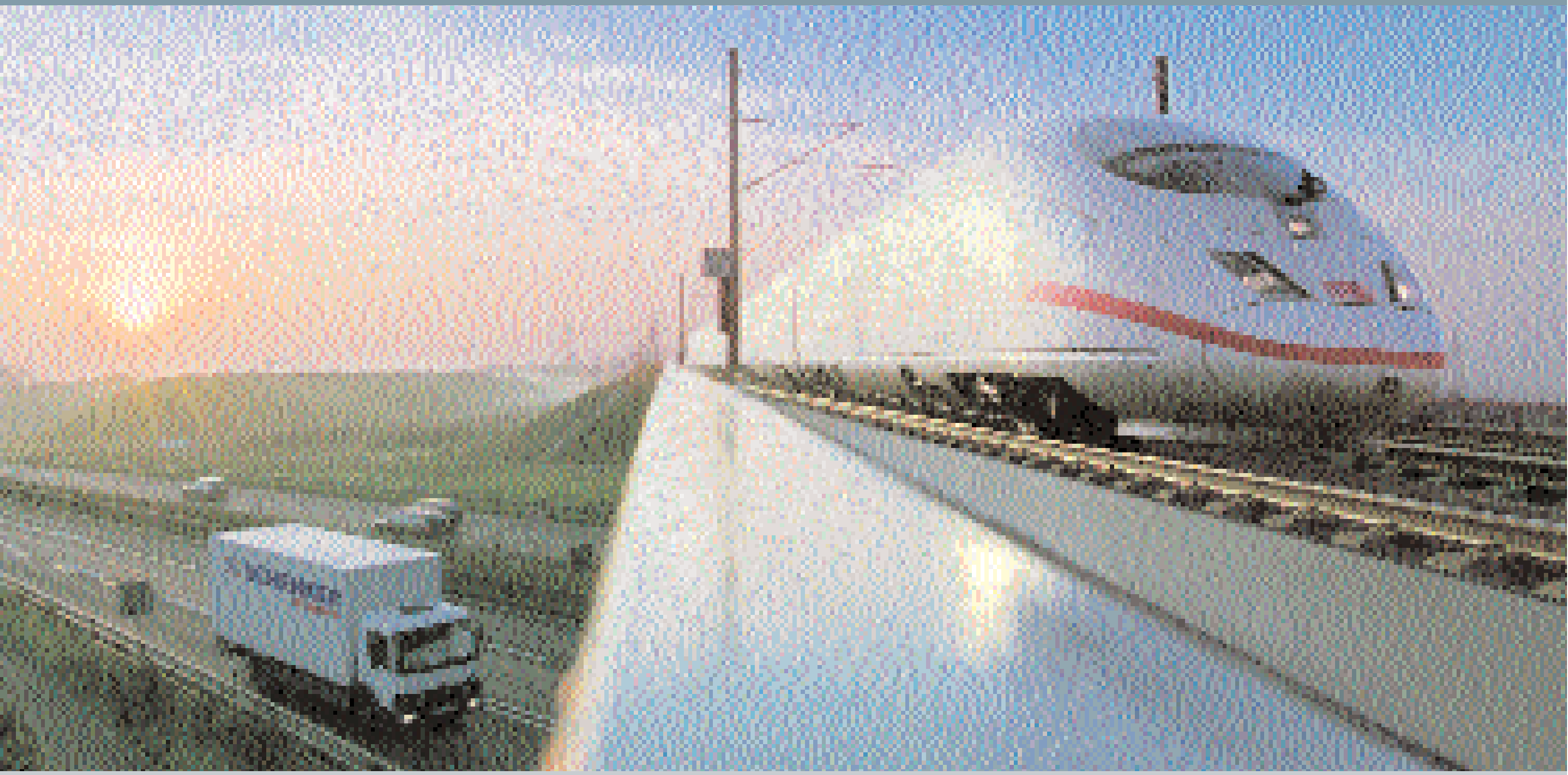
Mobility Networks Logistics



2005 Financial Statements and Management Report

Deutsche Bahn AG

Contents

Overview

Revenues and Profits Continue to Grow

The economic 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 continued in the 2005 financial year its successful track record since the start of the German Rail Reform in 1994, that was mainly driven by organic growth.

We recorded a successful performance despite a very challenging environment in terms of market changes and competition. Macroeconomic trends in the important domestic market were lackluster. Germany's growth rate again lagged behind many other EU member states and the much more dynamic countries of Asia and the Americas. At the same time, national and international competition intensified further. In addition to fierce competition for sales, there were various challenges in procurement. The 2005 financial year was marked by very high prices for fuel and electricity supplies.

Optimization of the Group Portfolio Through M&A Activities

In addition to organic growth, we are seeking to identify M&A opportunities. The purpose of acquisitions is to enhance our market position in our core businesses not to diversity. However, any transaction is subject to the availability of acquisition targets that are strategically and economically attractive. Conversely, discontinuing operations that are no longer part of our core portfolio of businesses is another essential element of our value-based management strategy. The resources freed up from such discontinued operations are used to further develop our core business.

In the 2005 financial year, we made significant progress through our M&A transactions:

- **Expansion of our logistics division through the acquisition of BAX Global (BAX) –** By signing a purchase agreement in November 2005 to acquire 100 % of the shares in Irvine/California-based BAX Global Inc., incorporated in Delaware, USA, from The Brink's Company, a listed US group, we took a major step forward in expanding our logistics activities. BAX offers worldwide air and sea freight forwarding services, transport services in the USA and supply chain management. The company operates in more than 130 countries around the world. Looking at the sectors and regions represented in BAX' business portfolio, the acquisition complements our own previous activities. The combination of Schenker and BAX will help us considerably in enhancing our position as an international logistics service provider in the major growth markets of the Asian-Pacific region, China and the USA in particular. In addition, it boosts our market position as a leading global transport and logistics company. DB Group by the acquisition of BAX has become a major player in air and sea freight business. BAX also gives us more clout in contract logistics. The purchase price was based on an enterprise value of about USD 1.1 billion (approximately € 950 million). The integration process of BAX began after the successful closing in January 2006. BAX will be consolidated for the first time in the 2006 financial statements.

- **Acquisition of the StarTrans Group –** After the Supervisory Board had given its approval in December 2005, we signed a purchase agreement in early 2006 for acquiring, in a first step, an 80 % stake in the StarTrans Group based in Hong Kong/China. StarTrans currently has 14 operating entities in Hong Kong, Southeast Asia and the US, concentrating on the air freight market with a focus on the textile industry. StarTrans is the market leader in chartering activities from Hong Kong and is, at the same time, a leading provider of air freight forwarding services between Hong Kong and China to North America. The StarTrans investment more than doubles Schenker's market share on the crucial trans-Pacific route between Hong Kong and North America and provides better access to US customers. As with the BAX acquisition, StarTrans will generate synergies with the existing logistics activities, due to advantages arising from higher overall volumes in freight scheduling and capacity procurement. The purchase price was based on an enterprise value of approximately € 0.1 billion. The StarTrans business will be consolidated for the first time in the 2006 financial statements.
- **Strengthening of the Railion business unit through the acquisition of RAG Bahn und Hafen GmbH –** We bought the rail logistics activities of RAG AG in order to strengthen our Railion business unit. The agreement for the acquisition of RAG's subsidiary RAG Bahn und Hafen GmbH (RBH) in Gladbeck, Germany became effective when the antitrust authorities gave the green light in the fourth quarter of 2005. The acquisition of RBH, which transships or transports approximately 48 million metric tons of bulk goods per year, is aimed at bolstering our position in European bulk logistics. The purchase price was based on an enterprise value of € 85 million. RBH was consolidated for the first time in the financial statements as of December 31, 2005 with its balance sheet.
- **Disposal of non-core activities –** In the year under review, we sold a number of investments that were no longer part of our core business. For instance, we disposed of our stake in Deutsche Touring GmbH (DTG) (82.8 %). The sale became effective retroactively as of January 1, 2005. Our shares in DTG were purchased by Ibero Eurosur S.L., a Spanish-Portuguese consortium of long-distance coach operators. As of December 1, 2005, we also sold Deutsche Eisenbahn-Reklame GmbH to STRÖER Media Deutschland GmbH & Co. KG.

Other changes to our business portfolio were aimed at improving our competitive position or streamlining the portfolio structure. These changes included the acquisition of another 66.7 % in Linjegods AS, Oslo, Norway, to become a wholly owned subsidiary. Linjegods AS was consolidated in the financial statements as of December 31, 2005 with its balance sheet; previously, the shares held in this company had been accounted for using the equity method. However, the above described and other changes had no material effect on the comparability of results with the previous year.

Market-Oriented Structures: Strengthening the Role of the Business Units

In March 2005, we adopted a comprehensive plan to reorganize the management structures of the DB Group. The plan took effect on July 1, 2005, and included such measures as the streamlining of the management hierarchy and the establishment of a more direct link between the business units, which will be managed via the "Passenger Transport", "Transport and Logistics" and "Infrastructure and Services" board divisions. The structure of the business units in the Passenger Transport division remains unchanged and includes the Long-distance Transport, Regional Transport and Urban Transport units. The Transport and Logistics division is made up of the Stinnes business unit (which comprises the former activities of Stinnes Freight Logistics and Stinnes Intermodal) and the Schenker and Railion business units. The Infrastructure and Services division consists of the Track Infrastructure, Passenger Stations and Services business units, which were previously known as Group divisions. The Energy business unit, which used to be part of the Services division, is now operated independently. Moreover, the Passenger Transport division is now in charge of the Sales service center, while the Infrastructure and Services division has assumed responsibility for the project construction unit called DB ProjektBau. A new "Integrated Systems Rail" board division has been set up to control processes associated with the necessary coordination and expansion of integrated rail systems across business units.

The reorganization implemented is in accordance with the organizational provisions of the Law Governing the Founding of Deutsche Bahn (Deutsche Bahn Gründungsgesetz; DBGrG), other relevant railroad and EU legislation, and complies with the General Railways Act (Allgemeines Eisenbahngesetz; AEG) and the rules set forth in EU Directive 2001/14 on the independence of DB Netz AG as infrastructure operator with regard to the allocation and pricing of train path usage.

Overall Economic Situation

Economic Growth in Germany Slowed Down Compared to 2004

While our global logistics activities benefited from the continuing strong trends in world trade, but a very large part of our business remained highly dependent on our domestic market and general economic activity in Germany. The growth rate of the German economy in the year under review was lower than in 2004.

Macro-economic trends: growth rate of gross domestic product (GDP) %	**2005**	**2004**
Global	+ 3.0	+ 3.9
EMU	+ 1.4	+ 1.8
Germany	+ 0.9	+ 1.6
US	+ 3.5	+ 4.2
Japan	+ 2.0	+ 2.6
China	+ 9.5	+ 9.7

All data for 2005 are based on information and estimates available as of February 15, 2006.

- **Global:** Despite soaring crude oil prices, the world economy advanced strongly in 2005, although momentum dwindled somewhat compared to the previous year. The US, which continued to record above-average growth rates, provided a strong impetus to the global upswing. Asia was again the top-performing region in terms of economic growth. China, for instance, maintained its growth rates at the previous year's high level, while the growth rate of the Japanese economy slowed mildly.
- **Europe:** The economy of the Euro zone experienced a modest upturn in the course of 2005, but on average its annual performance declined against the previous year. Growth was driven by robust global demand and a pickup in capital goods spending. By contrast, private consumption failed to gain momentum, as real wages increased slowly because of high energy prices and the sluggish recovery of the labor market dampened consumer confidence. Much more momentum was again displayed by the new EU member states, whose GDP rose by approximately 4 %.

- **Germany:** According to preliminary estimates by the Federal Statistical Office (Statistisches Bundesamt), German economic growth was weaker in 2005 compared with 2004. However, there were also fewer working days in 2005; after adjusting for that, the growth rates were about the same. The economy was supported by a strong expansion of exports and by spending on plant and equipment which increased on a year-on-year basis. The critical impetus for this trend came from a sound global economy which also boosted demand for capital goods. However, this effect was counteracted by the accelerated decline in construction spending. Private consumption did not make any headway on a year-on-year basis, as a larger part of disposable income was spent on energy supply. According to the data available at this point, retail sales growth of 1.1% was slightly less than the previous year.

Energy Costs Driven up by High Crude Oil Prices

Ongoing strong demand, political tensions in major oil-producing countries and production outages in the wake of devastating hurricanes in the US sent the crude oil price to record levels above USD 70 per barrel (bbl). As the year drew to a close, a barrel of Brent crude was trading between USD 55 and 60, which was well above the 2004 average, when prices had last peaked. Diesel fuel prices soared even further than the underlying crude value due to scarce refinery capacities. Since the oil sector has neglected capital spending for many years, and continued economic growth will likely boost demand from China and the US, crude and petroleum product prices are set to remain highly volatile.

In the German electricity market, 2005 witnessed new price records almost daily. A useful indicator of price developments is the base load forward price (2006 future contract). While in early 2005 the 2006 future contract was trading below € 33/MWh, the market price for the same delivery reached € 53/MWh by the end of 2005. This increase was mainly attributable to rising oil and gas prices. Another crucial factor determining the trends in the German electricity market was the high price level in other European countries (particularly in the United Kingdom), which led to power exports to the UK via France. Prices are expected to remain high for the foreseeable future, as it will take three to five years for additional generating capacity to ease the current supply squeeze.

Major Currencies Present a Mixed Picture

After the euro had reached a historical high against the dollar of USD 1.36 at the end of 2004, the US currency steadily strengthened throughout 2005. This trend was furthered by the interest rate policy of the US Federal Reserve, which successively raised key interest rates. As a consequence, the euro was trading at USD 1.18 at the end of 2005. The widening of the interest rate differential between the Japanese yen and US dollar had an even stronger effect on cross exchange rates. This helped the euro make up for previous losses against the Japanese currency in the second half of the year.

Developments in Relevant Markets

Strong Growth in Rail Passenger Transport and Gains in Market Share

Growth rates / market share in German passenger transport %	2005	2004	Market share 2005
Rail passenger transport	+ 3.5	+ 2.2	9.0
DB Group	(+ 3.3)	(+ 1.0)	(8.6)
Other rail operators	(+ 11.0)	(+ 49.0)	(0.4)
Public road passenger transport	- 0.5	+ 0.6	9.0
DB Group	(- 0.8)[1]	(+ 0.6)[1]	(1.1)
Motorized individual traffic	- 1.5	- 1.5	80.9
Air traffic (domestic)	+ 2.1	+ 1.2	1.1
Total market volume[2]	- 1.0	- 1.0	100.0

[1] On a comparable basis
[2] We define the total market as comprising all motorized means of transport: motorized individual traffic (MIT), rail transport, public road passenger transport (PRPT), and domestic air travel.
All data for 2005 is based on the information and estimates available as of February 15, 2006.

The business units of the Passenger Transport division operate primarily in our German domestic market. Over large distances, our main competitors are private cars and airlines. The critical parameters are travel time, quality and price. Our regional and urban transport activities are facing intermodal competition, but there is also fierce intramodal competition, as long-term transport contracts are awarded by tender.

According to our own statistics, mobility demand in the passenger transport markets declined in the 2005 financial year. This was mainly due to the continuing decline in demand in the motorized individual traffic (MIT) segment, which dominates the market – a decrease that can be attributed to a sharp increase in fuel prices (+ 8.1% versus 2004), a slight decline in personal income (– 0.5 %) and stagnant private consumption.

Against this background, it is fair to say that our results in the year under review were excellent. On a comparable basis, i.e. adjusted for disposals that were deconsolidated, our performance in rail and road transport increased by 3 % in total and market share increased.

A very gratifying development was recorded by the Long-distance Transport business unit, which successfully increased its transport performance by 4.1% to 33.6 billion passenger kilometers (pkm). This result was attributable to various special price offers which were repeatedly available for a limited period of time (including tickets on sale at food discounter Lidl and such seasonal offers as the spring special, the summer special and the autumn special), the enthusiastic response of the market to the new high-speed service between Hamburg and Berlin, a further increase in passenger numbers on the high-speed route from Cologne to Frankfurt and positive feedback from customers to quality improvements.

Demand for regional and S-Bahn (metro) services, too, grew more strongly than in the previous year. Although the Regional Transport unit lost several high-volume lines to competitors, its rail transport performance rose by 1.6 % to 33.8 billion pkm. The Urban Transport unit increased its rail transport performance by 9.3 % year-on-year to 5.1 billion pkm. Special “State Tickets” that each allow free travel within one specific federal state (Ländertickets) proved a huge marketing success, as sales volume rose by almost 17 % to over 9 million. However, this trend was hampered by the ongoing crisis in the labor market where the number of jobs was declining further. Our bus operations increased their performance on a comparable basis by 0.8 % to 9.1 billion pkm.

According to our estimates, non-Group rail companies, which mainly run regional lines, improved their transport performance by approximately 11 %, by taking over former DB routes. The overall local rail passenger transport market, including DB Group and non-Group services, reached the highest passenger volume ever, totaling just over 2 billion. The transport performance of the entire rail transport market (including the local and long-distance services of all operators) rose by 3.5 %. The estimated market share of non-Group rail companies in the rail passenger transport segment amounted to approximately 4 % in terms of transport performance or more than 13 % in terms of train kilometers traveled in regional transport.

This market development came at the expense of public road passenger transport (PRPT), where non-scheduled bus services were losing passengers, while regular services by bus, streetcar or subway recorded a slight increase. In the PRPT segment, tender-related competition heated up considerably in 2005. In view of this strong competition and a highly fragmented supply structure, market consolidation is likely to continue. As regards the size of the market players, it is quite noticeable that the subsidiaries of large international groups are gaining in significance in the PRPT segment.

In the last few years, low-cost airlines initially achieved high growth rates through aggressive pricing. Their marketing methods prompted traditional airlines to review their strategies and fundamentally changed the price perception of customers. But as a result of the rise in aviation kerosene costs in 2005, average ticket prices for regular scheduled domestic flights soared dramatically, restraining growth in comparison to European and intercontinental services.

Dynamic Development of International Transport and Logistics Markets

The markets covered by the business units within the Transport and Logistics division continued to expand in the year under review. In line with the differences in general economic activity, global markets grew faster than the German and European freight transport markets.

European land transport suffered from persistent margin pressure due to capacity increases. Competition was growing fiercer due to ongoing market consolidation in third-party logistics and an ever-larger number of carriers from the new EU member states and other Eastern European countries that were aggressively pushing into the market. Moreover, higher fuel costs drove up the prices of transport services. Differences in diesel fuel taxation in various European countries put different cost burdens on freight forwarders in Western Europe versus Eastern Europe, thus resulting in different costing bases. This situation was drastically aggravated by the liberalization of diesel fuel imports. Customers were not only making more use of ancillary services, but were increasingly shifting their internal logistics processes to locations in Eastern Europe. In this challenging environment, our European Land transport segment managed to raise the volume of shipments by almost 4 % year-on-year, while posting double-digit growth in the EU accession countries.

Growth momentum in the global air freight market continued at high levels in the year under review. Routes from North America to Europe, Asia and South America continued to experience strong market growth at stable freight rates. Trans-Pacific routes, in particular, recorded a strong increase of 10 %. There were also sustained positive trends on routes from Asia to Europe and North America and within Asia. Year-on-year, our Schenker business unit raised its volume of import and export shipments by 9 % and 6 % respectively. High-volume routes from Asia to Europe and in the opposite direction recorded stable freight volume growth of 10 %. On routes between Europe and South America, volumes rose by approximately 12 %. However, freight rates are now under considerable pressure, as potential overcapacities in the market create increased competition that is further intensified by fuel and security surcharges.

Exports from Asia to Europe and America as well as intra-Asian routes were the main growth engine in the global sea freight market, although the current expansion rate of about 10 % was not quite up to last year's figure. One of the essential drivers is the ongoing trend of shifting production capacities to Asia. However, Asian routes were still characterized by strong imbalances between import and export segments. While on routes from Europe and North America to Asia competition was intense due to overcapacities, routes from Asia to Europe and North America were operating to capacity at stable rates. Intra-Asian volumes continued to grow at a fast pace. There was also an imbalance in goods flows on trans-Atlantic routes. While services from North America to Europe had free capacities at low freight rates, the very tight transport capacities on offer for shipments from Europe to North America pushed up freight rates. The situation on South American routes was just the opposite, as scarce capacity and high freight rates for transport to Europe contrasted with low rates for shipments to South America. Our Schenker business unit benefited from the dynamic market environment, and its sea freight segment experienced growth (+17 %) in excess of the market average.

Stiff Competition Prevails in the German Freight Transport Market

Growth rates / market share in German freight transport %	2005	2004	Market share 2005
Rail freight transport	+ 5.0	+ 8.2	17.1
DB Group	(– 1.0)	(+ 5.0)	(14.5)
Other rail companies	(+ 60.0)	(+ 49.2)	(2.6)
Road freight transport	+ 3.5	+ 5.6	70.7
Inland waterway transport	+ 1.5	+ 9.5	12.2
Total market volume[1]	+ 3.5	+ 6.5	100.0

[1] We define the total market as comprising the following modes of transport: rail (Railion Deutschland AG and other rail companies), road (German trucks ex. local transport; foreign trucks) and inland waterway. All data for 2005 is based on the information and estimates available as of February 15, 2006.

The sustained positive trend in the global economy had an overall positive impact on the German freight transport market. Although the growth rate of the total market almost halved, falling from an exceptional 6.5 % to 3.5 %, the figure was still above the long-term average. The main cause for the slowdown was a marked deceleration in the growth rate of the domestic economy. By contrast, competitive and price pressures continued to be strong.

In the fierce battle over market share in Germany, rail freight transport prevailed as the strongest mode of transport. As a result the market share of rail freight transport expanded for the third year running.

Within the German rail freight sector, non-Group railways again recorded a substantial increase in their transport performance amid mounting intramodal competition. Their share of the rail freight transport market rose to almost 15.5 % after 10.2 % the year before. The essential cause was that contracts that had previously been awarded to our Railion business unit now went to other operators.

Against this background, the slight drop in our rail freight transport performance to 76.8 billion ton kilometers (tkm) is still a positive result, particularly as many of the underlying trends, unlike last year, had an adverse effect on the market. Such trends included a sharp decline in crude steel production and a surprising slump in the building industry. The negative impact was only partially offset by growth in cross-border services, which account for nearly 60 % of the total transport performance of Railion Deutschland AG.

The Railion business unit as a whole (including its international subsidiaries Railion Nederland N.V., Railion Danmark A/S and – as a new entry as of May 2005 – Railion Italia) was not able to repeat the positive results of the previous year. As a consequence, the transport performance of the Railion business unit also dropped by 1 % to 83.1 billion tkm.

The transport performance of road freight transport (including German trucks – without local transport – and foreign trucks) continued to grow, albeit at a slower pace. Again, foreign trade was the driving force behind this development, which above all benefited foreign trucks. Dominating the cross-border sector, they continued to expand their market share, as the cost base of truck fleets operating from neighboring countries was considerably lower. The breakdown by freight type shows that the fastest increase by far was accounted for by vehicles, machinery, as well as finished and semi-finished goods, and special freight (particularly containers), while non-metallic minerals and iron and steel were on the decrease.

After the low water levels of 2003 and the catch-up effect of 2004 had somewhat distorted the year-on-year changes, inland waterways returned to a moderate level of growth.

Rising Number of Non-Group Rail Companies Benefit From Non-Discriminatory Access to DB's Rail Infrastructure

Since non-discriminatory access to Germany's rail infrastructure was established in 1994, an increasing number of non-Group rail companies have been entering the market and expanding their market share. The number of station stops of non-Group companies continued to increase substantially by 16 % to 13 million stops. Track usage rose by 25 % to 110 million train path kilometers. All told, almost 300 non-Group rail operators were using the infrastructure of DB Group in 2005.

Business Performance

In the 2005 financial year, as in the previous year, DB AG recorded no revenues. At € 3 million (previous year: € -5 million), changes in inventories and internally produced and capitalized assets were of subordinate importance to the Company's economic development.

Other operating income remained essentially unchanged year-on-year at € 1,705 million (previous year: € 1,711 million). This figure primarily includes income from services performed for Group companies and third parties, rental and lease income, and income from the disposal of tangible assets in the course of the planned economic utilization of real estate assets and the sale of financial assets.

At € 146 million, the cost of materials also remained stable as against the previous year (€ 147 million). Personnel expenses in the amount of € 395 million (previous year: € 450 million) included wages and salaries and statutory social security contributions for DB AG's employees. The collectively agreed reduction in working hours which came into force at DB AG on July 1, 2005 also had a positive effect.

Depreciation fell slightly to € 25 million in the year under review (previous year: € 28 million).

Other operating expenses were reduced substantially to € 1,160 million (previous year: € 1,456 million). This item includes rental and lease expense and miscellaneous operating expenses such as fees, duties, insurance premiums, payments for third-party services and compensation payments. The reduction is primarily attributable to the success of the Company's measures aimed at improving efficiency and optimizing overhead functions. In addition, the figure in the previous year was significantly impacted by additions to restructuring provisions and provisions for real estate risks.

The substantial improvement in income from investments € 558 million (previous year: € 195 million) was largely due to positive earnings development at the Company's subsidiaries, which resulted in higher income from profit transfer agreements.

DB AG performs the central financing function for the DB Group in accordance with the financing requirements of the Group companies, and generally transfers the funds raised to the subsidiaries at the same conditions. Net interest expense in the year under review amounted to € 163 million (previous year: € 205 million).

All in all, DB AG recorded a positive income before taxes in the amount of € 377 million (previous year: loss of € 385 million). Taking into account income taxes in the amount of € 24 million, this resulted in a income after taxes of € 353 million. Offset against the accumulated losses carried forward from the previous year in the amount of € 1,778 million, the balance sheet loss for the period totaled € 1,425 million (previous year: € 1,778 million).

Balance Sheet

Total assets as of December 31, 2005, amounted to € 31.7 billion (previous year: € 30.8 billion). This increase is largely attributable to the growth in shares in affiliated companies following the capital increase at a subsidiary, as well as the provision of additional financing to Group companies.

Financial assets are the main asset-side item, reflecting the Group's investments in subsidiaries. As in the previous year, fixed assets in the amount of € 2.9 billion (previous year: € 2.9 billion) are primarily composed of land and land rights. Of the financial assets in the amount of € 25.8 billion (previous year: € 24.7 billion), 57.3 % or € 14.8 billion are attributable to shares in affiliated companies, while loans to affiliated companies account for 39.5 % or € 10.2 billion. Current assets, which amounted to € 3.0 billion (previous year: € 3.2 billion), are largely composed of receivables and other assets (€ 2.5 billion) and cash and cash equivalents (totaling € 0.5 billion).

Equity capital increased from € 7.2 billion to € 7.5 billion as a result of the net profit recorded for the year. The equity ratio also improved to 23.7 %. At € 7.1 billion, provisions were essentially unchanged as against the previous year (€ 7.0 billion). Liabilities in the amount of € 17.0 billion (previous year: € 16.6 billion) primarily consisted of liabilities to affiliated companies (€ 12.9 billion).

Capital Expenditures

As in the previous year, gross capital expenditures by DB AG in fixed and intangible assets remained at a low level of € 53 million, with a focus on the acquisition of land and office equipment as well as 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.

Excellent Ratings Reconfirmed in the Year Under Review

The rating agencies Moody's and Standard & Poor's (S & P) conducted their annual rating reviews in June 2005. Both rating agencies subsequently confirmed their positive assessment of Deutsche Bahn's creditworthiness. Both rating agencies also did the same in November 2005 after the signing of the agreement to acquire for BAX. Our Investor Relations department maintained close contact with the respective analyst teams both with regard to the BAX acquisition and DB Group's overall business development. S & P's "AA" rating and Moody's "Aa1" rating have remained unchanged since they were first issued in 2000. Both ratings have a "stable" outlook.

We also made use of international financial markets to finance the acquisition of BAX. In December 2005, we placed a five-year bond issue of USD 800 million (with a coupon rate of 5.125 %) via Deutsche Bahn Finance B.V., Amsterdam, Netherlands. With this bond issue, we were able to address investors at an international level and satisfy substantial demand by European, African, Asian, and American fixed-income investors. However, the cash inflow from this bond issue, which had been timed to coincide with the date of the closing of the BAX deal, was not received until the 2006 financial year and so is not included in the 2005 financial statements.

We have a long-term debt issuance program of € 10 billion, under which, taking the aforementioned bond issue into account, approximately € 2.5 billion was still available for placement as of December 31, 2005. With respect to short-term financing, similar to the previous year, guaranteed unused credit facilities of approximately € 2.5 billion and a multi-currency multi-issuer commercial paper program of over € 2 billion (also unused) were available as of December 31, 2005.

No major lease transactions were concluded in the year under review.

Employees

At the end of the 2005 financial year, the number of employees was 6,093 (previous year: 6,062). We also employed 195 trainees.

Integrated Systems Rail

Organizational Enhancements Strengthen Deutsche Bahn's System Competencies

Well coordinated technical facilities – from rail lines, to equipment, systems, operating sites, and on to rolling stock – are just as necessary for high quality of output in rail transport as are employees who can handle cross-functional processes. To further optimize interfaces, in the year under review we bundled responsibilities for technology and procurement, quality management, environmental protection, and technical enhancements of the rail system in the new "Integrated Systems Rail" board division.

Our Technology Strategy is Aimed at High Reliability and Economic Efficiency

Our strategic alignment toward high-quality mobility and logistics offerings requires we make high quality demands overall on ourselves, our suppliers, as well as our partners included in providing our overall service. Additional improvements in the rail system using fully developed, reliable, and economical technology are the basis for bringing more traffic onto the rails. This requires continuous and extensive communication with the rail industry, from systems development, to operations, and on to maintenance functions. In this context, we consider it part of our mission to accelerate competitive product developments across Europe. We expect the rail industry to deliver reliably functioning rail technology and to develop technical innovations.

Quality Management and a High Degree of Safety as the Basis for Sustainable Competitive Advantages

Thanks to the integrated wheel/rail system with track-guided wheel and command and control technology, rail traffic has a significant safety advantage compared to other modes of transport. We are making every effort to maintain this high safety standard and are continually improving the related systems and processes.

In the year under review, we further developed our quality management by consolidating existing standards already established for individual business units or throughout the DB Group – such as the Quality Management System (DIN ISO 9000 et seq.) or the Environmental Management System (DIN ISO 14001) – into a comprehensive Integrated Management System (IMS) for processes related to quality. We also bundled the management systems for occupational safety and health, emergencies/fire prevention, safety, and hazardous goods into this comprehensive system.

Our Engineering Service Provider has a Good Reputation Among Non-Group Customers

The competence and competitive ability of our engineering service provider, DB Systemtechnik, is reflected in the demand by non-Group customers. Following the successful major cooperative projects with the Chinese and Taiwanese railways in 2004, DB Systemtechnik also provided consulting to the Russian railways in the year under review in connection with a project to procure the first Russian high-speed train. On behalf of Alstom LHB, DB Systemtechnik handled the overall approval process for operations of the Swedish X60 electric multiple unit sets on the German rail network.

Purchasing

Excluding the domestic and international contracts of the Schenker business unit, we were once again one of the largest investors in Germany with a procurement volume in excess of € 9.1 billion in the year under review. According to our estimates, this secured more than 600,000 jobs in industry either directly or indirectly. Our focal points were once again industrial products as well as construction and engineering services, although order volumes in the latter area were scaled back significantly. Our sourcing of third-party services also declined slightly. In contrast, spending on utilities and fuel increased due to high energy prices.

In accordance with our capital expenditures priorities, major orders were placed for infrastructure in particular, as well as for further modernization of our rolling stock. For example, the contract for the new construction of a four-kilometer long second tunnel tube at the Schlüchtern Tunnel was awarded in August. The Schlüchtern Tunnel lies on one of the busiest long-distance transport lines between Hanau and Fulda, which is the most important connection for all trains heading to Frankfurt from the north and east. The first trains should be driving through the new tunnel in 2008. Extensive rolling stock orders concerned passenger cars, double-deck cars for regional transport, as well as electric locomotives.

In addition, substantial procurement actions resulted from DB's role as the leading mobility and logistics service provider for the 2006 FIFA World Cup™, where we are responsible for equipping the FIFA World Cup Host Cities and important rail stations with modern customer information technology. In addition, we are equipping hubs such as the Frankfurt (Main) Sportfeld station with new overpasses, platforms, retaining walls, and rail embankments and are adjusting the superstructure and track plan as needed.

Systematic maintenance and standardization of our business relationships with more than 40,000 suppliers increases the quality of our cooperation during the purchasing process. Prequalification procedures for suppliers, such as those implemented in the year under review for the procurement of consulting and construction supervision services, are designed to improve quality and reduce expenses in award procedures.

With respect to the procurement of mechanical installations, we continued to optimize procurement costs in the year under review. After positive experiences in standardization and modularization of escalators and elevators and their procurement through general agreements, we extended this procedure to include additional product groups, such as vehicle exterior cleaning installations, floor conveyor technology, hydraulic jack systems, and mobile wheelset changing installations.

Supplemental Information

New Station Pricing System Implemented as of January 1, 2005

As of January 1, 2005, DB Station & Service AG implemented a new station pricing system. It includes a price catalog with six price categories, specific to the German Federal States, which are based on the importance of the rail stations in terms of traffic – such as the number of train stops, number of passengers, and their function as a hub – as well as integrating the German state-specific infrastructure requirements and support funding arrangements. This takes the federal states' specific concepts regarding regionalization comprehensively into account. Each rail station is assigned a category based on nationally uniform characteristics. The new station pricing system reduces the number of station prices to 96 state-specific prices (16 German states times six categories) with two train length factors in each case. Compared to the previous station pricing system, the new station pricing system resulted in a significantly simpler settlement procedure and more adequate consideration of the higher demands placed by longer trains on the train station infrastructure.

Implementation of the EC Infrastructure Package into German Law

In the process of incorporating the "EC Infrastructure Package" into German law, the German General Railways Act (Allgemeines Eisenbahngesetz; AEG) and the Ordinance on Railway Infrastructure Usage (Eisenbahninfrastruktur-Benutzungsverordnung; EIBV) were extensively revised in the year under review. At the same time, the findings of the "Future Rail" task force from September 2001 were also implemented by statute.

The amendment of the AEG set forth the following significant changes in particular: Regulatory authority is bundled and assigned to the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway (Bundesagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnwesen). This body assumed its corresponding supervisory functions as of January 1, 2006. At the same time, its regulatory authority was expanded to include access to service facilities, the services provided at them, terms of use, and compensation principles. Finally, the German Monopolies Commission will prepare expert opinions at regular intervals based on its observation of the market. Overall, a broad consensus on the statutory regulations governing the integrated DB Group is emerging based on these changes. The EIBV has been adapted to match the amendment of the AEG.

“2006 Timetable” Successfully Launched

The timetable change, coordinated across Europe, went into effect as scheduled at the end of the year under review. The transition to the “2006 Timetable” on December 11, 2005 went smoothly. This timetable change brought further improvements in service offerings into effect, such as the new Cologne–Stuttgart Sprinter connection in long-distance transport. Additional improvements will go into effect with the next timetable change on May 28, 2006. These will include, in particular, integration of the Berlin central station, and thus the Berlin north-south line, as well as commencement of operations on the new and expansion Nuremberg–Ingolstadt–Munich line.

Together with the timetable change in December 2005, price adjustments in long distance and regional transport went into effect, primarily due to increased energy costs.

Discussion on Funding Under Regional Restructuring Act From 2007 Onward Started

Currently, the German Regional Restructuring Act (Regionalisierungsgesetz) stipulates the amount of resources for financing local rail passenger transport, among others, as well as the distribution of these resources to the German federal states up through the end of 2007. A revision of the act is planned for 2007, in which the amount of the resources to be made available shall be re-determined. Initial discussions on this process are currently taking place in the political arena. From our viewpoint, it is conceivable that corresponding legislative resolutions will be adopted in 2006, effective as of 2007. However, we are currently unable to assess what the outcome of the discussions in the political arena will be. We support the goal of ensuring high-performance, public local mass transit at the highest possible level, combined with a solid financial foundation for the years after 2007 as well. Accordingly, we are prepared to exchange all necessary factual information and arguments and to defend our position in the upcoming discussions.

Risk Report

Our business activities entail not only opportunities but risks as well. Our business policies target the appreciation of opportunities and active control of identified risks through our risk management system. The necessary information for this is prepared in our integrated risk management system, which is designed to meet the requirements of the German Act on Corporate Control and Transparency (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich; KonTraG). This system is continually enhanced.

Opportunities Arising From Internal Programs or Favorable Market and Business Environment

To secure our strategy of earnings-based growth, we have implemented comprehensive action plans, which we expect will ensure or improve our quality of service, efficiency, and cost basis. We see opportunities here for additional organic growth, which may be reflected in additional improvements to profits and key financial ratios. We would also refer you to the "Strategy" section in this connection. In spite of the high degree of competition in our markets, we also see market-related opportunities in being able to actively shape foreseeable market consolidations from a leading competitive position. With regard to overall business conditions, further improvements in the relevant macroeconomic environment are conceivable, but are expected only to a lesser extent in the 2006 financial year. Reference is also made to the remarks in the "Outlook" section regarding the corresponding estimates.

Integrated Risk Management System

Our risk policy guidelines are formulated by the DB Group management and implemented at DB AG and its subsidiaries. The Management Board and Supervisory Board of DB AG receive quarterly reports as part of our risk early warning system. Risks arising suddenly or undesirable developments must be reported immediately. Acquisition plans are subject to additional special monitoring.

In the DB Group's risk management system, all risks are presented in a risk portfolio as well as in a detailed listing, taking materiality thresholds into account. The risks mentioned in the risk report are categorized and classified based on the probability of occurrence. In addition to the possible consequences, risk analyses also suggest protection strategies and list costs of countermeasures.

Organizationally, DB's Group Controlling is the risk management coordination center for the DB Group. In connection with Group financing, which is strictly oriented on our operating business, the Group Treasury is responsible for limiting and monitoring the resultant credit risks, market price risks, and liquidity risks. By consolidating the related transactions (money market, securities, currency trading, derivative transactions) at DB AG level, the associated risks are centrally controlled and limited. Our Group Treasury is organized based on the "Minimum Requirements for Trading" (Mindestanforderungen an das Betreiben von Handelsgeschäften; MAH) formulated for financial institutions and, applying the criteria derived from these guidelines, satisfies all requirements of the KonTraG.

Active Risk Management in the DB Group

Active risk management is part of our business strategy. Risks to which the DB Group is exposed include in particular:

- **Market risks:** These are, for example, overall economic development and the partially cyclical changes in demand. Key drivers for passenger transport – consumer spending, employment figures – were once again somewhat constrained in the year under review; a slight improvement is forecast for the current financial year. Compared to the 2003 and 2004 financial years, the market momentum stemming from the aggressive pricing strategies of competing low-cost airlines declined in 2005, while competition continued to be intense. In the meantime, our particularly attractive price offers enabled us to reduce the risks from travelers' price perceptions, which were unfavorable to Deutsche Bahn compared to the low-cost airlines. The Long-distance Transport business unit in particular, offering high quality of service and attractive, fast connections, was able to stem the general decline of the overall market. There is intense competition for long-term ordered service contracts in local rail passenger transport, directly affecting DB's Regional and Urban Transport business units. The results of current discussions on the amount of mid-term federal funding provided to the states under the Regional Restructuring Act will be decisive for the development of this transport segment as well.

  In rail freight transport, i.e. the Railion and Stinnes business units, the most important factors are demand for transport of consumer goods, steel and mining products, petroleum products, chemical products, and construction materials. On the one hand, these are subject to economic fluctuations, and on the other hand, changes in production structures of customers who are often exposed to global competition must be taken into account. In addition to the increasing intensity of competition in intramodal transport, there is considerable intermodal competitive pressure, which has further intensified due to the growing market significance of more economical truck fleets from the new EU countries. When examined in isolation, market risks emanate for rail freight transport from the need to adapt to increased competition in intermodal transport both domestically and internationally due to increasing globalization.

  We took the necessity of increased internationalization into account early on by establishing the Railion network, making international equity investments, and entering into international cooperative agreements. The pending opening of the European rail freight transport markets in 2007 represents a new challenge. Rail traffic as well as our logistics business is affected across the board by the dynamic consolidation processes within the logistics industry, the continuing liberalization of the European transport markets, as well as increasing customer requirements. We are responding to these developments with extensive measures to further enhance efficiency and reduce costs. We are also optimizing our rail service offering and our services are designed to integrate rail freight transport into more comprehensive logistics offerings. The breadth of our business portfolio ensures a good diversification of risks, as does the strong international presence of our business units. Given DB's strong competitive position, we also consider the upcoming consolidation process an opportunity, not just to defend our current position, but rather expand it.

Due to the special nature of its business, the Schenker business unit faces risks from the submission of non-objection certificates to airlines, which could have significant consequences in individual cases. Schenker has continually revised and improved its rules for granting customs guarantees in recent years. Appropriate insurance has been obtained to cover the risks relating to air transport. In addition, Schenker monitors strict compliance with country-specific regulations regarding security precautions for air and sea freight.

We counter risks resulting from changes in customer demand, including ordering organizations, or from shifts in traffic patterns, by closely monitoring the market and continually enhancing our service portfolio. With regard to market risks from modifications to the legal framework at both domestic and international level, we actively represent our position in the preceding consultations and debates.

- **Operating risks:** In its rail transport operations, the DB Group operates a technologically complex, networked production system. We counter the risk of service interruptions through systematic maintenance, the use of qualified staff, and continuous quality assurance and process improvement measures. As the quality of our own services also depends to a large extent on the reliability of the production resources employed, purchased materials and services, and the performance quality of partners, we conduct in-depth quality dialogs with the relevant suppliers and business partners.
- **Project risks:** The modernization of the overall rail system involves high amounts of capital expenditures as well as a large number of highly complex projects. Changes in the legal framework, delays in implementation, or necessary adjustments during project lifecycles, which often extend over several years, may result in project risks that may also have consequences across business units due to our networked production structures.

We take such risks into account by closely monitoring our projects. This applies in particular for our major projects such as the Berlin hub (including the Berlin Central Station), the new and expansion Nuremberg–Ingolstadt–Munich line, and the establishment of the GSM-R network. Operation of the Berlin hub will commence incrementally. In general, new projects are implemented only after a plan approval procedure has been concluded.

- **Security and predictability of governmental infrastructure financing:**

The federal government's constitutional obligation to finance the rail infrastructure is a key element of the German Rail Reform. Not only is a sufficient amount of resources decisive, but so is the predictability of the financing resources to be made available. Overall, we are striving for a long-term, sustainable, and modern infrastructure partnership with the federal government that accommodates our business interest as the owner and operator of the infrastructure, which is available to third parties in a non-discriminatory manner, with the federal government's constitutional obligation to ensure the rail infrastructure and which significantly simplifies the process. To this end, we want to commit ourselves to maintaining the high quality of our existing network infrastructure.

- **Financial risks:** Among other things, we use original and derivative financial instruments to hedge against interest rate, currency, and energy price risks arising from our operating business. These instruments are described in the Notes.
- **Legal and contractual risks:** Legal risks may arise, for instance, in the form of claims for damages as well as from legal disputes. Specifically, such risks often concern construction projects or real estate matters. Provisions are established for legal and contractual risks after estimating the respective probability of occurrence. The actual utilization of these provisions is dependent on whether the risks materialize in the amounts as set forth in our current estimates.
- **General uncertainties and risks:** Our political, legal, and social environment is subject to constant change. Stable general conditions are required for sufficient planning security for our future Group activities. We endeavor to positively influence these framework conditions or eliminate existing disadvantages through open dialog.

As in 2004, in the year under review our risk management efforts were concentrated on high-volume infrastructure projects, as well as on project and market related risks due to the high level of competition. Extensive regular analyses are conducted to this end. Our operative countermeasures include extensive efficiency and streamlining programs for specific business units and our comprehensive "Qualify" program.

We also obtain insurance policies to safeguard against unavoidable risks and limit the financial consequences to the DB Group from liability claims and claims for damages that may arise.

Risk Portfolio Free of Existence-Threatening Risks

Based on our current assessment of risks, countermeasures, hedges, and provisions, no risks are discernible that would threaten the existence of DB Group, now or in the foreseeable future.

Management Board Report on Relationships With Affiliated Companies

The Federal Republic of Germany holds all shares in DB AG. Pursuant to Sec. 312 German Stock Corporation Act (Aktiengesetz; AktG), the Management Board of DB AG has therefore prepared a report on its relationships with affiliated companies, which concludes with the following (translated) declaration:

"We hereby declare that, based on the circumstances known to us at the time at which the legal transactions were entered into, our company received reasonable consideration in each and every legal transaction.

In the year under review, the company did not take or refrain from taking any action at the instigation or in the interest of the federal government or parties related to it."

Events After the Balance Sheet Date

Supplemental Expert Opinion Creates Basis of Discussion on DB's IPO

In September 2004, the expert opinion "Privatization Options for Deutsche Bahn AG, With or Without Rail Network" was placed for tender by the Federal Ministry of Transport, Building and Urban Affairs (BMVBS) upon the request of the Bundestag's Transportation Committee. It was to supplement the current expert opinion, "Deutsche Bahn AG's Ability to Access Capital Markets" by Morgan Stanley from 2004, by comparing all possible options under consideration from financial management as well as budgetary, competitive, and transport policy viewpoints. In March 2005, a consortium under the leadership of Booz Allen Hamilton (BAH) received the order to prepare this expert opinion. After the initially envisaged preparation period from March until June 2005 was extended by several months, the expert opinion was submitted to the Bundestag's Transport Committee in January 2006. Pursuant to the contracting party's guidelines, the expert opinion does not contain any definitive recommendation with regard to the structural concept, but rather is intended to pinpoint and describe the advantages and disadvantages of the various options. Accordingly, the Bundestag's Transport Committee is currently reviewing its findings on the expert opinion. A final clarification of the structure issue is a material requirement for an IPO of DB AG. A political decision can be made based on this expert opinion in 2006.

Successful Closing of the BAX Acquisition

After the agreement on the acquisition of BAX was signed on November 15, 2005, the conditions precedent to this agreement could be fulfilled and the transaction was successfully closed in January 2006. This provided the legal basis for BAX' integration into the DB Group, which is now being made incrementally.

Strategy

Focused Group Portfolio

The 1994 German Rail Reform set forth the task of converting the former Federal Railways into a commercial enterprise managed under private law, a task which we accepted. This resulted in four major challenges:

- extensive modernization of our infrastructure and rolling stock,
- continuous productivity increases and competitive cost structures,
- market-driven solutions with regard to all dimensions relevant from the customer's viewpoint and appreciating growth opportunities, as well as
- sustainable improvement in profitability and internal financing capability.

While particular emphasis was necessarily placed on restructuring and eliminating the investment backlog in the first few years after the start of the German Rail Reform, further development of our service portfolio to meet market needs as well as taking advantage of growth opportunities – while continuing consistent cost management and additional modernization – are now increasingly at the forefront. In addition, we are striving to meet the capital market's needs with regard to yield, balance sheet structure, and financing power. We have established a comprehensive value management system and appropriate capital market targets to meet these needs.

We are established as an integrated Group with regard to our business portfolio and consider the focus on interrelated business units a significant success factor. Our core business is determined to a considerable extent by rail activities in Germany, our home market. Our primary task here is maintaining our strong market position in passenger and freight transport as well improving the intermodal competitive ability of the overall rail system. Our Group's vertical integration, which includes the infrastructure, is a fundamental prerequisite if DB AG is to be fully responsible for enhancing the overall rail system. This is the only way to ensure that the market pressure to which the transport divisions of the DB Group are exposed is also reflected in the infrastructure and service segments. All infrastructure users benefit equally from this, as well as from our modernization programs, in a non-discriminatory manner. To ensure the high quality of our infrastructure and the targeted further development of the network over the long-term, we strive to maintain a long-term and modern infrastructure partnership with the federal government. This partnership should be based on a service and financing agreement, which accommodates our entrepreneurial interests with the federal government's constitutional obligation to ensure the rail infrastructure.

The targeted further development of our core business – in particular in transport and logistics – has aligned Deutsche Bahn to the changed, more demanding requirements of our customers. The addition of Schenker in 2002 and BAX at the beginning of 2006 strengthened our organization and opened up additional growth potentials in the European land transport, international air and sea freight segments, as well as in contract logistics. These additions to our portfolio are also a significant building block for ensuring the future of rail freight transport, which profits from its integration into high-performance, international networks.

We develop our strategies based strictly on market and competitive factors. This corresponds to market requirements as well as our Group philosophy that our business units always strive for leading positions in the relevant markets. At the end of 2004, we launched the "Qualify" program, a package of comprehensive measures to ensure the necessary further improvement in our quality of service, competitive strengths, and profitability.

On Track to Becoming a Leading International Mobility and Logistics Service Provider

As current business analyses and the known forecasts show, our market and competitive environment is and will continue to be characterized by a high degree of change and intense competition, which results in significant challenges. But at the same time, these conditions offer major opportunities for further Group development. The increasing internationalization of the economy and society and the cross-border realignment of production structures and material flows lead to a continuing increase in demand for international mobility and logistics services. Last but not least, the Eastern expansion of the EU has created new perspectives, in that this expansion has changed the rules of the game in freight forwarding markets and created additional cost pressure in shipping services, while concurrently strengthening the importance of our domestic market as a transit country. This places considerable demands on all modes of transport. In this connection our core business, rail transport, is particularly indispensable for managing the growing transport flows in a commercially sound and environment-friendly manner.

The pending deregulation at the European level gives rise to major opportunities for rail as a mode of transport overall and hence for us as a powerful provider. The rail markets in Europe will be opened in freight transport by 2007 and in passenger transport by 2010. In the future we will have the same opportunities on the rails abroad, which international carriers have been taking increasing advantage of here at home based on the open access to the market in Germany since 1994.

At the same time, it is necessary to integrate rail transport into across-the-board mobility and logistics offerings in view of current and future customer requirements. The logistics sector is expected to grow disproportionately more than GDP due to the globalization of industrial structures entailing a significant trend of relocating production sites within Europe, or particularly to Asia. However, only those companies which are able to offer their customers comprehensive global logistics services will participate in this development over the midterm. Leading positions in terms of quality of service and profitability thus play a decisive role in today's market structures, which are still partially fragmented.

In the passenger transport segment, the "mobility" challenge is combined with the need to intelligently network various modes of transport, thus allowing integrated solutions. In this context, further optimization efforts are also called for not least by the foreseeable demographic changes and hence new requirements with regard to high-performance and cost-efficient transport in high density areas.

Against this backdrop, we are pursuing the goal of further developing DB Group into a leading international mobility and logistics service provider. To this end, we will further improve our core services, offer integrated solutions to combine systemic strengths of various modes of transport, and optimize the interfaces to the upstream and downstream elements of the value chain. We will expand our operations in the future focusing exclusively on areas where there is reasonable customer demand and where our skills and resources suggest this. By focusing the enhancement of our service spectrum on our core business, we try to ensure at the same time that the German rail system will continue to participate more than proportionately in the growth in the mobility market in the future.

We will also be able to realize additional profit potentials from internal process optimizations and cost reductions. In addition, we expect growth and development opportunities for our business units from continued internationalization and entry into related markets. In preparation for the opening of the European rail passenger market by 2010, we are focusing on establishing our international business, expanding our position in urban transport, as well as offering attractive mobility chains. Further strengthening of the Railion business unit's international position in rail freight transport is improving our competitive ability against other modes of transport. The continued improvement of skills along the logistics chain at Schenker and BAX represents important development paths for logistics activities, as does the optimization and further expansion of networks in a consolidating market. In the infrastructure and service segments, we expect further growth in business with non-Group customers.

Transport and Logistics: High-Performance, Global Networks and Logistical Expertise

The international freight transport and logistics markets will remain clear growth markets in the midterm. The road, sea, and air freight transport markets have been largely liberalized and are geared towards international business. Indications of similar progress in European rail freight transport are also beginning to show. Regardless of questions concerning legal market access, international rail transport must overcome historical restraints caused by different track gauges, power supplies, command and control technologies, as well as country-specific legal provisions.

Due to the intense competition in the freight transport market, DB AG must continue its reorganization and restructuring efforts in order to ensure sustainable profits. For our Railion business unit, the primary task is to further increase its competitiveness in a difficult competitive environment. The “RailPlus” project launched in June of the year under review forms the basis for additional productivity increases and medium-term improvements in earnings by using a holistic approach to both markets and production. Initial progress has already been achieved in the year under review. Our customers also demand a high degree of reliability in providing our services as well as consistent quality extending beyond national borders.

When considering the further internationalization of rail freight transport, we see complementary strategic options involving the expansion of the Railion network by including additional railroad companies, adding equity investments or partnerships, as well as direct market entries of our own. We are also meeting the challenges posed by technical issues – just like in cross-border passenger rail transport – with appropriate capital expenditures in multi-system, internationally approved rolling stock.

The Stinnes business unit is well-positioned in European bulk goods transport as Stinnes Freight Logistics. The long-term goal here is to become one of the leading providers of freight forwarding and logistics services in the bulk goods segment in Europe. The intermodal freight transport volume in Europe will show stronger growth than the remainder of the rail freight transport market due to increasing containerization. Against this backdrop, we intend to use Stinnes Intermodal to further expand our leading market position across Europe as an intermodal rail freight transport provider and thereby participate even more strongly in this growth market. We intend to achieve this through, among other things, focusing more on high-volume European thoroughfares. Our customers also expect more comprehensive logistical solutions. Here, we are able to offer them a range of services with one-stop shopping for logistics, freight forwarding, and transport services. We will further improve our competitive position by combining the Schenker and BAX networks. We offer top-quality solutions designed for and targeted to the special requirements of various industries. With Schenker and BAX, DB AG has two strong global logistics service providers with high-quality worldwide networks in the land, air and sea freight transport segments and strong logistical expertise in important industries (e.g. automotive and high-tech), which will enable us to actively participate in global market growth. We intend to further expand our worldwide networks as well as enhance our logistical competency in targeted areas through internal and external growth in order to maintain and further strengthen our leading market position. One of the central tasks in the 2006 financial year will initially be the integration of BAX into the DB Group.

Passenger Transport: Integrated Mobility in Germany and Positioning in Europe

Continued growth is forecast for the passenger transport market in Europe. Liberalization of local and long-distance rail passenger transport markets has begun, but has progressed at widely varying speeds across Europe. In long-distance passenger transport, Germany is becoming the clear forerunner in Europe with regard to open market access. In contrast, the number of tender offers for local rail passenger transport has been increasing throughout Europe.

Against this backdrop, our first priority continues to be defending our position in our home market of Germany. This means further developing our individual Long-distance, Regional, and Urban business units, as well as networking them more closely and creating intermodal transport mobility services, including backup systems for information, ticketing, and settlement. Accordingly, this includes the enhancement of "www.bahn. de" by providing comprehensive mobility information regarding train connections throughout Europe as well as almost all connections in public regional and urban transport within Germany.

The further development of the BahnCard into a mobility card, consistent fares up to and including the various public transport associations, as well as the operations of DB Carsharing and "Call a Bike" are aimed at offering more attractive mobility services that also extend beyond rail and bus transport. In addition, we will continue to expand cross-border transport and, should the occasion arise, take advantage of opportunities to enter foreign markets to internationalize our activities step-by-step.

Our goal for the Long-distance Transport business unit is to ensure a highly competitive offering of fast connections between German metropolitan areas and foreign countries within Europe. In this context, we rely on the classical advantages of rail systems: rapid traveling, relaxed and comfortably from city center to city center with a lot of time to use. Further improving our information and service quality as well as stabilizing or increasing on-time performance will be priorities. We will also continually enhance our service and pricing concepts, along with our tools to increase customer loyalty, with an eye toward specific target groups. In cross-border transport, we will continue to intensify our cooperation with railways in neighboring countries. We have combined some major initiatives in our "Long-distance Transport Campaign" program, which has already contributed significantly to this business unit's market success and increase in earnings in the year under review.

In our Regional and Urban Transport business units, it is necessary to provide economical services for seamless mobility in both town and country. To a high degree, we in particular are able to manage the optimal integration of the various transport systems. This requires further improvements in productivity, quality, and service. At present, the German urban transport market is still highly fragmented and characterized by municipal providers, but this market is beginning to open up. Given appropriate opportunities to enter markets, a stronger emphasis on economic efficiency in urban transport through increasing efficiency and utilizing synergies will offer significant growth potential. With a view to the future, we are also looking at the prospects for taking advantage of growth opportunities in neighboring European urban transport markets.

Infrastructure and Services: Built on Ensuring Reliable, Attractive, and Affordable Solutions

Our infrastructure businesses and internal service providers determine the long-term competitive ability of the integrated rail system to a considerable extent. Cost reductions and performance improvements are the most important levers for further increasing the competitive ability of rail transport. Our central task here consists of providing high quality, safe and reliable railway operations that are designed to meet the requirements of rail companies. Our services and related pricing systems for the use of infrastructure are designed to be non-discriminatory.

The Passenger Stations business unit is continuing to pursue its course of station modernization as required in keeping with the intended usage in close cooperation with the federal government and the respective regional administrative bodies. We are also moving forward with our programs for safety, cleanliness, and service. As part of these programs we are implementing differentiated developmental concepts for various categories of stations. Improving the parking situation at our major stations is the task of our newly-founded subsidiary, DB BahnPark GmbH. We see potentials in increasing car park rental income at high traffic locations. 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.

A central challenge in the Track Infrastructure business unit remains a further increase in efficiency accompanied by cost-optimized modernization and removing bottlenecks in the existing network. Among other things, our "Net 21" (Netz 21) strategy is aimed at 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 more efficiently tapping the potential of our existing network than has been the case. The second program involves investing in modern command and control technology, which will increase network flexibility and availability. Lastly, our third capital expenditure package is aimed at supplementing the infrastructure through new line construction and line upgrading 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 infrastructure funding provided by the federal government.

Our service activities also make a considerable contribution to the value chain for our customers and the rail system. Their positive reception by non-Group customers as well, particularly in vehicle maintenance, telecommunications services, and facility management, is an indication of additional growth opportunities.

Outlook

Economic Prospects: Growth Momentum Unchanged

According to the estimates of economic research institutes available at the time this report was prepared, economic conditions in Germany are expected to improve slightly in the 2006 financial year. Forecasts for global economic indicators continue to be more upbeat than for the German economy. The following forward-looking statements for development in 2006 are based on the assumption that the overall global political climate will remain stable.

- **Global economy:** Growth momentum in the global economy should continue almost unabated and gain breadth in the current financial year. Overall economic growth in the USA is expected to slow down only slightly. In Japan, the economic expansion will continue at about the same rate as in the prior year. China's economic policy measures aimed at avoiding excess industrial capacities will slightly weaken total economic growth there. The expansion in the remaining East Asian countries will continue at a slightly faster pace due in particular to an upturn in domestic demand. A central risk factor continues to be the development of energy prices. For example, if the price of oil increases above its already high current level, this may result in a considerable drag on the global economy.
- **Europe:** In the euro zone, the growth trend in GDP will probably add 0.5 percentage points. Consumer spending may increase slightly, supported by higher employment rates and concurrent moderate wage increases. If long-term interest rates increase only slightly, capital expenditures will show marked growth in view of rising corporate profits. The overall favorable situation of the global economy, the decline of the euro during the course of 2005, and the improvement in competitive ability will further strengthen exports. However, cutbacks in public spending will have a slight dampening effect. GDP growth in the Eastern and Central European EU member states will remain at 2005 levels and continue to be significantly above the EU average. Consumption as well as capital spending should also increase. Foreign trade in particular will be stimulated by the recovery in the euro zone.
- **Germany:** Current forecasts for 2006 expect growth to be about 0.5 percentage points higher compared to the previous year. In view of the continuing favorable international environment, growth in exports will accelerate slightly. Together with the improved depreciation rules for companies, this will contribute to a significant rise in capital goods spending. Construction spending, supported by, among other things, the federal government's additional capital spending program for traffic infrastructure, will no longer be depressed. Consumer spending, too, will recover somewhat in the second half of the year, not least by moving up purchases due to the VAT increase announced for the beginning of 2007. The 2006 FIFA World Cup™ will also result in positive economic effects in some areas of the overall economy.

Expected Development of our Relevant Markets

The brightening of the national economic environment expected for 2006 as well as the FIFA World Cup™ allow to estimate a restrained growth of 0.5 % for the German passenger transport market overall. We expect a slight recovery in transport performance for motorized individual traffic. Fuel prices are expected to increase again in the current financial year, but not as much as in 2005. Growth in domestic air travel should be 1.5 – 2 %, the same as in the year under review. In contrast, demand in public road passenger transport will at best remain flat as a consequence of declining public resources. The rail transport situation in Germany will be influenced on the one hand by a slight recovery in the labor market, on the other hand by stagnating real income and only weak stimuli from consumption. Overall, however, we are expecting a slight increase in transport performance as well.

The international transport and logistics markets will also show growth in the future. However, the excess capacities in air and sea freight already existing in the year under review, just like to some extent in land transport, will likely increase further. This will result in increased pressures on margins and the wave of consolidations in the transport and logistics services market will continue.

Once again, growth markets will be the Asian exports to America and Europe. Eastern Europe will continue to be an additional growth center. The continuing shifting of industrial production to these countries and the growing per-capita income will result in increasing flows of goods between Western and Eastern Europe.

Economic stimuli will increase slightly for the German freight transport market: Foreign trade will attain higher growth rates than in the prior year and domestic demand will recover slightly. Production increases in the manufacturing trades should continue to be significantly stronger than overall economic growth. After a marked decline last year, crude steel production should be able to post moderate growth. We expect somewhat greater momentum than in the year under review for the development of freight shipments in this overall economic environment.

With respect to both rail passenger and rail freight transport, in addition to very intense competition in intermodal transport, we expect non-Group railways to increase in significance, and consequently, further intensification of intramodal competition.

The outlook in the rental business should improve slightly in the current year due to more positive forecasts for retail trade and the hospitality industry.

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 significant momentum in the 2006 financial year. In discussions on transport policy, particularly at the European level, we expect further preparations for the announced opening of rail freight transport markets by 2007. However, with regard to operational implementation in neighboring countries, considerable uncertainties still exist. Compared to the rest of Europe, Germany has already demonstrably taken a leading position in regard to liberalization by its open access to the German rail infrastructure market since 1994. Insofar, we welcome all progress toward an overall convergence along the standard already attained in Germany as a material prerequisite for strengthening the position of the railroads in intermodal competition for long-range international transport. Another transport policy issue is the convergence of competitive conditions for the different modes of transport. We will continue our involvement on behalf of the rail transport sector in all policy debates on key transport issues.

DB AG Business Performance Forecast

In the 2006 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. In the light of the expected positive development of the Group companies we anticipate a further increase in income from investments as well as improvements in income after and before taxes in the 2006 financial year. 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.

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.

Contents

Assets

As of December 31 € million	Note	2005	2004
A. Fixed assets			
Intangible assets	(2)	0	0
Properties	(2)	2,883	2,934
Financial assets	(2)	25,770	24,662
		28,653	**27,596**
B. Current assets			
Inventories	(3)	2	1
Accounts receivable and other assets	(4)	2,527	2,373
Securities	(5)	0	0
Cash and cash equivalents		486	821
		3,015	**3,195**
C. Prepayments and accrued income		**14**	**15**
		31,682	**30,806**

Equity and Liabilities

As of December 31 € million	Note	2005	2004
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		-1,425	-1,778
		7,506	**7,153**
B. Provisions	(9)	**7,144**	**7,026**
C. Liabilities	(10)	**16,996**	**16,585**
D. Accruals and deferred income	(11)	**36**	**42**
		31,682	**30,806**

January 1 through December 31 € million	Note	2005	2004
Inventory changes		2	-5
Other internally produced and capitalized assets		1	0
Overall performance		3	-5
Other operating income	(15)	1,705	1,711
Cost of materials	(16)	-146	-147
Personnel expenses	(17)	-395	-450
Depreciation		-25	-28
Other operating expenses	(18)	-1,160	-1,456
		-18	**-375**
Investment income	(19)	558	195
Net interest	(20)	-163	-205
Income before taxes		**377**	**-385**
Income taxes		-24	0
Income after taxes		**353**	**-385**
Loss carried forward		-1,778	-1,393
Balance sheet loss		**-1,425**	**-1,778**

January 1 through December 31 € million	Note	2005	2004
Income before taxes		377	-385
Depreciation of properties[1]		25	28
Changes to pension provisions		14	5
Cash flow before taxes		416	-352
Changes to other provisions		0	60
Depreciation/write-back on financial assets		80	447
Gains/losses from disposal of properties[1]		-69	-30
Gains/losses from disposal of financial assets		-84	-5
Changes to current assets (excl. cash and cash equivalents)		-319	-416
Changes to other liabilities (excl. financial debt)		40	-153
Income taxes		0	0
Cash flow from business activities		**64**	**-449**
Proceeds from disposal of properties[1]		148	98
Payments for purchase of properties[1]		-53	-63
Proceeds from sale of business activities		0	94
Proceeds from disposal of financial assets		93	6
Payments for the purchase of financial assets		-397	-84
Investing activities		**-209**	**51**
Proceeds/payments from long-term Group financing		-508	-2,945
Proceeds/payments from short-term Group financing		308	3,249
Proceeds from issuing bonds and new loans and commercial paper		340	422
Repayment of bonds and loans and commercial paper		-330	0
Financing activities		**-190**	**726**
Net interest (decrease) in cash		**-335**	**328**
Cash and cash equivalents, beginning of year	(21)	821	493
Cash and cash equivalents, end of year	(21)	**486**	**821**

[1] including intangible assets

€ million	Balance at Jan 1, 2005	Additions	Transfers
Intangible assets			
1. Licenses, patents, trademarks, and similar rights	1	0	0
	1	**0**	**0**
Properties			
1. Land, leasehold rights, and buildings including buildings on land owned by others			
a) Land and leasehold rights	2,627	31	0
b) Commercial, office, and other buildings	472	12	2
c) Permanent way formation and other structures	5	0	0
	3,104	**43**	**2**
2. Track infrastructure, signaling and control equipment	17	0	0
3. Rolling stock for passenger and freight transport	1	0	0
4. Technical equipment and machinery other than No. 2 or 3	30	1	0
5. Other equipment, operating and office equipment	86	5	5
6. Advance payments and construction in progress	10	4	-7
	3,248	**53**	**0**
Financial assets			
1. Investments in affiliated companies	14,155	616	0
2. Loans to affiliated companies	9,685	888	0
3. Investments in associated companies	671	0	0
4. Loans to associated and related companies	495	0	0
5. Other loans	3	0	0
	25,009	**1,504**	**0**
Total fixed assets	**28,258**	**1,557**	**0**

Acquisition and manufacturing costs		Accumulated Depreciation					Book value	
Disposals	Balance at Dec 31, 2005	Balance at Jan 1, 2005	Depreciation 2005 financial year	Transfers	Disposals	Balance at Dec 31, 2005	Balance at Dec 31, 2005	Balance at Dec 31, 2004
0	1	-1	0	0	0	-1	0	0
0	**1**	**-1**	**0**	**0**	**0**	**-1**	**0**	**0**
-78	2,580	-112	0	0	2	-110	2,470	2,515
-4	482	-116	-14	0	3	-127	355	356
0	5	-1	0	0	0	-1	4	4
-82	**3,067**	**-229**	**-14**	**0**	**5**	**-238**	**2,829**	**2,875**
0	17	-9	0	0	0	-9	8	8
0	1	0	0	0	0	0	1	1
-1	30	-23	-2	0	1	-24	6	7
-11	85	-53	-9	0	9	-53	32	33
0	7	0	0	0	0	0	7	10
-94	**3,207**	**-314**	**-25**	**0**	**15**	**-324**	**2,883**	**2,934**
-11	14,760	-2	0	0	2	0	14,760	14,153
-387	10,186	0	0	0	0	0	10,186	9,685
0	671	-345	0	0	0	-345	326	326
0	495	0	0	0	0	0	495	495
0	3	0	0	0	0	0	3	3
-398	**26,115**	**-347**	**0**	**0**	**2**	**-345**	**25,770**	**24,662**
-492	**29,323**	**-662**	**-25**	**0**	**17**	**-670**	**28,653**	**27,596**

Notes
for the 2005 Financial Year

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.

Purchased intangible assets, with the exception of minor-value software, are shown at cost of purchase less straight-line depreciation. Purchased software, of minor value in individual cases, is expensed completely in the year of purchase.

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.

Depreciation is calculated on a straight-line basis and is also based on normal service lives. The depreciation is normally calculated in accordance with the tax depreciation tables, and is established on a pro-rata basis. The service lives of the main groups are set out in the following table:

	Years
Software, other licenses	3 - 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.

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 shown with their present value in accordance with section 6a of the German Inmcome Tax Act (Einkommenssteuergesetz; EStG). The 2005 G mortality tables of Prof. Dr. Klaus Heubeck have been used in the financial statements for 2005. The extent of the provisions was established using actuarial methods and an unchanged discount rate of 6% per annum. The application of the new mortality tables has resulted in effects of € 2 million.

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.

Foreign currency receivables and liabilities are shown using the official mid-rates in accordance with the requirements of commercial law. Adjustments are made if the bid and offer rates applicable on the balance sheet date result in lower receivables or higher liabilities.

The activity of civil servants in the Deutsche Bahn Group (DB Group) is based on a statutory transfer within the framework of the section 2 (12) Rail Restructuring Act (Eisenbahnneuordnungsgesetz; ENeuOG). For the work of the transferred civil servants, DB AG refunds to the Federal Railroad Fund (Bundeseisenbahnvermögen; BEV) those costs which would be incurred if workers subject to collective bargaining agreements were to be employed instead of the transferred civil servants (pro-forma statement).

Notes to the Balance Sheet

2 Fixed Assets

Movements in fixed assets are shown on the pages 38 – 39.

Write-downs for impairment of properties amounted to € 35 thousand (previous year: € 4 million) in the 2005 financial year.

As of December 31, 2005, fixed assets included real property totaling € 989 million (previous year: € 1,024 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

€ million	2005	2004
Raw materials and manufacturing supplies	0	1
Unfinished products, work in progress	2	0
Advance payments to suppliers	0	0
Total	**2**	**1**

Since the 2005 financial year, the consumables which in the previous year have been shown under raw materials and supplies are no longer shown as inventories; instead, they are expensed immediately at the point at which they are acquired.

4 Accounts Receivable and Other Assets

€ million	2005	thereof with a residual maturity of more than one year	2004
Trade receivables	184	11	173
Receivables due from affiliated companies	1,724	0	1,638
Receivables due from companies in which a participating interest is held	175	173	183
Other assets	444	222	379
Total	**2,527**	**406**	**2,373**

Value adjustments for accounts receivable and other assets amount to € 57 million (previous year: € 62 million).

Accounts due from affiliated companies comprise mainly receivables arising from short-term Group financing (in particular, cash-pooling receivables) as well as profit transfers.

The "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 € 27,563.79.

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

€ million	2005	2004
Provisions for pensions and similar liabilities	108	94
Tax provisions	416	389
Other provisions	6,620	6,543
Total	**7,144**	**7,026**

In the year under review, contributions to provisions for pensions and similar liabilities amounted to € 12 million (previous year: € 4 million). They included deferred compensa-tions in the amount of € 3 million.

Other provisions consist of the following:

€ million	2005	2004
Personnel-related commitments	126	140
Restructuring charges	553	445
Inherited environmental liabilities	2,428	2,478
Reconveyance obligations	274	280
Provisions relating to the Aurelis agreement	1,053	1,094
Other risks	2,186	2,106
Total	**6,620**	**6,543**

Personnel-related commitments mainly concern leave entitlements, profit-sharing bonuses, and early retirement benefits.

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 (costs of filing).

10 Liabilities

€ million	2005	thereof with a residual maturity of up to 1 year	1 to 5 years	over 5 years	2004
Bonds	67	0	0	67	67
Liabilities due to banks	489	233	256	0	148
Advanced payments received for orders	5	3	0	2	5
Trade accounts payable	66	66	0	0	66
Liabilities due to affiliated companies	12,940	3,092	5,137	4,711	12,467
Liabilities due to companies in which a participating interest is held	2,069	460	656	953	2,000
Other liabilities	1,360	355	320	685	1,832
thereof tax liabilities	(22)	(22)	(0)	(0)	(29)
thereof social security liabilities	(5)	(5)	(0)	(0)	(5)
Total	**16,996**	**4,209**	**6,369**	**6,418**	**16,585**
thereof interest-bearing	(15,251)				(14,677)

Accounts due to affiliated companies comprise in particular the long-term and short-term Group financing and loss absorption.

The accounts due to other Group companies also comprise long-term interest-bearing loans of EUROFIMA Europäische Gesellschaft für die Finanzierung von Eisen-bahnmaterial, Basel/Switzerland, in the amount of € 1,864 million (previous year: € 1,872 million). As a result of the statutes of EUROFIMA, these loans have to be backed by way of the transfer of ownership of rail material (rolling stock). This has been achieved by way of transferring ownership of the rolling stock of the 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 was stated on the balance sheet date of the previous year.

Other liabilities include an obligation to surrender possession of real estate in the amount of € 989 million (previous year: € 1,024 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

€ million	2005	2004
Liabilities from guarantees	1,498	1,501
Total	**1,498**	**1,501**

DB AG has provided an unconditional and irrevocable guarantee to Deutsche Bahn Finance B.V., Amsterdam / Netherlands, for a multi-currency commercial paper programme issued with the latter with a maximum volume of € 2 billion; as of December 31, 2005, this guarantee was stated as € 0 million (previous year: € 330 million).

13 Other Financial Commitments

€ million	2005	2004
Purchase order commitments for capital expenditures	1	2
Outstanding contributions	317	320
Commitments under rental, leasing, and other external-party liabilities	1,673	1,622
thereof due to affiliated companies	(1)	(1)
Total	**1,991**	**1,944**

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

There are also obligations of approximately € 950 million arising from the purchase of all shares in BAX Global Inc.

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, 2005) by due date.

€ million	Nominal value	Net present value at 6%
Lease payments		
due within 1 year	68	65
due within 1 to 5 years	252	210
due after 5 years	220	141
Total	**540**	**416**

During the 2005 financial year lease payments totaled € 72 million (previous year: € 76 million).

€ million	Nominal value	Net present value at 6%
Rental and other external-party liabilities		
due within 1 year	169	164
due within 1 to 5 years	522	443
due after 5 years	442	269
Total	**1,133**	**876**

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, 2005 (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 (previous year: € 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, 2005 (previous year: € 10,294 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 € 1,864 million (previous year: € 1,872 million) have been raised.

As of December 31, 2005, guaranteed credit facilities with a total volume of € 2,501 million were available to DB AG (previous year: € 2,206 million). These are back-up lines for the € 2.0 billion commercial paper programme of DB AG and of Deutsche Bahn Finance B.V. None of the back-up lines had been drawn down as of December 31, 2005.

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". Only a very limited extent of new business was transacted in 2005.

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 relate mainly to purchases of diesel fuel and electricity. As part of the process of hedging prices for purchasing diesel, transactions which expired in 2005 were replaced by follow-up transactions.

The nominal volume of the following hedges represents the sum of all purchase and sales amounts underlying the transactions. The tonnage is specified for diesel transactions, and electrical power, measured in gigawatt/hours, is stated for electricity. The extent of the nominal volume enables conclusions to be drawn with regard to the extent of the use of derivative financial instruments; however, it does not reflect the risk arising from the use of 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

€ million	2005	2004
Total notional value	7,622	7,532
Fair value of derivatives	-263	-373
Change in the fair value of underlying transactions	37	79
Fair value of valuation units	**-226**	**-294**

On December 31, 2005, the portfolio of interest derivatives comprises mainly swaps (interest swaps or cross-currency swaps) with a remaining term of more than one year. The reduction in the negative market value of the derivatives is mainly attributable to the change in the value of the cross-currency swaps due to the appreciation of the US Dollar against the Euro.

Notional and Fair Values of Currency Derivatives

€ million	2005	2004
Total notional value	726	392
Fair value of derivatives	8	-8
Change in the fair value of underlying transactions	-8	8
Fair value of valuation units	**0**	**0**

As of December 31, 2005, 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

	2005	2004
Total notional value (diesel fuel in t)	220,700	180,000
Fair value of derivatives (€ million)	-1	11
Change in the fair value of underlying transactions (€ million)	1	-11
Fair value of valuation units (€ million)	**0**	**0**

The portfolio of diesel derivatives on December 31, 2005 comprised mainly transactions with a term of less than one year.

Credit Risk Involved in Interest Rate, Currency and Diesel Derivatives

€ million	2005	2004
Credit risk - interest rate, currency, and diesel derivatives	107	140

The reduction in credit risks compared with the previous year is due to the performance of the portfolio of derivatives. The single biggest risk – the risk of default by a specific counterparty – amounts to € 33 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

€ million	2005	2004
Income from costs debited to Group companies and other intra-Group cost allocations	728	747
Services to external parties and sale of materials	204	201
Rents and leases	369	363
Miscellaneous operating income	176	167
Gains on the disposal of properties	164	68
Income from the release of provisions	54	76
Gains on the reversal/recovery of write-downs/write-offs of receivables	10	89
Total	**1,705**	**1,711**

16 Cost of Materials

€ million	2005	2004
Cost of raw materials, supplies, and merchandise	24	20
Cost of services purchased	61	69
Maintenance expenses	61	58
Total	**146**	**147**

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

€ million	2005	2004
Wages and salaries		
for employees	278	341
for civil servants assigned (payments to the Federal Railroad Fund IAW Article 2 Section 21 (1) (2) German Railroad Restructuring Act [Eisenbahnneuordnungsgesetz])	37	41
Ancillary renumeration paid directly	2	1
	317	**383**
Compulsory social security contributions, pensions and similar benefits, and support payments		
for emplyoees	70	57
for civil servants assigned (payments to the Federal Railroad Fund IAW Article 2 Section 21 (1) (2) German Railroad Restructuring Act [Eisenbahnneuordnungsgesetz])	8	10
	78	**67**
thereof for pensions and similar benefits	(23)	(35)
Total	**395**	**450**

In the previous year expenses related to pensions and similar benefits also include social security contributions paid by employers in the amount of € 22 million.

18 Other Operating Expenses

€ million	2005	2004
Expenses for intra-Group offsets	221	235
Rents and leases	298	282
Fees and dues	31	27
Miscellaneous operating expenses	592	865
Losses on the disposal of fixed assets	11	33
Expenses relating to set-up of allowances for and write-off of accounts receivable	7	14
Total	**1,160**	**1,456**

Of the miscellaneous operating expenses, € 11 million refer to “other taxes” (previous year: € 12 million).

19 Investment Income

€ million	2005	2004
Income from participating interests	2	1
thereof from affiliated companies	(1)	(1)
Income from associated companies	82	33
Income from profit transfer agreements	834	477
Transfer of losses	-360	-256
Write-down of financial assets	0	-60
Total	**558**	**195**

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

20 Net Interest

€ million	2005	2004
Income from other securities and long-term loans	513	352
thereof from affiliated companies	(513)	(351)
Other interest and similar income	120	173
thereof from affiliated companies	(39)	(87)
Interest and similar expenses	-796	-730
thereof to affiliated companies	(-548)	(-494)
Total	**-163**	**-205**

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.

Of the total contributions made in the financial year to the capital reserve of subsidiaries, € 203 million was paid by way of netting with receivables arising from short-term Group financing, and € 16 million was paid by way of non-cash contributions in the form of land.

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

	Annual average 2005	As of Dec 31, 2005	Annual average 2004	As of Dec 31, 2004
Wage and salary earners	5,080	5,127	5,081	5,026
Civil servants assigned	991	966	1,066	1,036
Subtotal	**6,071**	**6,093**	**6,147**	**6,062**
Apprentices	169	195	255	235
Total	**6,240**	**6,288**	**6,402**	**6,297**

DB AG is covered by the collective bargaining arrangements of the Employment Protection Collective Bargaining Agreement signed in 2005. In the process of converting natural persons into full-time equivalent units, due consideration was given to the collectively agreed reduction of the weekly working hours from 40 to 39 hours as of July 1, 2005. This means that the decline in the number of full-time employees is greater than the decline in the number of natural persons.

When the company was registered, the civil servants employed at DB AG were generally transferred to the company in accordance with Art. 2 § 12 of the Eisenbahnneuordnungsgesetz (German Railway Restructuring Act; ENeuOG) (“transferred civil servants”). They work for Deutsche Bahn AG, their employer is the Bundeseisenbahnvermögen (Federal Railroad Fund; BEV).

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

€ thousand	2005	2004
Total Management Board emoluments	9,003	6,699
thereof fixed component	(3,804)	(3,334)
thereof performance-based component	(5,199)	(3,365)
Emoluments of former Management Board members	1,275	1,452
Pension provisions for former Management Board members	15,223	13,348
Total Supervisory Board emoluments	237	237
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 56 – 59.

25 Auditor's fee

The following auditor's fee was expensed in the financial year:

€ thousand	2005
Audit of financial statements	561
Other certification or valuation services	1,165
Tax consultancy services	0
Other services	2,568
Total	**4,294**

26 Events after the Balance Sheet Date

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

27 Proposed Appropriation of Profit / Loss for the Year

After the the positive income after taxes and including the loss carried forward from the previous year of € 1,777,560,893.97, the income statement of Deutsche Bahn AG shows a balance sheet loss of € 1,424,476,267.50 as of December 31, 2005, which will be carried forward into the next financial year.

Berlin, March 7, 2006

Deutsche Bahn AG
The Management Board

Auditor's Report

The 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 – consisting of balance sheet, income statement and the notes – 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.

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

Frankfurt/Main, March 8, 2006

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Kämpfer)	(Eggemann)
Wirtschaftsprüfer	Wirtschaftsprüfer

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.

Management Board of Deutsche Bahn AG

Hartmut Mehdorn
CEO and Chairman
of the Management Board,
Berlin
a) DB Netz AG (Chairman)[1)]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G.
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G.
Dresdner Bank AG
SAP AG

Dr. Norbert Bensel
Transport and Logistics
– since March 17, 2005 –,
Personnel
– through March 16, 2005 –,
Berlin
a) DB Fernverkehr AG[1)]
DB Regio AG[1)]
Railion Deutschland AG (Chairman)[1)]
Schenker AG (Chairman)[1)]
Stinnes AG (Chairman)[1)]
DB Services Immobilien GmbH[1)]
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G.
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G.
Partner für Berlin Holding Gesellschaft für Hauptstadt-Marketing mbH
Sparda-Bank Berlin eG
b) IAS Institut für Arbeits- und Sozialhygiene Stiftung (Advisory Board)

Klaus Daubertshäuser
Marketing and Political Relations,
Wettenberg
– until December 31, 2005 –
a) DB Netz AG[1)]
DE-Consult Deutsche Eisenbahn Consulting GmbH[1)]
Sparda-Bank Baden-Württemberg eG
b) DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G. (Advisory Board)

Stefan Garber
Infrastructure and Services,
Bad Homburg
– since April 1, 2005 –
a) DB Station&Service AG (Chairman)[1)]
DB Energie GmbH (Chairman)[1)]
DB ProjektBau GmbH (Chairman)[1)]
DB Services Technische Dienste GmbH[1)]
DB Systems GmbH[1)]
Arcor Verwaltungs-Aktiengesellschaft
IDUNA Lebensversicherung a.G.
b) Arcor AG&Co. KG (Partner committee member)[1)]
DB Dienstleistungen GmbH (Advisory Board, Chairman)[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 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 Intermodal 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,
Weiterstadt
a) DB Fernverkehr AG (Chairman)[1)]
DB Regio AG (Chairman)[1)]
Railion Deutschland AG[1)]
Schenker AG[1)]
DB Vertrieb GmbH (Chairman)[1)]
S-Bahn Berlin GmbH (Chairman)[1)]
DEVK Allgemeine Versicherungs-AG
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G.

Diethelm Sack
CFO,
Frankfurt/Main
a) DB Fernverkehr AG[1)]
DB Regio AG[1)]
Railion Deutschland AG[1)]
Schenker AG[1)]
Stinnes AG[1)]
DB Services Immobilien GmbH (Chairman)[1)]
DEVK Allgemeine Lebensversicherungs-AG
DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G.
Frankfurter Versicherungs-AG
gbo AG
b) DVA Deutsche Verkehrs-Assekuranz-Vermittlungs-GmbH (Chairman)[1)]
EUROFIMA Europäische Gesellschaft für die Finanzierung von Eisenbahnmaterial, Basle/Switzerland (Administrative Board)[1)]

Margret Suckale
Personnel,
Berlin
– since March 17, 2005 –
a) Schenker AG[1)]
DB Gastronomie GmbH (Chairwoman)[1)]
DB JobService GmbH (Chairwoman)[1)]
b) DB Zeitarbeit GmbH (Advisory Board, Chairwoman)[1)]
DEVK Deutsche Eisenbahn Versicherung a.G. (Advisory Board)

Dr. Otto Wiesheu
Economic and Political Affairs,
Zolling
– since January 1, 2006 –

Supervisory Board of Deutsche Bahn AG

Dr. Günther Saßmannshausen
Honorary Chairman of the Supervisory Board,
Hanover

Dr. Werner Müller
Chairman of the Supervisory Board
– since July 5, 2005 –
Chairman of the Executive Board of RAG AG,
Mülheim/Ruhr
a) Degussa AG (Chairman)[1)]
Deutsche Steinkohle AG (Chairman)[1)]
RAG Coal International AG (Chairman)[1)]
RAG Immobilien AG[1)]
STEAG AG (Chairman)[1)]
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)

Dr. Michael Frenzel
Chairman of the Supervisory Board,
Chairman of the Executive Board of TUI AG,
Burgdorf
– through July 5, 2005 –
a) Hapag-Lloyd AG (Chairman)[1)]
Hapag-Lloyd Fluggesellschaft mbH
(Chairman)[1)]
TUI Deutschland GmbH (Chairman)[1)]
AWD Holding AG
AXA Konzern AG
Continental AG
E.ON Energie AG
VOLKSWAGEN AG
b) Preussag North America, Inc.,
Greenwich/USA (Chairman)[1)]
TUI China Travel Co. Ltd., Beijing/China[1)]
Norddeutsche Landesbank

Norbert Hansen*
Deputy Chairman of the Supervisory Board,
Chairman of TRANSNET German Railroad
Workers' Union,
Hamburg
a) Arcor Verwaltungs-Aktiengesellschaft
DEVK Deutsche Eisenbahn Versicherung
Lebensversicherungsverein a.G. (Chairman)
DEVK Deutsche Eisenbahn Versicherung
Sach- und HUK-Versicherungsverein a.G.
(Chairman)
DEVK Vermögensvorsorge- und
Beteiligungs-AG

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*
Employee of DB Regio AG,
Fürth
– through July 5, 2005 –

Dr.-Ing. Dr. E.h. Jürgen Großmann
General Manager of Georgsmarienhütte
Holding GmbH,
Hamburg
– since July 5, 2005 –
a) BATIG Gesellschaft für Beteiligungen mbH
British American Tobacco (Germany) GmbH
British American Tobacco (Industrie) GmbH
Deutsche Post AG
RAG Coal International AG
SURTECO Aktiengesellschaft (Chairman)
Wilhelm Karmann GmbH
b) ARDEX GmbH (Advisory Board)
Hanover Acceptances Limited,
London/Great Britain
RAG Trading GmbH

Volker Halsch
State Secretary, Federal Ministry of Finance,
Berlin
– through March 1, 2006 –
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 Hennerkes
State Secretary, Federal Ministry of Transport,
Building and Urban Affairs,
Cologne
– since February 1, 2006 –

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

Klaus-Dieter Hommel*
Chairman of the GDBA Transport Workers' Union,
Frankfurt/Main
a) Railion Deutschland AG
   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) 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 (Chairman)

Helmut Kleindienst*
Chairman of the Branch Works Council
of the Services business unit of DB Group,
Chairman of the Works Council
of DB Dienstleistungen GmbH,
Eppstein/Taunus
– since July 5, 2005 –
b) DB Dienstleistungen GmbH (Advisory Board)

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

Dr. Jürgen Krumnow
Former member of the Management Board
of Deutsche Bank AG,
Königstein/Taunus
– since July 5, 2005 –
a) Hapag-Lloyd AG
   Lenze AG
   TUI AG (Chairman)
b) Peek&Cloppenburg KG (Advisory Board)

Vitus Miller*
Chairman of the Central Works Council
of Regio/Stadtverkehr,
Stuttgart
– since July 5, 2005 –
a) DB Regio AG
   DB Vertrieb GmbH
b) DB GesundheitsService GmbH (Advisory Board)

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

Ralf Nagel
State Secretary (ret.),
Berlin
– through January 31, 2006 –
a) Fraport AG
b) DFS Deutsche Flugsicherung GmbH (Advisory Board, Chairman)

Dr. Axel Nawrath
State Secretary, Federal Ministry of Finance,
Königstein
– since March 1, 2006 –

Executive Committee
Dr. Werner Müller (Chairman)
Norbert Hansen
Jörg Hennerkes
Günter Kirchheim

Audit Committee
Dr. Jürgen Krumnow (Chairman)
Jörg Hennerkes
Helmut Kleindienst
Lothar Krauß

Mediation Committee under Article 27 Section 3 Codetermination Act
Dr. Werner Müller (Chairman)
Norbert Hansen
Jörg Hennerkes
Günter Kirchheim

Dr. Bernd Pfaffenbach
State Secretary, Federal Ministry
of Economics and Labor,
Wachtberg-Pech
– since February 3, 2005 –
a) Deutsche Postbank AG
Lufthansa Cargo AG

Dr.-Ing. Ekkehard D. Schulz
Chairman of the Management Board
of ThyssenKrupp AG,
Krefeld
a) ThyssenKrupp Automotive AG (Chairman)[1)]
ThyssenKrupp Elevator AG (Chairman)[1)]
ThyssenKrupp Services AG (Chairman)[1)]
AXA Konzern AG
Bayer AG
COMMERZBANK AG
MAN AG (Chairman)
RAG AG
TUI AG

Dr. Ulrich Schumacher
General Partner of Francisco Partners,
Starnberg
– through July 5, 2005 –
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.-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 (Administrative Board)[1)]
Bombardier Inc., Montreal/Canada
Thyssen-Bornemisza Group, Monaco

Margareta Wolf
Member of the German Bundestag,
Rüsselsheim-Bauschheim

Horst Zimmermann*
Chairman of the General Works Council
of DB Fernverkehr AG,
Nuremberg
– through July 5, 2005 –
a) DB Fernverkehr AG
b) DEVK Allgemeine Lebensversicherungs-AG (Advisory Board)

* Employee representative on the Supervisory Board
[1)] Mandate within the Deutsche Bahn Group
a) Membership in other Supervisory Boards required by law
b) Membership in comparable domestic and foreign corporate control committees of business enterprises

Information as of December 31, 2005 or date of resignation.

Report of the Supervisory Board on the 2005 Financial Year

Dr. Werner Müller
Chairman of the Supervisory Board of Deutsche Bahn AG

During the 2005 financial year, the Supervisory Board of Deutsche Bahn AG (DB AG) was extensively involved with the company's business situation, advising and monitoring the Management Board in the discharge of its functions. The Supervisory Board was included in all decisions relating to crucial business policy issues. This was based on consistent and comprehensive up-to-the-minute written and oral reports by 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 2005 financial year. During its meetings, the Supervisory Board was briefed in detail by the Management Board on business and financial developments at DB AG and its Group companies, important transactions, as well as corporate strategy and business planning.

In its meeting on March 16, 2005, the Supervisory Board approved the divestment and transfer of DB Fernverkehr AG's equity interest in Deutsche Touring Gesellschaft mbh. In addition, the Supervisory Board approved further enhancements of the DB Group's management and corporate structure, giving the Group a two-tier organizational structure. At the same time, the new Board Divisions "Infrastructure and Services" as well as "Integrated Systems Rail" were established.

In its meeting on May 24, 2005, the Supervisory Board mainly discussed the 2004 annual financial statements and the Management Report of DB AG together with the Group management report and the 2004 consolidated financial statements. Furthermore, the Supervisory Board approved capital expenditures in planned high-speed traffic on the new Paris–Eastern France–Southwestern Germany (PES) line.

In its meeting on July 5, 2005, the Supervisory Board approved several capital expenditure measures and the reallocation of funds within DB Regio AG's capital expenditure planning.

In the subsequent constituent meeting of the Supervisory Board, its Chairman and Deputy Chairman, the members of its Executive Committee, its Committee in accordance with Sec. 27 (3), German Codetermination Act, and its Audit Committee were elected.

In its special meeting on November 12, 2005, the Supervisory Board approved the sale of DB AG's 100 % interest in Deutsche Eisenbahn-Reklame GmbH as well as the purchase of a 100 % interest in BAX Global Inc., Delaware/USA.

In its meeting on December 7, 2005, the Supervisory Board approved the 2006 financial year budget plan and acknowledged receipt of the medium-term planning for 2006 – 2010 as well as the long-term strategic goals of DB AG, which were discussed in detail with the Management Board. Furthermore, the Supervisory Board approved the acquisition of StarTrans Group, Hong Kong/China.

Meetings of the Supervisory Board Committees

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

Audit Committee

In the presence of the auditor, the Audit Committee discussed the annual accounts of DB AG and the DB Group and prepared the resolutions to be passed by the Supervisory Board concerning the annual financial statements for the 2004 financial year. In addition, the Audit Committee deliberated over the selection of an auditor for the 2005 financial year and, as set forth in the Supervisory Board's Rules of Procedure, 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 extensively with DB AG's corporate governance policy. At the same time, the Supervisory Board conducted a survey to assess the efficiency of its work.

Financial Statements

The financial statements and the management report of DB AG together with the consolidated financial statements and the Group management report as of December 31, 2005 prepared by the Management Board were issued an unqualified audit certificate by PwC PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (PWC), Frankfurt/Main, the auditors selected by the Annual General Meeting. Furthermore, as part of the audit of the financial statements, the auditor also reviewed the company's risk management system, as required in accordance with 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 March 24, 2006 and was discussed in detail during the Supervisory Board's meeting on the financial statements on March 30, 2006 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 and the management report of DB AG, the consolidated financial statements, and the Group management report for the 2005 financial year, and the proposal for appropriation of retained earnings and raised no objections. The Supervisory Board has approved the annual and consolidated financial statements for the 2005 financial year.

The auditors also reviewed the report prepared by the Management Board on relations with affiliated 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

The term of office for the members of the Supervisory Board ended at the last Annual General Meeting on July 5, 2005.

At the Annual General Meeting on July 5, 2005, the following shareholder representatives were reelected to the Supervisory Board: Mr. Niels Lund Chrestensen, Dr. Werner Müller, Dr. Ekkehard D. Schulz, Dr.-Ing. E. h. Dipl.-Ing. Heinrich Weiss, and Parliamentary State Secretary Mrs. Margareta Wolf. Dr. Jürgen Großmann and Dr. Jürgen Krumnow took office as members of the Supervisory Board, succeeding Dr. Michael Frenzel and Dr. Ulrich Schumacher. The Federal Ministry for Transport, Building and Urban Affairs appointed State Secretaries Mr. Volker Halsch, Mr. Ralf Nagel and Dr. Bernd Pfaffenbach to the Supervisory Board in accordance with Sec. 9 (2) of Deutsche Bahn AG's Articles of Incorporation, effective June 21, 2005.

Employee representatives to the Supervisory Board were elected at the delegate's conference in Berlin on June 7, 2005, Mr. Peter Debuschewitz, Mr. Norbert Hansen, Mr. Horst Hartkorn, Mr. Jörg Hensel, Mr. Klaus-Dieter Hommel, Mr. Günter Kirchheim, Mr. Lothar Krauß, and Mrs. Heike Moll were reelected to the Supervisory Board. Mr. Helmut Kleindienst and Mr. Vitus Miller succeeded Mr. Horst Fischer and Mr. Horst Zimmermann.

Mr. Ralf Nagel resigned from the Supervisory Board effective January 31, 2006. Mr. Jörg Hennerkes, State Secretary at the Federal Ministry for Transport, Building and Urban Affairs, was appointed his successor by the Federal Republic of Germany in accordance with Sec. 9 (2) of Deutsche Bahn AG's Articles of Incorporation, effective February 1, 2006.

Mr. Volker Halsch resigned from the Supervisory Board effective March 1, 2006. Dr. Axel Nawrath, State Secretary at the Federal Ministry of Finance, was appointed his successor by the Federal Republic of Germany in accordance with Sec. 9 (2) of Deutsche Bahn AG's Articles of Incorporation, effective March 1, 2006.

The Supervisory Board wishes to thank all former members for their dedication and constructive work.

In its constituent meeting on July 5, 2005, the Supervisory Board elected Dr. Werner Müller as its Chairman and confirmed the appointment of Mr. Norbert Hansen as its Deputy Chairman. In addition, the Supervisory Board elected Dr. Werner Müller, Mr. Norbert Hansen and Mr. Günter Kirchheim into its Executive Committee. The Supervisory Board appointed the same members to its Committee in accordance with Sec. 27 (3) of the German Codetermination Act. The Supervisory Board elected Mr. Ralf Nagel, Mr. Helmut Kleindienst, Mr. Lothar Krauß, and Dr. Jürgen Krumnow as members of the Audit Committee and Dr. Jürgen Krumnow as its chairman.

Management Board member Dr. Bernd Malmström, responsible for the Group Transport and Logistics division, resigned from the Management Board by mutual agreement as of March 16, 2005. The Supervisory Board wishes to thank Dr. Malmström for his many years of dedicated and constructive work for DB AG.

In its meeting on March 16, 2005, the Supervisory Board specifically discussed the redesign of the Group's organizational and management structure. The Supervisory Board assigned the responsibility for the Transport and Logistics Board Division to Dr. Norbert Bensel. Moreover, it appointed Mrs. Margret Suckale Chief Personnel Officer on DB AG's Management Board and Mr. Stefan Garber Head of the Infrastructure and Services Board Division. Mr. Roland Heinisch assumed responsibility for the new Integrated Systems Rail Board Division.

In addition, in its meeting on March 16, 2005, the Supervisory Board approved the extension of Dr. Karl-Friedrich Rausch's service contract as member of the Board of Management for Passenger Transport.

Furthermore, in its special meeting on November 12, 2005, the Supervisory Board approved the resignation of Mr. Klaus Daubertshäuser from the Management Board as of December 31, 2005. The Supervisory Board wishes to thank Mr. Daubertshäuser for his many years of committed and constructive work for DB AG. Dr. Otto Wiesheu was appointed to succeed Mr. Daubertshäuser as member of the Management Board of DB AG responsible for Economic and Political Affairs as of January 1, 2006.

Moreover, in its meeting on December 7, 2005, the Supervisory Board approved the extension of Mr. Diethelm Sack's DB AG Management Board service contract as CFO responsible for the Finances and Controlling Board Division.

The Supervisory Board would like to thank the Management Board, all employees and employee representatives of DB AG and its affiliated companies for their dedication during the 2005 financial year.

Berlin, March 2006
For the Supervisory Board

Dr. Werner Müller
Chairman

Contact

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Fax: +49(0)30297-61961
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Internet: http://www.db.de/ir-english

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Investor Relations
Potsdamer Platz 2
D-10785 Berlin
Germany

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

This Report is published in German and English. In case of any discrepancies, the German version shall prevail.

Corporate publications, the Report of the Competition Officer, and the Environmental Report can be requested from Corporate Communications:

Fax: +49(0)30297-62086
E-Mail: medienbetreuung@bahn.de
Internet: http://www.db.de/presse

Deutsche Bahn's hotline for general telephone requests is available under the telephone number +49(0)30297-0.

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