to changes in obligations to surrender possession of real property accounted for under other liabilities (see Note 10).

3 Inventories

in € million	2004	2003
Raw materials and manufacturing supplies	1	252
Unfinished products, work in progress	0	6
Advance payments to suppliers	0	0
Total	**1**	**258**

Valuation adjustments in the amount of € 0 million (previous year: € 108 million) were made to take into account the strict lower of cost or market value principle as well as marketability discounts.

4 Accounts Receivable and Other Assets

in € million	2004	of which with a residual maturity of more than one year	2003
Trade receivables	173	20	209
Receivables due from affiliated companies	1,638	0	3,210
Receivables due from companies in which a participating interest is held	183	173	177
Other assets	379	255	667
Total	**2,373**	**448**	**4,263**

Value adjustments for accounts receivable and other assets amount to € 62 million (previous year: € 212 million). The development of valuation adjustments compared to the previous year in the amount of € 49 million is based on the percentage reduction of lump-sum valuation adjustments from 5 to 1% and on the changed procedure for evaluating lump-summed individual valuation adjustments of accounts receivable from supplies and services.

Receivables due from affiliated companies almost exclusively involve receivables from short-term Group financing, particularly cash pooling.

The main elements of “Other assets” mainly involve tax receivables and a claim against the Federal Railroad Fund (Bundeseisenbahnvermögen; BEV) under the “Trilateral Agreement” for the transfer of real estate.

5 Securities

Securities held as current assets totaled € 27,859.79.

6 Subscribed Capital

Subscribed capital amounts to € 2,150 million. Equity capital is subdivided into 430,000,000 no-par value bearer shares. The shares are held entirely by the Federal Republic of Germany.

7 Capital Reserves

Capital reserves remained unchanged at € 5,310 million.

8 Retained Earnings / Other Retained Earnings

Retained earnings remained unchanged at € 1,471 million.

9 Provisions

in € million	2004	2003
Provisions for pensions and similar liabilities	94	116
Tax provisions	389	381
Other provisions	6,543	6,327
Total	**7,026**	**6,824**

In the year under review, contributions to provisions for pensions and similar liabilities amounted to € 4 million (previous year: € 26 million). They included deferred compensations in the amount of € 3 million.

Other provisions consist of the following:

in € million	2004	2003
Personnel-related commitments	140	187
Restructuring charges	445	272
Inherited environmental liabilities	2,478	2,515
Reconveyance obligations	280	282
Provisions relating to the Aurelis agreement	1,094	1,118
Other risks	2,106	1,953
Total	**6,543**	**6,327**

Personnel-related commitments mainly concern leave entitlements, profit-sharing bonuses, and early retirement benefits. Severance pay and similar obligations are reported under provisions for restructuring charges.

Provisions for inherited environmental liabilities relate primarily to the remediation of residual pollution caused before July 1, 1990, in the regions served by the former Deutsche Reichsbahn. A provision of € 2.9 billion was set aside for this purpose in the opening balance sheet of Deutsche Reichsbahn and taken over unchanged to DB AG's opening balance sheet. Provisions for reconveyance obligations were set up for potential restitution claims on property in the area of the former Deutsche Reichsbahn.

All contingent liabilities are allocated to other risks. These primarily include provisions for:

- Recultivation and renaturation (retirement of facilities),
- Deferred maintenance work (also includes future measures to be taken in connection with the preparation for sale of real estate),
- Project risks,
- Risks from pending business and contingent liabilities arising from deliveries and services not yet invoiced,
- Statutory requirements for retention of business documents for major Group companies.

10 Liabilities

in € million	2004	thereof with a residual maturity of up to 1 year	thereof with a residual maturity of 1 to 5 years	thereof with a residual maturity of over 5 years	2003
Bonds	67	0	0	67	67
Liabilities due to banks	148	97	51	0	56
Advance payments received for orders	5	3	0	2	4
Trade accounts payable	66	64	2	0	129
Liabilities due to affiliated companies	12,467	2,171	4,585	5,711	9,796
Liabilities due to companies in which a participating interest is held	2,000	135	912	953	1,998
Other liabilities	1,832	765	510	557	1,711
of which tax liabilities	(29)	(29)	(0)	(0)	(15)
of which social security liabilities	(5)	(5)	(0)	(0)	(11)
Total	**16,585**	**3,235**	**6,060**	**7,290**	**13,761**

Liabilities due to companies in which a participating interest is held include long-term interest-bearing loans from EUROFIMA European Company for the Financing of Railway Rolling Stock (Basle/Switzerland) amounting to € 1,872 million (previous year: € 1,872 million). These loans have to be secured pursuant to EUROFIMA's memorandum of association by assignment of railroad equipment (rolling stock). The required security was provided by assigning rolling stock of our subsidiaries DB Fernverkehr AG, DB Regio AG, and Railion Deutschland AG.

No other liabilities have been secured.

In the other liabilities, a utilization of the Multi-Currency Commercial Paper Program in the amount of € 330 million is stated on the balance sheet date (previous year: € 0).

Other liabilities include an obligation to surrender possession of real estate in the amount of € 1,024 million (previous year: € 1,056 million) sold to Aurelis.

For a listing of financial debt and the corresponding comments, please see Note 14.

11 Accruals and Deferred Income

Accruals and deferred income consist primarily of accrued rents from hereditary tenancy contracts.

12 Contingent Liabilities

in € million	2004	2003
Liabilities from guarantees	1,501	1,525
Liabilities for third-party liabilities	0	126
Total	**1,501**	**1,651**

Together with its 100 % subsidiary DB Finance B.V., Amsterdam/Netherlands, and a bank consortium under the lead of Deutsche Bank AG, Frankfurt/Main (arranger), DB AG had increased the previous Multi-Currency Commercial Paper Program (MCCP) of DM 2.0 billion (€ 1.023 billion) to € 2.0 billion in 2003. Short-term bonds can be issued under the program. DB AG delivered a negative pledge regarding the debit of its capital and, provided that DB Finance B.V. acts as an issuer, an irrevocable and unconditional guarantee for the regular payment of due amounts. On the balance sheet date, no commercial paper issues of DB Finance were due. As such, DB AG had no guarantee liabilities from the program.

The liability for third-party liabilities was the result of the spin-offs of subsidiaries from DB AG. Pursuant to Section 158 in conjunction with Section 133 of the German Conversion Act (Umwandlungsgesetz), DB AG and its management companies of the businesses set up as separate legal entities as of January 1, 1999, are jointly and severally liable for the indebtedness of DB AG as of December 31, 1998. This liability was limited to obligations due within five years of notice of entry of the spin-offs in the Commercial Register – e.g. to obligations becoming due no later than June 30, 2004. The memo item included all liabilities of DB AG incurred by December 31, 1998 that were transferred on January 1, 1999 to the spun-off businesses set up as separate stock corporations, that became due no later than June 30, 2004 and were unpaid as of December 31, 2003.

13 Other Financial Commitments

in € million	2004	2003
Purchase order commitments for capital expenditures	2	14
Outstanding contributions	320	325
Commitments under rental, leasing, and other external-party liabilities	1,622	1,190
thereof due to affiliated companies	(1)	(31)
Total	**1,944**	**1,529**

The outstanding contributions concern EUROFIMA European Company for the Financing of Railway Rolling Stock, Basle/Switzerland.

Commitments under rental, leasing, and other external-party liabilities are reported at their nominal values. The two tables below list the corresponding nominal values and the net present values (as of December 31, 2004) by due date.

in € million	Nominal value	Net present value at 6.0 %
Lease payments		
due within 1 year	72	69
due within 1 to 5 years	271	227
due after 5 years	281	176
Total	**624**	**472**

During the 2004 financial year lease payments totaled € 76 million (previous year: € 82 million).

in € million	Nominal value	Net present value at 6.0 %
Rental and other external-party liabilities		
due within 1 year	154	149
due within 1 to 5 years	445	378
due after 5 years	399	235
Total	**998**	**762**

14 Financial Instruments

DB AG, as the central treasury for the DB Group, is responsible for all financing and hedging activities. In terms of functions and organizational structure, lending and trading workflows in the front office on the one hand and processing and control in the back office on the other hand are kept clearly separate. The Treasury department operates in the financial markets in compliance with the Minimum Requirements for the Trading Activities of Credit Institutions established by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin) and it is subject to periodic internal audits.

A. Financial Instruments

DB AG issued two bonds totaling € 67 million as of December 31, 2004 (previous year: € 67 million) in the scope of the Debt Issuance Program of the company and its financing subsidiary Deutsche Bahn Finance B.V., Amsterdam/Netherlands. Furthermore DB AG issued a certificate of debt of € 51 million (2003: € 51 million) in its own name. Deutsche Bahn Finance B.V. granted loans of € 10,294 million in total to

DB AG as of December 31, 2004 (previous year: € 8,659 million). The refinancing of loans occurred by way of bond emissions under the guarantee of DB AG.

Furthermore, long-term interest-bearing loans of EUROFIMA European Company for the Financing of Railway Rolling Stock (Basle/Switzerland) in the amount of € 1,872 million (previous year: € 1,872 million) have been raised. These loans must be secured through the security transfer of railroad materials (vehicles) for statutory reasons. This occurs via the security transfer of vehicles of the DB Fernverkehr AG, DB Regio AG and Railion Deutschland AG subsidiaries.

To cover the short-term liquidity demand, DB AG also issued commercial paper in a volume of € 330 million as of December 31, 2004 (previous year: € 0 million) and a certificate of debt of € 97 million (previous year: € 0 million).

In addition to the liabilities shown on the balance sheet, banks had granted guaranteed credit facilities to DB AG totaling € 2.21 billion as of December 31, 2004 (previous year: € 2.15 billion), to cover short-term liquidity requirements. DB AG had drawn on none of these credit lines as of December 31, 2004.

B. Financial Derivatives

We use financial derivatives to hedge against interest rate, currency, and energy exposures. Each individual deal corresponds to an on-balance sheet item or an anticipated exposure (e.g. bonds, commercial paper, and planned energy requirements). Speculative transactions are not permitted. The use, settlement, and control of derivative transactions are governed by Group guidelines. Market valuations and risk assessments are conducted on an ongoing basis as part of the risk management system.

Interest rate swaps and interest rate/currency swaps were conducted to cover possible interest rate risks. Resulting interest differences were apportioned on an accrual basis. Future interest differences were not carried on the balance sheet because they actually are pending transactions. Because DB refinancing also employs currencies from outside the euro area, we conducted interest rate/currency swaps to convert these items to euro-denominated liabilities, to eliminate exchange rate risks. Because these transactions were performed to hedge against interest risks (locking up of euro interest rates), they were allocated to the column "interest rate risks".

Foreign currency risks are of little comparable importance. For limiting the risk of price fluctuations for future payments in foreign currencies for diesel fuel among others, currency futures contracts and currency options have been concluded.

Energy risks emerge mainly with the purchase of diesel fuel and electricity. In the framework of the securing of prices for diesel fuel, different hedging transactions used in 2003 are still existing. New transactions were only concluded in 2004 for the demand for foreign currency from diesel fuel.

The total notional value of hedging transactions listed below represents the sum of all purchase and sales contracts being hedged. The tonnage is specified for diesel transactions and with electricity, the electric labor is measured in gigawatt hours. From the level of this notional volume, conclusions can be drawn as to the extent to which financial derivatives were used, but this level does not reflect the risk inherent in the use of such derivatives.

The fair value of a derivative financial instrument is equivalent to its cost of liquidation or the amount at which the instrument could be repurchased. Present value methods or Monte Carlo simulations based on normal market yield curves have been used to evaluate the derivatives. The thereby determined market data have been taken from market information systems such as Reuters or Bloomberg. Offsetting changes in the values of the items being hedged were not taken into account. In turn, the related financial derivatives were not taken into account for stating the underlying transactions in the balance sheet (no hedge accounting). Because valuation units (derivative/underlying) were formed, the fair values of derivatives as well as changes in the fair values of the underlying transactions are shown in the following tables.

The credit risk comprises the danger of loss due to nonperformance by counterparties (risk of default). It represents the replacement cost (at fair value) of transactions with a positive fair value giving DB AG a claim against its counterparties. The risk of default of counterparties is actively controlled by our high demands on the financial standing of counterparties both when entering into a contract and for its entire term, as well as by the setting of risk limits. The following information on the credit risk contains the cumulative result of all individual risks.

Notional and Fair Values of Interest Rate Derivatives

in € million	2004	2003
Total notional value	**7,532**	**6,696**
Fair value of derivatives	– 373	– 262
Change in the fair value of underlying transactions	79	26
Fair value of valuation units	**– 294**	**– 236**

On December 31, 2004, the portfolio of interest rate derivatives consisted almost exclusively of swaps (both interest rate and interest rate/currency swaps) with a residual maturity of more than one year. The change in fair market value of the derivatives and their underlying transactions resulted primarily from the appreciation of the euro over other currencies as well as a change in the yield curve.

Notional and Fair Values of Currency Derivatives

in € million	2004	2003
Total notional value	**392**	**129**
Fair value of derivatives	– 8	– 1
Change in the fair value of underlying transactions	8	1
Fair value of valuation units	**0**	**0**

As of December 31, 2004, existing contracts to offset foreign exchange risks consisted primarily of currency futures contracts with a residual maturity of less than one year.

Notional and Fair Market Values of Diesel Derivatives

	2004	2003
Total notional value (diesel fuel in t)	**180,000**	**540,000**
Fair value of derivatives [1] (in € million)	11	– 3
Change in the fair market value of underlying transactions (in € million)	– 11	3
Fair value of valuation units (in € million)	**0**	**0**

[1] In addition to the positive fair value of € 11 million of diesel hedges for 2005, hedging transactions from December 2004 which are not yet settled and which had a fair value of € 3 million were recognized as of December 31, 2004.

As of December 31, 2004, the portfolio of diesel derivatives consisted primarily of contracts with a residual maturity of up to one year.

Credit Risk Involved in Interest Rate, Currency and Diesel Derivatives

in € million	2004	2003
Credit risk – interest rate, currency, and diesel derivatives	**140**	**106**

The increase in credit risk in the comparison to the previous year is due to an expansion of volume as well as the performance of our derivative portfolio. The single biggest risk – the risk of default by a specific counterparty – amounts to € 42 million and relates to a counterparty having a Moody's rating of Aa3. As regards credit risks arising from contracts with a residual maturity of more than one year, all counterparties have a Moody's rating of no less than A2.

Notes to the Income Statement

15 Other Operating Income

in € million	2004	2003
Income from costs debited to Group companies and other intra-Group cost allocations	747	898
Services to external parties and sale of materials	201	1,195
Rents and leases	363	341
Miscellaneous operating income	167	166
Gains on the disposal of properties	68	136
Income from the release of provisions	76	320
Gains on the reversal/recovery of write-downs/write-offs of receivables	89	26
Total	**1,711**	**3,082**

16 Cost of Materials

in € million	2004	2003
Cost of raw materials, supplies, and merchandise	20	313
Cost of services purchased	69	120
Maintenance expenses	58	895
Total	**147**	**1,328**

The cost of services and merchandise purchased for self-constructed assets is recognized under cost of materials. Such cost is capitalized by inclusion in other internally produced and capitalized assets.

17 Personnel Expenses

in € million	2004	2003
Wages and salaries		
for employees	341	504
for civil servants assigned		
Payments to the Federal Railroad Fund IAW Article 2 Section 21 (1) (2) German Railroad Restructuring Act (Eisenbahnneuordnungsgesetz)	41	69
Ancillary remuneration paid directly	1	2
	383	**575**
Compulsory social security contributions, pensions and similar benefits, and support payments		
for employees	57	127
for civil servants assigned		
Payments to the Federal Railroad Fund IAW Article 2 Section 21 (1) (2) German Railroad Restructuring Act (Eisenbahnneuordnungsgesetz)	10	18
	67	**145**
of which for pensions and similar benefits	(35)	(79)
Subtotal (gross personnel expenses)	**450**	**720**
Contributions by the Federal Railroad Fund (BEV)	0	0
Total	**450**	**720**

Expenses related to pensions and similar benefits also include social security contributions paid by employers as well as supplemental social security contributions paid by employers for civil servants assigned but on leave of absence.

18 Other Operating Expenses

in € million	2004	2003
Expenses for intra-Group offsets	235	248
Rents and leases	282	244
Fees and dues	27	34
Miscellaneous operating expenses	865	956
Losses on the disposal of fixed assets	33	28
Expenses relating to set-up of allowances for and write-off of accounts receivable	14	104
Total	**1,456**	**1,614**

Of the miscellaneous operating expenses, € 12 million refer to “other taxes” (previous year: € 41 million). Furthermore, additions to provisions for restructuring measures in the amount of € 263 million and to provisions for real estate-related risks in the amount of € 145 million are included therein.

19 Investment Income

in € million	2004	2003
Income from participating interests	1	3
thereof from affiliated companies	(1)	(1)
Income from associated companies	33	8
Income from profit transfer agreements	477	258
Transfer of losses	– 256	– 519
Write-down of financial assets	– 60	– 285
Total	**195**	**– 535**

The write-down relates to the book value of the shareholding in ARCOR AG & Co. KG.

20 Net Interest

in € million	2004	2003
Income from other securities and long-term loans	352	278
thereof from affiliated companies	(351)	(278)
Other interest and similar income	173	171
thereof from affiliated companies	(87)	(83)
Interest and similar expenses	– 730	– 685
thereof to affiliated companies	(– 494)	(– 460)
Total	**– 205**	**– 236**

Notes to the Cash Flow Statement

The cash flow statement is set out in accordance with German Accounting Standard No. 2 (Deutscher Rechnungslegungsstandard Nr. 2; DRS 2), Cash Flow Statement, developed by the German Accounting Standards Board (Deutscher Standardisierungsrat) of the German Accounting Standards Committee (Deutsches Rechnungslegungs Standards Committee e.V.; DRSC).

The cash flow statement shows a breakdown of cash flows by business activities, investing activities, and financing activities. Cash flow before taxes is reported under the cash flow from business activities.

21 Cash and Cash Equivalents

This item comprises cash and cash equivalents (cash on hand, Deutsche Bundesbank balance, cash in banks, and checks) as shown on the balance sheet.

Supplemental Information

22 Investment Holdings

The complete list of shareholdings in accordance with Section 285 No. 11 HGB will be filed with the Commercial Register of the Local Court of Berlin-Charlottenburg under No. HRB 50000.

23 Employees

	2004 Annual average	2004 As of Dec 31	2003 Annual average	2003 As of Dec 31
Wage and salary earners	5,081	5,026	13,414	12,648
Civil servants assigned	1,066	1,036	1,409	1,341
Subtotal	**6,147**	**6,062**	**14,823**	**13,989**
Apprentices	255	235	946	937
Total	**6,402**	**6,297**	**15,769**	**14,926**

In general, civil servants previously working for the former Deutsche Bundesbahn and Deutsche Reichsbahn have been assigned to work for Deutsche Bahn AG as of its registration date by virtue of Article 2 Section 12 German Railroad Restructuring Act (“civil servants assigned”). Although they work for Deutsche Bahn AG, their official employer is the Federal Railroad Fund (BEV).

24 Total Emoluments of the Management Board and the Supervisory Board, Including Former Members

in € thousand	**2004**	**2003**
Total Management Board emoluments	6,699	5,964
thereof fixed component	(3,334)	(3,176)
thereof performance-based component	(3,365)	(2,788)
Emoluments of former Management Board members	1,452	2,319
Pension provisions for former Management Board members	13,348	13,130
Total Supervisory Board emoluments	237	279
Emoluments of former Supervisory Board members	0	0
Loans granted to Management Board members	0	0
Loans granted to Supervisory Board members	0	0

For the names and functions of the members of the Supervisory Board and the Management Board, please see the pages 60 – 63.

25 Events After the Balance Sheet Date

Events after the balance sheet date are stated in the Management Report.

26 Proposed Appropriation of Profit/Loss for the Year

After the net loss for the year and including the loss carried forward from the previous year of € 1,393,180,980.05, the income statement of Deutsche Bahn AG shows a balance sheet loss of € 1,777,560,893.97 as of December 31, 2004, which will be carried forward into the next financial year.

Berlin, April 28, 2005

Deutsche Bahn AG
The Management Board

Independent Auditor's Report

The Consolidated Financial Statements were audited by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, who added the following auditor's report[1]:

"We have audited the annual financial statements, together with the bookkeeping system, and the management report of the Deutsche Bahn Aktiengesellschaft, Berlin, for the business year from January 1 to December 31, 2004. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development."

Berlin, April 28, 2005

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Kämpfer)	(Eggemann)
Wirtschaftsprüfer	Wirtschaftsprüfer

Management Board of Deutsche Bahn AG

Hartmut Mehdorn

CEO and Chairman
of the Management Board,
Berlin

a) DB Station & Service AG (Chairman)[1]
DB Netz AG (Chairman)[1]
Stinnes AG (Chairman)[1]
DB Personenverkehr GmbH (Chairman)[1]
S-Bahn München GmbH (Chairman)[1]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a. G.
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a. G.
Dresdner Bank AG
SAP AG

b) Bayerische Magnetbahnvorbereitungsgesellschaft mbH (Chairman)[1]
DB Dienstleistungen GmbH (Advisory Board, Chairman)[1]
Railog GmbH (Advisory Board)[1]

Dr. Norbert Bensel

Transport and Logistics
– since March 17, 2005 –,
Personnel
– through March 16, 2005 –,
Berlin

a) DB Station & Service AG[1]
DB Netz AG[1]
Stinnes AG[1]
Railion Deutschland AG[1]
Schenker AG[1]
DB Gastronomie GmbH (Chairman)[1]
DB Personenverkehr GmbH[1]
DB Services Immobilien GmbH[1]
DB Vermittlung GmbH (Chairman)[1]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a. G.
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a. G.
Partner für Berlin – Gesellschaft für Hauptstadt-Marketing GmbH

b) DB Dienstleistungen GmbH (Advisory Board)[1]
DB Zeitarbeit GmbH (Chairman)[1]
DEVK Deutsche Eisenbahn Versicherung a. G. (Advisory Board)
IAS Institut für Arbeits- und Sozialhygiene Stiftung (Advisory Board)

Klaus Daubertshäuser

Marketing and Political Relations,
Wettenberg

a) DB Netz AG[1]
Stinnes AG[1]
DB Personenverkehr GmbH[1]
DB ProjektBau GmbH (Chairman)[1]
DE-Consult Deutsche Eisenbahn Consulting GmbH[1]
S-Bahn Berlin GmbH (Chairman)[1]
Sparda-Bank Baden-Württemberg eG

b) DB Dienstleistungen GmbH (Advisory Board)[1]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a. G. (Advisory Board)

Stefan Garber

Infrastructure and Services,
Bad Homburg
– since April 1, 2005 –

a) DB Regio AG[1]
DB Netz AG[1]
DB ProjektBau GmbH[1]
DB Services Technische Dienste GmbH[1]
DB Systems GmbH[1]
DB Telematik GmbH[1]
Arcor Verwaltungs-Aktiengesellschaft
IDUNA Lebensversicherung a. G.

b) Arcor AG & Co. KG (Partner committee member)[1]
Signal Iduna Gruppe (Advisory Board)

Roland Heinisch

Integrated Systems Rail
– since April 1, 2005 –,
Track Infrastructure
– through March 31, 2005 –,
CEO and Chairman of the Management Board of DB Netz AG,
Idstein

a) DB Station & Service AG[1]
DB ProjektBau GmbH[1]

Dr. Bernd Malmström

Transport and Logistics,
CEO and Chairman of the Management Board of Stinnes AG,
Berlin
– through March 16, 2005 –

a) Railion Deutschland AG (Chairman)[1)]
Schenker AG (Chairman)[1)]
K+S Aktiengesellschaft

b) DB Dienstleistungen GmbH (Advisory Board)[1)]
POLZUG GmbH[1)]
Stinnes Corporation, Tarrytown/USA (Chairman)[1)]
DEVK Deutsche Eisenbahn Versicherung a. G. (Advisory Board)
HHLA Intermodal GmbH & Co. KG

Dr. Karl-Friedrich Rausch

Passenger Transport,
CEO and Chairman of the Management Board of DB Personenverkehr GmbH,
Weiterstadt

a) DB Fernverkehr AG[1)]
DB Regio AG[1)]
DEVK Allgemeine Versicherungs-AG
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a. G.

b) Bayerische Magnetbahnvorbereitungs-gesellschaft mbH[1)]
DB Dienstleistungen GmbH (Advisory Board)[1)]

Diethelm Sack

CFO,
Frankfurt/Main

a) DB Station & Service AG[1)]
DB Netz AG[1)]
Stinnes AG[1)]
DB Personenverkehr GmbH[1)]
DB Services Immobilien GmbH (Chairman)[1)]
DEVK Allgemeine Lebens-versicherungs-AG
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a. G.
Frankfurter Versicherungs-AG
gbo AG

b) DB Dienstleistungen GmbH (Advisory Board)[1)]
DVA Deutsche Verkehrs-Assekuranz-Vermittlungs-GmbH (Chairman)[1)]
EUROFIMA Europäische Gesellschaft für die Finanzierung von Eisenbahn-material, Basle/Switzerland (Administrative Board)[1)]

Margret Suckale

Personnel,
Berlin
– since March 17, 2005 –

[1)] Mandate within the Group

a) Membership in other Supervisory Boards required by law

b) Membership in comparable Supervisory Boards of domestic and foreign corporate control committees

Information as of December 31, 2004, or date of resignation.

Supervisory Board of Deutsche Bahn AG

Dr. Günther Saßmannshausen
Honorary Chairman
of the Supervisory Board,
Hanover
a) Einhorn Verwaltungsgesellschaft mbH
(Chairman)
Heraeus Holding GmbH
b) Deilmann Montan GmbH
(Advisory Board)

Dr. Michael Frenzel
Chairman of the Supervisory Board,
Chairman of the Executive Board of TUI AG,
Burgdorf
a) Hapag-Lloyd AG (Chairman)[1)]
Hapag Lloyd Fluggesellschaft mbH
(Chairman)[1)]
TUI Beteiligungs AG (Chairman)[1)]
TUI Deutschland GmbH (Chairman)[1)]
AXA Konzern AG
Continental AG
E.ON Energie AG
ING Bank Deutschland AG
VOLKSWAGEN AG
b) Preussag North America, Inc.,
Greenwich/USA (Chairman)[1)]
TUI China Travel Co. Ltd., Peking/China[1)]
Norddeutsche Landesbank

Norbert Hansen*
Deputy Chairman of the Supervisory Board,
Chairman of TRANSNET German Railroad
Workers' Union,
Hamburg
a) DB Netz AG
Stinnes AG
DB Personenverkehr GmbH
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a. G.
(Chairman)
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a. G.
(Chairman)
DEVK Vermögensvorsorge- und
Beteiligungs-AG
b) DB Dienstleistungen GmbH
(Advisory Board)

Niels Lund Chrestensen
General Manager of N.L. Chrestensen,
Erfurter Samen- und Pflanzenzucht GmbH,
Erfurt
a) Funkwerk AG
b) Landesbank Hessen-Thüringen (Advisory
Board Public Companies/Institutions,
Communes and Savings Banks)
Thüringer Aufbaubank
(Administrative Board)

Peter Debuschewitz*
Management Representative of
Deutsche Bahn AG for the State of Berlin,
Taufkirchen
b) DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a. G.
(Advisory Board)

Horst Fischer*
Member of the Works Council of
DB Regio AG, Bavarian Region,
Franconian Regional Transport,
Fürth

Volker Halsch
State Secretary, Federal Ministry of Finance,
Berlin
a) Deutsche Telekom AG

Horst Hartkorn*
Chairman of the Works Council of S-Bahn
Hamburg GmbH,
Hamburg
a) S-Bahn Hamburg GmbH
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a. G.
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a. G.

Jörg Hensel*
Chairman of the Central Works Council
of Railion Deutschland AG,
Hamm
a) Stinnes AG
Railion Deutschland AG

Klaus Dieter Hommel*
Chairman of the GDBA
Transport Workers' Union,
Frankfurt am Main
a) Railion Deutschland AG
DB Systems GmbH
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a. G.
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a. G.
DEVK Pensionsfonds-AG
DEVK Rechtsschutz-Versicherungs-AG

Günter Kirchheim*
Chairman of the Group Works Council
of Deutsche Bahn AG,
Chairman of the Central Works Council
of DB Netz AG,
Essen
a) DB Netz AG
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a. G.
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a. G.
DEVK Pensionsfonds-AG
DEVK Vermögensvorsorge- und
Beteiligungs-AG

Lothar Krauß*
Deputy Chairman of TRANSNET German
Railroad Workers' Union,
Rodenbach
a) DB Station&Service AG
DB Services Technische Dienste GmbH
DB Vermittlung GmbH
DBV-Winterthur Holding AG
Sparda-Bank Baden-Württemberg eG
b) DB Dienstleistungen GmbH
(Advisory Board)

Executive Committee
Dr. Michael Frenzel (Chairman)
Ralf Nagel
Norbert Hansen
Günter Kirchheim

Audit Committee
Dr. Heinrich Weiss (Chairman)
Ralf Nagel
Jörg Hensel
Lothar Krauß

Mediation Committee under Article 27 Section 3 Codetermination Act
Dr. Michael Frenzel (Chairman)
Ralf Nagel
Norbert Hansen
Günter Kirchheim

Heike Moll*

Chairwoman of the Central Works Council
of DB Station&Service AG,
Munich
a) DB Station&Service AG
b) DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a. G.
(Advisory Board)

Dr. Werner Müller

Chairman of the Executive Board
of RAG AG,
Mülheim/Ruhr
– since December 8, 2004 –
a) Degussa AG (Chairman)[1)]
Deutsche Steinkohle AG (Chairman)[1)]
RAG Coal International AG (Chairman)[1)]
RAG Immobilien AG[1)]
STEAG AG (Chairman)[1)]
Viterra AG
b) RAG Beteiligungs-GmbH
(Advisory Board, Chairman)[1)]
g.e.b.b. Gesellschaft für Entwicklung,
Beschaffung und Betrieb mbH
(Chairman)
Investitionsbank NRW (Advisory Board)
Stadler Rail AG (Administrative Board)

Ralf Nagel

State Secretary, Federal Ministry
of Transport, Building and Housing,
Berlin
a) Fraport AG
b) DFS Deutsche Flugsicherung GmbH
(Advisory Board, Chairman)

Dr. rer. nat. h.c. Friedel Neuber

Former Chairman and CEO
of Westdeutsche Landesbank,
Duisburg-Rheinhausen
– through October 23, 2004 –
a) Hapag-Lloyd AG
RAG AG
RWE AG (Chairman)
ThyssenKrupp AG
TUI AG (Chairman)
b) Landwirtschaftliche Rentenbank
(Administrative Board)

Dr. Bernd Pfaffenbach

State Secretary, Federal Ministry
of Economics and Labor,
Wachtberg-Pech
– since February 8, 2005 –
a) Deutsche Postbank AG

Prof. Dr. Ekkehard D. Schulz

Chairman of the Management Board
of ThyssenKrupp AG,
Krefeld
a) ThyssenKrupp Automotive AG
(Chairman)[1)]
ThyssenKrupp Services AG (Chairman)[1)]
ThyssenKrupp Steel AG (Chairman)[1)]
AXA Konzern AG
COMMERZBANK AG
MAN AG
RAG AG
TUI AG
b) ThyssenKrupp Budd Company, Troy,
Michigan / USA[1)]

Dr. Ulrich Schumacher

General Partner of Francisco Partners,
Starnberg
a) SAFE ID Solutions AG (Chairman)
b) Esmertec AG, Zurich / Switzerland
(Administrative Board)
Siano Mobile Silicon, Netanya / Israel
WAVECOM S.A., Issy-les-Moulineaux
Cedex / France

Dr. Alfred Tacke

State Secretary, Federal Ministry
of Economics and Labor,
Celle
– through December 31, 2004 –
a) Deutsche Postbank AG

Dr.-Ing. E. h. Dipl.-Ing. Heinrich Weiss

Chairman of the Management Board
of SMS GmbH,
Hilchenbach-Dahlbruch
a) SMS Demag AG (Chairman)[1)]
COMMERZBANK AG
HOCHTIEF AG
Voith AG
b) Concast AG, Zurich/Switzerland
(Chairman)[1)]
Thyssen-Bornemisza Group, Monaco

Margareta Wolf

Parliamentary State Secretary,
Federal Ministry for the Environment,
Nature Conservation and Nuclear Safety,
Rüsselsheim-Bauschheim

Horst Zimmermann*

Chairman of the General Works Council
of DB Fernverkehr AG,
Nuremberg
a) DB Fernverkehr AG
DB Personenverkehr GmbH
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a. G.

* Employee representative on the Supervisory Board
[1)] Mandate within the Group
a) Membership in other Supervisory Boards required by law
b) Membership in comparable Supervisory Boards of domestic and foreign corporate control committees
Information as of December 31, 2004, or date of resignation.

Report of the Supervisory Board for the 2004 Financial Year

Dr. Michael Frenzel
Chairman of the Supervisory Board of Deutsche Bahn AG

The Supervisory Board of Deutsche Bahn AG (DB AG) intensively addressed the situation of the company in the past financial year. We advised the Management Board and supervised management. We were involved in decisions of significant importance. We were regularly, promptly and comprehensively informed by the Management Board. This was based on the detailed written and oral reports from the Management Board to the Supervisory Board and its committees. In addition, the Chairman of the Supervisory Board maintained regular contact with the Chairman of the Management Board to share information and exchange ideas.

Meetings of the Supervisory Board

The Supervisory Board convened for four regular meetings and one special meeting in the 2004 financial year. During its meetings, the Supervisory Board was briefed in detail by the Management Board on the business and financial development of DB AG and its Group companies, important transactions and the strategy and planning of the company.

In its meeting on March 12, 2004, the Supervisory Board approved the divestment of 100 % of shares in the MITROPA Mitteleuropäische Schlafwagen- und Speisewagen Aktiengesellschaft, the sale of registered stock with restricted transferability of Deutsche Lufthansa AG and the refitting of 490 vehicles in the ICE fleet. The Management Board furthermore informed the Supervisory Board on the project situation regarding the preparation of an initial public offering of DB AG.

In its meeting on May 12, 2004, the Supervisory Board specifically discussed the Management Report and Financial Statements 2003 as well as the Group Management Report and Consolidated Financial Statements of DB AG for 2003.

In its meeting on July 7, 2004, the Supervisory Board specifically addressed M&A intentions as well as the topic of DB AG's capital market capabilities.

In its special meeting on October 7, 2004, the Supervisory Board focused on discussions of the current economic situation of DB AG.

In its meeting on December 21, 2004, the Supervisory Board approved the 2005 financial year budget plan and acknowledged receipt of the medium-term planning for 2005 – 2009 as well as the long-term strategic goals of DB AG. These were debated at length with the Management Board.

Meetings of the Supervisory Board Committees

The Executive Committee of the Supervisory Board maintained regular contact with the Management Board to discuss fundamental business policy issues. The Executive Committee of the Supervisory Board assembled for four regular meetings and one special meeting. During these meetings, the Executive Committee discussed in detail the major topics pending for the respective meetings of the full Supervisory Board. The Executive Committee was also regularly informed on the assessment of the company's risk situation. Furthermore, the Executive Committee made the decisions which were referred to it on personnel-related issues involving the Management Board.

Audit Committee

The Audit Committee debated the financial statements of DB AG and the Group in the presence of the auditors and prepared resolutions concerning the annual financial statements for the 2003 financial year to be passed by the Supervisory Board. Furthermore, the first Europe-wide tender for auditor services as well as issues relating to the auditor's independence and awarding the audit contract were matters of extensive discussion. As set forth in the Rules of Procedure of the Supervisory Board, the Audit Committee dealt mainly with accounting and risk management issues. The Audit Committee convened twice in the year under review.

Corporate Governance

In its meetings, the Supervisory Board dealt with the corporate governance policies of DB AG and conducted a survey to assess the efficiency of its work. It agreed to change the frequency of the meetings as of the 2006 financial year.

Financial Statements

The Financial Statements and the Management Report of DB AG as well as the Consolidated Financial Statements and Group Management Report as of December 31, 2004 prepared by the Management Board were audited, and were issued an unqualified audit certificate by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, the auditors selected by the Annual General Meeting. Furthermore, as part of his audit of the financial statements, the auditor also reviewed the company's risk management system, as required pursuant to the German Act on Control and Transparency (KonTraG), and raised no objections.

The auditor's report was the key item on the agenda of the Audit Committee meeting on May 23, 2005 and was discussed at length during the meeting on the financial statements on May 24, 2005 in the presence of the auditors, who had signed the audit report. The auditors presented the primary results of the audit and made themselves available for questions. The Supervisory Board accepted the results of the audit.

The Supervisory Board reviewed the Financial Statements, the Management Report of DB AG, the Consolidated Financial Statements, the Group Management Report for the 2004 financial year, and the proposal for appropriation of retained earnings and raised no objections. The annual financial statements of DB AG for the 2004 financial year have been approved. They have thus been adopted.

The auditors also reviewed the report prepared by the Management Board on relations with associated companies and issued it an unqualified audit certificate. The Supervisory Board also reviewed this report and raised no objections to the Management Board's declaration at the end of this report, nor to the result of the audit by PwC.

Changes in the Composition of the Supervisory Board and the Management Board

Dr. Friedel Neuber passed away on October 23, 2004 at the age of 69. He had belonged to the Supervisory Board of DB AG since its founding in 1994. With his outstanding personality and entrepreneurial dedication he had a lasting effect on the development of DB AG. He will not be forgotten.

Dr. Werner Müller, Chairman of the Management Board of RAG Aktiengesellschaft, was called to the Supervisory Board of DB AG as his successor, effective as of December 8, 2004.

State Secretary Dr. Alfred Tacke resigned from his Supervisory Board mandate on December 31, 2004. Effective as of February 8, 2005, Dr. Bernd Pfaffenbach, State Secretary of the German Federal Ministry of Economics and Labor, was delegated to the Supervisory Board as his successor. The Supervisory Board would like to express its thanks to State Secretary Dr. Tacke for his dedicated and constructive support.

Dr. Bernd Malmström, the member of the Management Board responsible for the Group Transport and Logistics division, amicably retired from the Management Board on March 16, 2005. The Supervisory Board thanks Dr. Malmström for his long-lasting commitment to his work.

In its meeting on March 16, 2005, the Supervisory Board addressed in detail the continuing development of the company and management structure of the DB Group. In this framework it assigned Dr. Norbert Bensel responsibility for the Transport and Logistics department. Mrs. Margret Suckale was appointed Management Board member of DB AG for the Personnel Board division. Mr. Stefan Garber was appointed Management Board member of DB AG for the Infrastructure and Services department. Mr. Roland Heinisch took over the new Board division Integrated Systems Rail.

Furthermore, the Supervisory Board approved an extension of Dr. Rausch's contract as member of the Management Board of DB AG for the Passenger Transport Management Board division in its meeting on March 16, 2005.

The Supervisory Board would like to thank the Management Board and all employees as well as the workforce representatives of DB AG and its affiliated companies for the dedication they have given in the 2004 financial year.

Berlin, May 2005
For the Supervisory Board

Dr. Michael Frenzel
Chairman

Imprint

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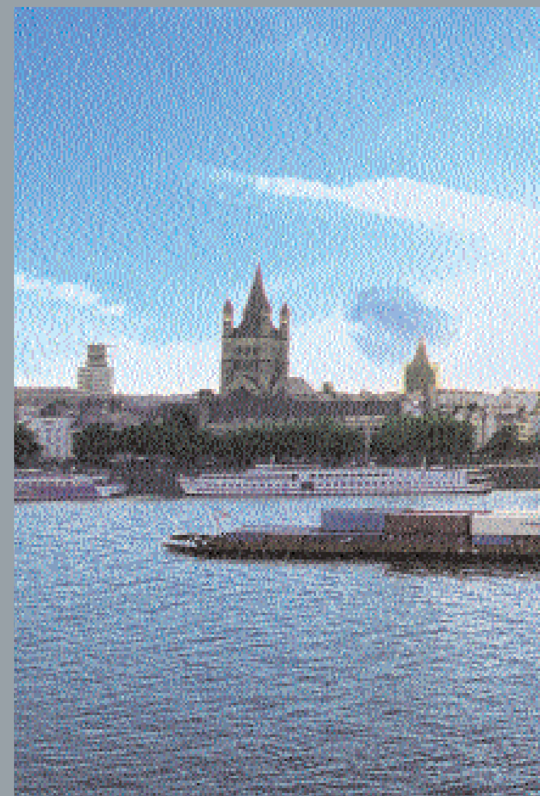

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