Mobility Networks Logistics

2006 Annual Report

30.1

billion € revenues

- DB AG as management holding company
- Vertically integrated Group structure
- Group portfolio focused on core business
- Excellent ratings: Aa1/AA

2.5

billion € EBIT

- Successful internal growth
- Cost structures further improved
- Further growth potential through M&A transactions

11.5

billion € revenues in Passenger Transport

- # 1 in European rail passenger transport
- # 1 in European regional and urban transport
- # 1 in bus transport in Germany

17.0

billion € revenues in Transport and Logistics

- # 1 in European rail freight transport
- # 1 in European combined rail/road transport
- # 1 in European land transport
- # 2 in global air freight
- # 3 in global sea freight
- # 6 in global contract logistics

1.3

billion € revenues in Infrastructure and Services

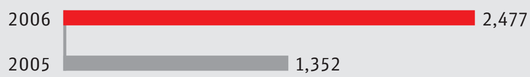
- Functioning competition on the rails: about 350 railways using track infrastructure
- Largest rail track infrastructure in Europe
- Efficient services for internal and external customers

At a Glance

Revenues (€ million)

2005 to 2006: +19.9%

EBIT (€ million)



2005 to 2006: € +1,125 million

ROCE (%)

2005 to 2006: + 2.5 percentage points

Total assets (€ million)

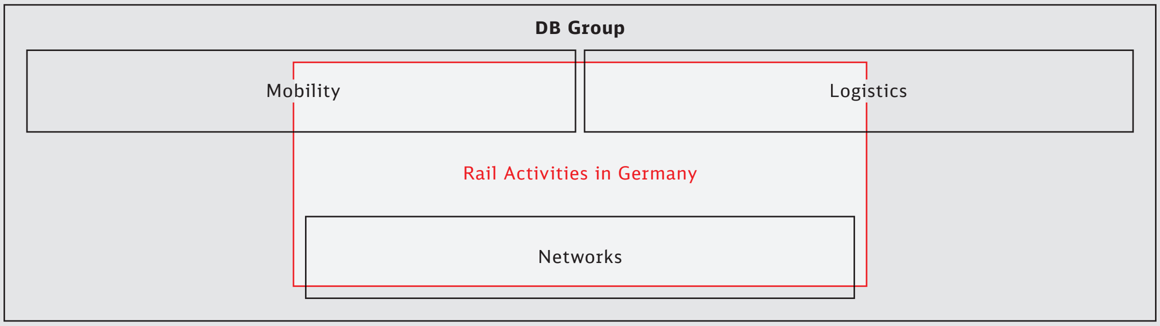
2005 to 2006: + 2.8%

Key Figures € million	**2006**	**2005**	**absolute**	**Change** **%**
Revenues	30,053	25,055	+ 4,998	+ 19.9
Revenues – comparable	26,879	24,959	+ 1,920	+ 7.7
Profit before taxes on income	1,555	490	+ 1,065	–
Net profit for the year	1,680	611	+ 1,069	+ 175
EBITDA	5,427	4,153	+ 1,274	+ 30.7
EBIT	2,477	1,352	+ 1,125	+ 83.2
EBIT adjusted for special items	2,143	1,350	+ 793	+ 58.7
Non-current assets	43,360	42,907	+ 453	+ 1.1
Current assets	5,080	4,194	+ 886	+ 21.1
Total assets	48,440	47,101	+ 1,339	+ 2.8
Equity	9,214	7,675	+ 1,539	+ 20.1
Financial debt	19,881	19,974	– 93	– 0.5
Capital employed	28,693	27,013	+ 1,680	+ 6.2
ROCE	7.5%	5.0%	–	–
Gross capital expenditures	6,584	6,379	+ 205	+ 3.2
Net capital expenditures[1]	2,836	2,360	+ 476	+ 20.2
Cash flow from operating activities	3,678	2,652	+ 1,026	+ 38.7
Employees[2] as of Dec 31	229,200	216,389	+ 12,811	+ 5.9

Performance Measures – rail	**2006**	**2005**	**absolute**	**Change** **%**
Passenger transport				
Passengers (million)	1,854	1,785	+ 69	+ 3.9
Transport performance (million pkm)[3]	74,788	72,554	+ 2,234	+ 3.1
Train kilometers (million train-path km)[4]	702.7	711.4	– 8.7	– 1.2
Freight transport				
Freight carried (million t)[5]	307.6	274.6	+ 33.0	+ 12.0
Transport performance (million tkm)[5, 6]	96,388	88,022	+ 8,366	+ 9.5
Mean transport distance (km)	313.4	320.4	– 7.0	– 2.2
Train kilometers (million train-path km)	203.5	193.7	+ 9.8	+ 5.0
Passenger stations[7]	5,730	5,707	+ 23	+ 0.4
Train kilometers on track infrastructure (million train-path km)	1,016	998	+ 18	+ 1.8
thereof non-Group customers	(128)	(110)	+ 18	+ 16.4
Length of line operated (km)	34,122	34,211	– 89	– 0.3

[1] Gross capital expenditures less investment grants from third parties
[2] Full-time employees, part-time employees are accounted for on a pro-rata basis
[3] Passenger kilometers: product of number of passengers and mean travel distance
[4] Train-path kilometers: driving performance in km of trains on rail
[5] Changeover to gross figures in 2006, previous year's figure adjusted accordingly
[6] Ton kilometers: product of freight carried and mean transport distance
[7] Thereof in 2006: 5,407 assigned to the Passenger Stations business unit

Mission Statement



- We optimize services and productivity in German rail transport as the basis of our business.
- We expand our business portfolio when it is useful to our customers or where our skills and resources suggest to do so.
- We are evolving into a leading international mobility and logistics service provider. We create value for our customers, employees and owners, and are a long-term, attractive investment on the international capital markets.

Group Structure (since 2007)

Supervisory Board			
Management Board			
Chairman and CEO	Finances and Controlling	Economic and Political Affairs	Personnel
Integrated Systems Rail	Passenger Transport	Infrastructure and Services	Transport and Logistics
		Business units / Segments	
Group functions	Long-Distance Transport	Track Infrastructure	Schenker – Land Transport – Air/Ocean Freight – Contract Logistics, SCM
	Regional Transport	Passenger Stations	
Service functions	Urban Transport	Energy	Rail Freight – Rail Freight – Intermodal
		Services	

Contents

Chairman’s Letter

Hartmut Mehdorn
CEO and Chairman
of the Management Board
of Deutsche Bahn AG

Dear Ladies and Gentlemen,

The year 2006 was once again a successful year for Deutsche Bahn: we took a major step ahead in the area of customer-friendly service and significantly expanded our offers. And in doing so the DB Group became more international as it responds to the demands posed by the global transport markets. We further increased our profitability in 2006 thereby continuing our track record. Today, we are one of the most successful and innovative transport companies in the world.

The bottom line for 2006 can be summarized in one sentence: it was the best financial year in the history of Deutsche Bahn AG. And not only that: greater transport volumes on climate-friendly rails have become reality in Germany – and to an extent that has even surpassed optimistic forecasts. This once again underlines that we are focused on both political expectations as well as our core business. Today, we are the only company in the transport industry to already offer answers to the changing climate – answers that have made us very successful in the transport market.

While the overall German passenger transport market declined slowly, rail passenger transport advanced further as it grew by 4 percent, increasing its share of market to 9.4 percent. Our Long-Distance Transport, Regional Transport and Urban Transport business units made major contributions to this as each of them recorded very favorable growth. We set a new one-year record with 1.85 billion passengers.

Rail freight transport also developed extremely well in Germany. The 12 percent rate of growth was more than twice as high as in the previous year, and our share of market rose for the fourth consecutive year. As the first rail freight company with a pan-European structure, Railion was able to achieve very strong growth at a high level. For the first time ever the total transport performance by rail freight companies in Germany exceeded 100 billion ton kilometers and amounted to 106 billion ton kilometers. We can fairly speak of a rail renaissance in Germany. Combined rail/road transport showed particularly strong growth and we also anticipate seeing further high growth there.

This kind of demanding growth would not have been possible without having an integrated management in place for the infrastructure. The infrastructure is the integral foundation for the complex transport activities that take place on Germany's rails. The fact that usage of the infrastructure by non-Group railways further increased during the year under review underlines the attractiveness of the rail system and its competitiveness. At the end of 2006 about 330 non-Group railway companies were utilizing it – more than the total combined figure for all of the other countries in Europe.

We accomplished a great deal during the year under review and were able to defend or expand our leading positions in markets that we consider important. We comprehensively improved our customer offers. We were able to expand our presence within the growth regions of the world. And the good economic environment also contributed to making the financial year a successful one.

The completion of numerous major projects in 2006, which enabled us to strategically strengthen our core rail business in Germany, played a prominent role. These projects included the Berlin hub with the North-South connection and the new Berlin Central Station as Europe's biggest crossing station, as well as the new and expanded Nuremberg–Ingolstadt–Munich line, the Berlin–Leipzig route and the impressively modernized Dresden Central Station. With these measures we decisively enhanced our passenger transport offers by making them faster, more efficient and more comfortable. Our trains are connecting Germany's major metropolitan areas at increasingly unrivaled travel times – and at the same time protecting natural resources to the greatest extent possible. In addition, we operate modern, regularly scheduled regional and urban transport. We are increasingly integrating our customer offers in mobility chains and placing comfort, service and "travel time as useful time" at the center of our actions.

The fastest trains now travel the Berlin–Leipzig/Halle line in just one hour, which cuts the previous travel time by a good one-third. And the main Bavarian cities of Nuremberg and Munich are now also just one hour apart. The new and expanded Nuremberg–Ingolstadt–Munich line also influences regional transport where our trains travel on this line at speeds of up to 200 km/h. Travel times across Germany were once again noticeably reduced in 2006.

Parallel to these activities we focused on expanding our global transport and logistics business during the year under review. The acquisition of BAX Global, a US logistics company, primarily enabled us to strategically expand our transport network and unite the complementary strengths under the shared roof of the DB Group. We carefully managed the integration of the Schenker and BAX networks and never lost sight of placing our customer benefits in the foreground. This move allowed us to significantly expand our presence in America and China, as well as in the entire Asia-Pacific region. We thereby positioned ourselves as one of the leading providers of transport and logistics services astride one of the world's most important trade routes. In the future we will work to further perfect this global network and thereby profit from globalization.

One of the outstanding events that took place during the year under review was the 2006 FIFA World Cup™. The DB Group was present all across Germany as the world was a guest among friends last summer. This major event challenged the DB Group's technical and organizational abilities. Our employees handled it with style and enthusiasm. We transported millions of passengers to their destinations during the tournament and our extensive logistical services at all of the tournament venues contributed to a smooth course of events. The colorful pictures of the fan mile remind us of the massive crush of passengers that was successfully handled by public urban transport, for example in Berlin where the S-Bahn (metro) carried about 8 million additional passengers. As the official provider of logistical services for the 2006 FIFA World Cup™ Schenker equipped the stadiums with media technology and also ensured that the national teams were properly equipped. All of this was not only a source of great pleasure for us, it was also an impressive demonstration of how our business units work together perfectly within the integrated DB Group.

The results posted for the 2006 financial year mark a continuation of the DB Group's steady upward economic progress. The success was generated across the business units on a broad basis. We posted gains in all of our key figures: revenues broke through the 30 billion euros level for the first time, our EBIT, our operating profit, rose by over 80 percent to 2.5 billion euros, and our central value management figure, ROCE, reached 7.5 percent. This progress brings us significantly closer to our targets.

On a comparable basis revenues rose notably by approximately 8 percent to a total of 26.9 billion euros. The Schenker, Railion and Long-Distance Transport business units recorded the absolute biggest increases. About one third of our revenues were generated outside of Germany.

The Long-Distance Transport business unit confirmed the completion of the turnaround achieved in the previous year and once again recorded improved results. The Regional Transport business unit achieved a further increase in the favorable results noted in the previous year. Results posted by the Railion business unit are noteworthy because they reflect an earlier-than-expected return to significantly positive results. Both in absolute and relative terms, Schenker posted strong growth – including the newly acquired companies (especially BAX) as well as on a comparable basis.

Schenker's strategically expanded positioning in all growth regions paid off in the international transport and logistics markets. Here we benefited from the growth of the markets as well as from favorable economic influences.

We are continuing to build on the successes we achieved in 2006. In doing so we will decisively concentrate on our key strength of operating and further developing complex transport networks on a sustainable basis. Three basic developments are noticeable in our markets that represent big opportunities for the DB Group.

Globalization will generate increasing flows of goods. We can benefit from these flows because of our worldwide transport and logistics networks and thereby be an important globalization partner for industry and trade.

The second development: climate change and tighter energy resources also have a great influence on the activities within our markets. We are convinced that rail is indispensable for achieving a sustainable transport system in Europe, because it is, by far, the most environmentally friendly mode of transport. With our ICE trains we have long surpassed the non-existent 3-liter car. Every day our freight trains relieve Germany's streets from a line of trucks that would stretch from Hamburg to Rome. In addition we are working hard to optimize our consumption of energy. Since 1990 we have been able to reduce our specific consumption of primary energy in rail transport by more than a quarter. Our ability to intelligently link the strengths of the individual modes of transport with each other represents an additional opportunity in the transport and mobility market and distinguishes us from other transport companies.

The third big development is deregulation. Already today we are successfully active in liberalized markets and have created a dense transport network in European land transport on the rails and the roads. Coupled with our experience in the liberalized German market, this gives us a very good starting position to take advantage of the opportunities posed by the deregulation in Europe and across the entire world.

We have thoroughly prepared the DB Group to meet these global developments and will – also to the benefit of Germany as a business location – set further standards in our markets. Because we have successfully achieved the demanding task to convert the DB Group into a commercial enterprise that was set by the 1994 German Rail Reform Act. Today the company is on track to success. Our track record reflects the strategic transformation of the DB Group. We have formed a single business enterprise out of two state authorities. An enterprise that works in a customer-oriented manner and aligns itself to meet the needs of markets and customers. This way we achieve profitable and sustainable growth.

The decision taken by our owner to open the door to a capital privatization is an important signal and sets the course for the DB Group. The German Parliament tasked the Federal Government with preparing a privatization law that will enable private investors to acquire interests in DB AG even during the current legislative period. This will have to reconcile the interests of the owner, the Federal Government, with ensuring overall commercial conditions for the successful further development of the DB Group. Only if this constellation of interests is achieved will the DB Group be able to assert itself as a European champion deeply rooted in its German home market.

During the current financial year we will completely integrate BAX in Schenker and thereby control the world's second largest transport and logistics network. The year 2007 marks a new era for rail freight transport in Europe due to the liberalization of market access. Even though the effects may not be immediately noticeable, we expect that it will lead to successive increases in volumes for rail freight transport. A new chapter will also begin when our ICE trains begin to travel to Paris starting in the summer of 2007.

We are on the right track. Once again this was impressively confirmed by the results we posted for 2006. They will motivate us, the members of the Management Board and our employees, not to waver from our course during the current financial year. We will continue investing at an unchanged high level and realize additional improvements for our customers and our business. This way we will further sharpen our strategic profile and make the DB Group a worldwide unique transport company.

Sincerely yours,

Hartmut Mehdorn
CEO and Chairman of the Management Board
of Deutsche Bahn AG

The Management Board

Stefan Garber
Infrastructure and Services
Appointed until: 2010
Born 1955

Dr. Norbert Bensel
Transport and Logistics
Appointed until: 2010
Born 1947

Diethelm Sack
CFO
Appointed until: 2011
Born 1948

Dr. Karl-Friedrich Rausch
Passenger Transport
Appointed until: 2010
Born 1951

Hartmut Mehdorn
CEO and Chairman
Appointed until: 2008
Born 1942

Dr. Otto Wiesheu
Economic and Political Affairs
Appointed until: 2010
Born 1944

Margret Suckale
Personnel
Appointed until: 2010
Born 1956

Roland Heinisch
Integrated Systems Rail
Appointed until: 2007
Born 1942

Hartmut Mehdorn
Hartmut Mehdorn holds a master's degree in Engineering and began his career in design development at aircraft manufacturer Focke-Wulf. Mr. Mehdorn has held positions at VFW-Fokker, on the Management Board of Airbus Industrie S.A., as director of the Management Board of the MBB Transport- und Verkehrsflugzeuge Group and member of the Management Board of MBB, as CEO of Deutsche Airbus GmbH and member of the Management Board of Deutsche Aerospace AG, as CEO of Heidelberger Druckmaschinen AG, and as a member of the Management Board of RWE AG. He joined the Management Board of Deutsche Bahn AG as Chairman and CEO in 1999.

Diethelm Sack
Diethelm Sack earned his master's degree in Business and Management Economics and then initially worked as business manager at Franz Garny AG. He then served as head of finance and accounting at VDO Adolf Schindling AG from 1976–1991. He was appointed to the Deutsche Bundesbahn Management Board in 1991 where he assumed the position of CFO. He assumed the same responsibilities for Deutsche Reichsbahn in a dual posting starting in 1993. He has been CFO of Deutsche Bahn AG since its founding.

Margret Suckale
Margret Suckale studied law at the University of Hamburg and acquired a Master of Business Administration at Northwestern University/WHU. From 1985 to 1996, Margret Suckale worked in different executive positions in the Legal and Personnel divisions at the Mobile Oil Group as well as on international projects in Germany and Europe. She joined Deutsche Bahn AG in 1997 and was responsible for the Group's legal division, before later assuming responsibility for the Central and Legal department in a dual position. She became a member of the Management Board at Deutsche Bahn AG in March 2005.

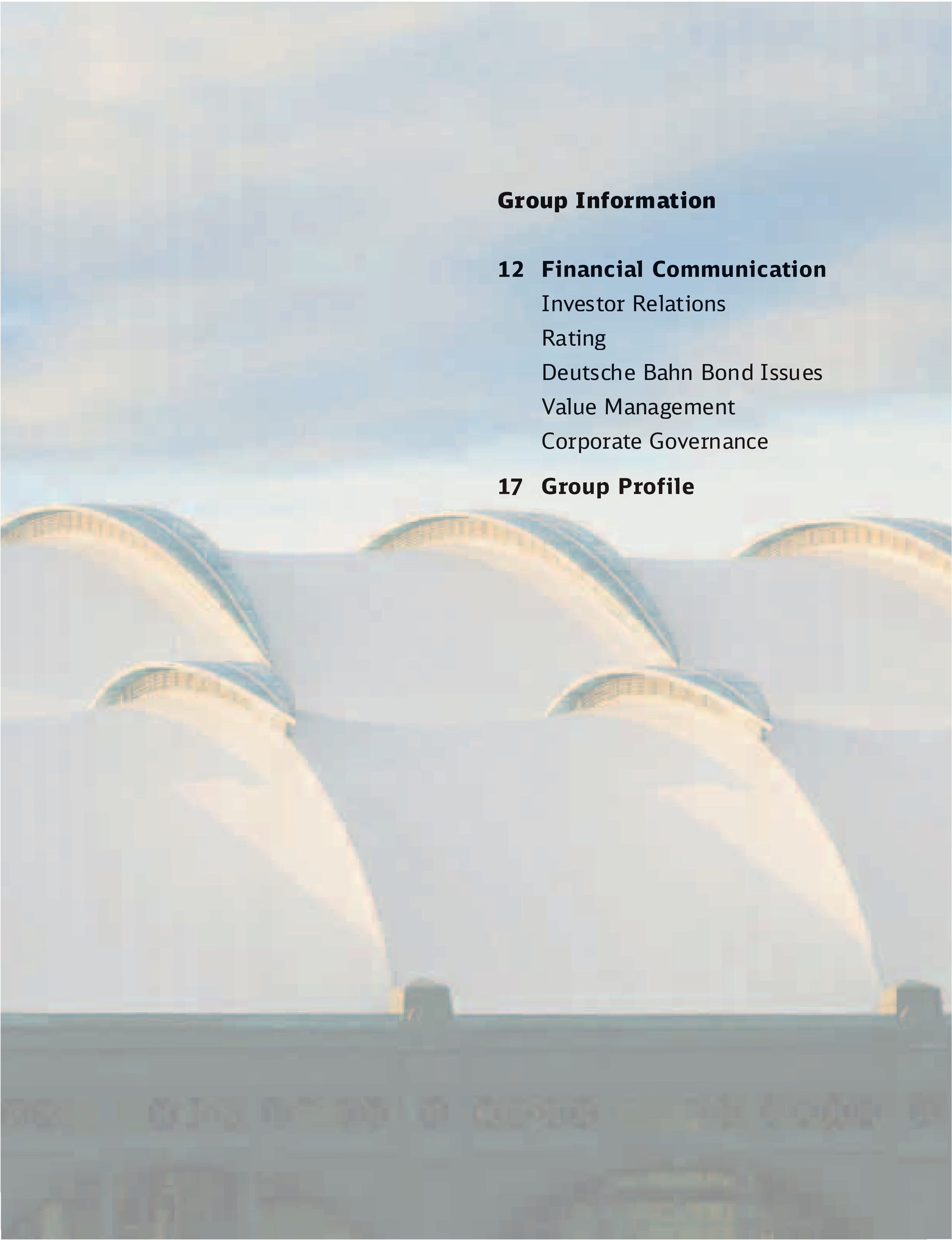
Dr. Otto Wiesheu
After completing his law studies in Munich, Dr. Otto Wiesheu was a member of the Bavarian State Parliament from 1974 to 2005. From 1984 to 1990 he was Managing Director of the Hanns Seidel Foundation. From 1990 he was Secretary of State in the State Ministry for Education, Cultural Affairs, Science and Art, and Bavarian State Minister for Economic Affairs, Transport and Technology from 1993 to 2005. He has been a member of the Management Board of Deutsche Bahn AG since January 1, 2006 and is responsible for the Economic and Political Affairs Board division.

Dr. Karl-Friedrich Rausch
Dr. Karl-Friedrich Rausch holds a doctorate in Industrial Engineering and began his career as a research associate at TH Darmstadt. He worked at Deutsche Lufthansa AG from 1985–2000 – in his last position as Chairman of the divisional Board of Management at Lufthansa Passage Airline. He has been a member of the Management Board at Deutsche Bahn AG since 2001, responsible for the Technology Board division until 2003, and since then for the Passenger Transport Board division.

Dr. Norbert Bensel
After completing his master's degree in Chemistry, Dr. Norbert Bensel initially worked at Schering AG. He moved to insurance company R+V Versicherung in 1987, where his last position was head of Human Resources. He worked at Daimler-Benz Aerospace AG starting in 1992 and became a member of the Management Board at Daimler-Benz InterServices (debis) AG and member of the Management Board at debis Systemhaus GmbH in 1996. He became a member of the Management Board at DaimlerChrysler Services AG in 2001, and he joined the Management Board at Deutsche Bahn AG in 2002, where he was initially responsible for Personnel, before taking over responsibility for the Transport and Logistics Board division in March 2005.

Stefan Garber
Stefan Garber began his career as a lawyer at a law firm in Frankfurt. In 1986 he transferred to Metallgesellschaft AG. He took over the position of Corporate Development Vice President at the Metal Mining Corporation in 1990. In 1997 he transferred to Heidelberger Druckmaschinen AG as the head of the Central department. He began at Deutsche Bahn AG in April 2000 – also initially as the head of the Central department – and was appointed to the Management Board of DB Netz AG in June 2000. He became Chief Representative with responsibility for Group purchasing in 2002 and Chief Representative for the Technology and Procurement area in 2003. He has been responsible for the new Infrastructure and Services Board division since April 2005.

Roland Heinisch
Roland Heinisch earned his master's degree in Engineering before he began an internship at Deutsche Bahn in 1970. After holding various positions of responsibility within Deutsche Bundesbahn he was appointed deputy member of the Management Board for Corporate Development at Deutsche Bundesbahn in 1991. In 1992, he became a full member of the Management Board at Deutsche Bundesbahn and Deutsche Reichsbahn, where he was responsible for the areas of research and technology. He has been a member of the Management Board at Deutsche Bahn AG since its founding. Mr. Heinisch was in charge of the Technology Board division until the year 2000, and subsequently assumed responsibility for the Track Infrastructure Board division until 2005. Since March 2005 he has been responsible for the Integrated Systems Rail Board division.



Group Information

Investor relations

As part of our IR activities we have once again made numerous financial presentations in key European and Asian financial markets. We have been placing more emphasis on holding many one-on-one talks with analysts and major investors. Important information about our company is also available at our Website, www.db.de/ir-english.

Rating

Rating agency	Long-term rating	Short-term rating
Moody's	Aa1 Outlook "stable"	P-1
Standard & Poor's	AA Outlook "negative"	A-1+

Both Moody's and S&P reconfirmed their ratings during the year under review. The ratings have remained unchanged since they were first issued in 2000. At the end of August Standard & Poor's downgraded its outlook from stable to negative because of the public discussions surrounding the DB Group's privatization plans.

Bonds – issues in 2006

ISIN	Issuer	Currency	Volume in million	Coupon	Due	Term in years
XS 0238 773 849[1)]	Deutsche Bahn Finance B.V.	USD	800	5.125 %	January 2011	5
XS 0238 773 849	Deutsche Bahn Finance B.V.	USD	400	5.125 %	January 2011	5
XS 0164 831 843	Deutsche Bahn Finance B.V.	EUR	300	4.750 %	March 2018	12
XS 0275 636 438	Deutsche Bahn Finance B.V.	EUR	500	4.000 %	July 2017	11

[1)] The bond was issued in December 2005, payments for the bond began during the year under review.

We tapped the international financial markets via our finance subsidiary, Deutsche Bahn Finance B.V., Amsterdam/Netherlands, to refinance a portion of our bonds and loans that became due during the year under review. Due to high demand we increased the volume of our 5.125 % bond we had originally issued in December 2005 by an additional USD 400 million. We also realized potential demand in the longer-term segment of the market by increasing the volume of our 4.75 % bond we issued in 2003, and which matures in 2018, by an additional € 300 million. This fourth tranche brings the total volume of this issue up to € 1.6 billion. Furthermore, we have decided to issue a € 500 million bond and set its maturity for 2017, a year that we had as yet not covered with our issues. The issued bonds have been broadly placed in terms of geography. Asian addresses represented the main demand for our USD-denominated issues, while euro-denominated issues were primarily placed within the euro zone.

Our key value management figures continue to improve

Our financial management policies are designed to achieve a sustainable increase in our corporate value. We use the Return on Capital Employed ratio (ROCE) as the central key performance measure for the development of our Group portfolio as well as for allocating capital expenditures. DB Group's ROCE target is 10%. We calculate our cost of capital based on a mid-term, pre-tax target capital structure of 8.8%.

Return on Capital Employed € million or %	**2006**	**2005**	**2004**
EBIT adjusted for special items	2,143	1,350	1,011
÷ Capital employed	28,693	27,013	26,490
= ROCE	**7.5%**	**5.0%**	**3.8%**

As part of our value management system we also employ redemption coverage and gearing to manage our debt. Our mid-term redemption coverage target is 30%, while our gearing target is to achieve a 1:1 ratio of net financial debt to equity capital.

Redemption coverage € million or %	**2006**	**2005**	**2004**
Operating cash flow	4,171	3,249	2,795
÷ Adjusted net financial debt	22,412	22,152	21,964
= Redemption coverage	**18.6%**	**14.7%**	**12.7%**

Gearing € million or %	**2006**	**2005**	**2004**
Net financial debt	19,586	19,669	19,511
÷ Equity	9,214	7,675	7,067
= Gearing	**213%**	**256%**	**276%**

Corporate Governance – transparency and efficiency of corporate management

In conjunction with its already comprehensive capital market activities with respect to outside capital and the planned partial privatization of the company, Deutsche Bahn AG resolved to voluntarily adhere to the German Corporate Governance Code (Code) issued on February 26, 2002 by the German Corporate Governance Government Commission, in the form of its own Corporate Governance Principles. The objective is to secure the trust of business partners, investors, employees and the general public in the management and supervision of the company. The current version of the comprehensive Corporate Governance Principles of DB AG can be found online at www.db.de/ir-english.

- **Basis:** The Corporate Governance Principles of Deutsche Bahn AG comprise a set of rules to follow in the management and supervision of the Company. They are based on the Code. Deutsche Bahn AG regularly adapts its Corporate Governance Principles to meet the changing legal requirements and developments on the national and international level. The changes to the Code made in June 2005 were formally incorporated into the Corporate Governance Principles during the year under review. However, we began observing most of the new requirements at an earlier date. We did not incorporate the rules regarding the disclosure of insider information and the obligation to report acquisitions or divestitures of company shares by corporate bodies and managers, because these were not relevant at that time.
- **Cooperation between the Management and Supervisory Boards:** The Management and Supervisory Boards work closely together for the benefit of the Company in accordance with the principles of the German Stock Corporation Act, Articles of Association, Rules of Procedure of the Supervisory and Management Boards as well as the decisions of the corporate bodies. The Management Board develops the Company's strategy, coordinates it with the Supervisory Board and, together with the Supervisory Board, monitors the state of the implementation of the strategy at regular intervals. The Management Board in a regular, timely and comprehensive manner instructs the Supervisory Board on all relevant matters of planning, business developments, the risk situation and risk management. It intervenes when the development of business deviates from the established plans and objectives.

  In keeping with the principles of good corporate management, the Management and Supervisory Boards are committed to a culture of open discussions while treating all matters related to the management of the Company as confidential. All members of corporate bodies are to ensure that all employees involved are obliged to maintain confidentiality in the same manner. A list of all corporate body members including their duties can be found on pages 199 to 201.
- **Supervisory Board:** The Supervisory Board advises and supervises the Management Board in the management of the Company. It consists of 20 members, half of which represent shareholders and half of which represent employees, as stipulated by the

Codetermination Act. Shareholder representatives are chosen in part by the shareholder and in part by the General Meeting. The employee representatives are elected in accordance with the provisions of the Codetermination Act. The members of the Supervisory Board are independent. The personal and business ties of Supervisory Board members are listed on page 193 of the Consolidated Financial Statements. Conflicts of interest are to be reported to the Supervisory Board. There were no such conflicts of interest during the year under review.

The Supervisory Board is to form the following committees: an Executive Committee, Personnel Committee, Audit Committee and Mediation Committee in accordance with the provisions of the Codetermination Act. The Audit Committee deals with matters of accounting and risk management in particular and assigns an auditor to perform the audit. The work of the Audit Committee is governed by its own Rules of Procedure. The Chairman of the Audit Committee must have special knowledge of and experience with the principles of accounting and internal control systems. The Personnel Committee formed during the year under review was assigned the responsibility for the personnel matters of the Management Board. Extensive information on the activities of the Supervisory Board and its committees can be found in the Report of the Supervisory Board on pages 208 to 211.

Management Board: The Management Board is responsible for running the Company. It is obliged to act in the interest of the Company and to promote the sustainable increase in the value of the Company. It is to provide for adequate risk management and risk controlling. The members of the Management Board are obliged to disclose without delay any conflicts of interest to the Supervisory Board and their Management Board colleagues. No such conflicts occurred during the year under review.

The members of the Management Board are compensated in accordance with their performance. Their renumeration consists of fixed and variable components. The amount of the variable component is closely tied to the performance of the DB Group's operating business. The method for determining the amount of compensation for the Supervisory Board was changed through a resolution of the General Meeting on June 30, 2006. According to the new method, starting with the year under review, the members of the Supervisory Board receive, in addition to their fixed compensation, variable compensation based on, among other things, the DB Group's performance. Both fixed and variable components of the renumeration paid to each member of the Management Board are voluntarily listed in the Notes to the Consolidated Financial Statements. The supplements to the pension reserves for the Management Board and exclusively short-term renumeration paid to the Supervisory Board are listed in two separate sums.

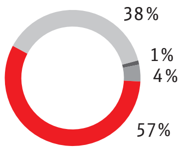
Risk management: Assessing opportunities and risks is a challenge for Group management. The early identification and limiting of risks tied to business activities is of utmost importance to the Management and Supervisory Boards. The Group-wide integrated risk management system is designed to identify risks, opportunities and potential countermeasures at an early stage. The Management and Supervisory Boards are regularly instructed on the results. For details, readers are kindly referred to the Risk Report on pages 101 to 107.

- **Financial communication and accounting:** Financial communication comprises the publication of consolidated financial statements and the semi-annual report. Our investor relations and corporate communication activities keep interested parties informed of current developments. The dates of regular reports are listed in a Financial Calendar with sufficient advance notice. We use the Internet to provide information in a timely and comprehensive manner. DB Group financial reports have been prepared in accordance with the International Financial Reporting Standards (IFRS) beginning with the 2004 Annual Report. The Consolidated Financial Statements are made available within 90 days after the end of the financial year.
- **Efficiency:** During the year under review the Management Board appointed a Corporate Governance Officer to monitor the compliance with and implementation of the standards of Corporate Governance. This officer reported to the Audit Committee of the Supervisory Board during a meeting held on March 24, 2006, and confirmed the compliance with and implementation of the Corporate Governance Principles as approved by the Supervisory Board and the Management Board.

Group Profile

Management of the Group

Revenue structure



- Passenger Transport
- Transport and Logistics
- Infrastructure and Services
- Other

2005 to 2006: +19.9%

Within our Group's structure Deutsche Bahn AG (DB AG) functions as a Group-wide management holding company for the integrated Deutsche Bahn Group (DB Group). The business portfolio is basically divided into ten business units, which report to three Group divisions. The business units are responsible for the conduct of our business operations. Central Group and service functions round out our organization structure.

DB Group provides national and international services to target markets reflecting our Group brand proposition of "Mobility – Networks – Logistics". We are active around the world in over 130 countries and in all of the important economic regions. DB AG has been a corporation established in accordance with German law since it was first founded in 1994, and therefore has a dual management and supervisory structure. The listing shown on pages 196 to 198 shows the main companies owned directly or indirectly by DB AG as well as the companies DB AG holds stakes in.

Our markets: Mobility, Networks, Logistics

Since the start of the German Rail Reform in 1994 we have developed the DB Group into a strong performing business enterprise through extensive restructuring and efficiency enhancing measures as well as comprehensive modernization programs. We strive to achieve further gains in our profitability and financial strength in all of our relevant markets by convincing our customers of the high quality of our services. This is why we have established a focused and clearly structured portfolio. Our business units are organized under three Group divisions: Passenger Transport, Transport and Logistics, and Infrastructure and Services. This structure gives the DB Group three strong, market-aligned pillars which mirror our Group brand proposition: "Mobility – Networks – Logistics".

The foundation of our business portfolio are our core rail activities in Germany. Based on our vertically integrated structure that makes us the major user of our infrastructure we have assumed dual responsibilities: first, we want to further develop rail as a mode of transport and strengthen the German transport infrastructure, which plays such a vital role in Germany's economy. Second, we are concurrently establishing the prerequisites needed to master Europe's rising volumes of traffic.

Anticipating customer demands, we have evolved beyond our classical core business and integrated our transport services in comprehensive mobility offers. This applies to both international mobility as well as multi-modal transport offers or optimized interfaces at junctures where different modes of transport meet.

Just like in the Passenger Transport Group division, we also strategically positioned ourselves to meet current and future market demands in the Transport and Logistics Group division: “DB Logistics” stands for our international logistics competence in clearly defined market segments. We realize opportunities available in fast growing markets via our comprehensive internationally oriented range of offers, and in doing so we also ensure that rail freight transport will be fit for the future. Furthermore, by integrating it in a high-performing, intermodal network, we also assure customer contacts and unlock new opportunities for growth.

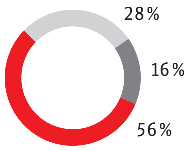
The successive opening of the European markets, which has already begun – in the rail freight transport sector since 2007 and as of 2010 for cross-border rail passenger transport – is an important strategic prospect for rail transport. This will generate additional opportunities for rail as a mode of transport that we will exploit either independently or in collaboration with other railways.

This covers our full spectrum of earnings-oriented opportunities we are addressing while we concurrently continue our internal efforts to increase our efficiency.

We intend to fully take advantage of these chances and at the same time convince our customers of our high levels of product quality and service while we further reinforce our profitability and financial strength. We have underpinned our strategies and plans with comprehensive sets of measures at business unit level as well as those applicable for Group-wide purposes. We have bundled the most important of these measures together in “Qualify”, our Group-wide program.

Passenger Transport Group Division

Revenue structure



- Long-Distance
- Regional
- Urban

2005 to 2006: + 2.6 %

A single source of comprehensive mobility offers

One of the DB Group's core competencies is our ability to make convincing mobility offers. Our range of services covers rail transport and, increasingly important, bus transport. Our goal is to achieve intelligent linkage between our rail offers, as well as a smooth interface with other modes of transport. Within the Long-Distance Transport, Regional Transport and Urban Transport business units our main focus is on comfortable, customer-friendly mobility chains. Based on revenues, we are the leading provider of mobility services in Europe.

The liberalization of the European passenger transport markets has begun, although its implementation has progressed at varying speeds across Europe. Within the long-distance rail passenger transport segment, Germany is clearly leading the way as its market has opened the furthest. In contrast, local transport is increasingly being contracted out all across Europe. In this context the previously closed local transport markets are progressively evolving into a market with European competitors.

Today, based on our strength in our home market, we are already the biggest mobility group in Europe – and leading in the long-distance rail passenger transport sector as well as in the regional and urban transport sectors. Against this backdrop we are placing top priority on our goal of reinforcing and expanding our position as the leading provider of mobility services in Germany.

Market positions in passenger transport 2005

#1 in European rail passenger transport *Based on revenues*	***#1 in European regional and urban passenger transport*** *Based on revenues*	***#1 European mobility service provider*** *Based on revenues*
# 1 Deutsche Bahn	*# 1 Deutsche Bahn*	*# 1 Deutsche Bahn*
# 2 SNCF	*# 2 SNCF*	*SNCF*
# 3 Trenitalia	*# 3 Veolia*	*# 3 Air France-KLM*
# 4 National Express	*# 4 First Group*	*# 4 Deutsche Lufthansa*
# 5 SBB	*# 5 National Express*	*# 5 British Airways*

All data on competitors is based on annual reports, independent research or in-house estimates.

Long-Distance Transport business unit

3,234 million € revenues
124 million € EBIT
14,641 employees

DB Fernverkehr AG is a provider of national and pan-European long-distance transport services, and together with its subsidiary companies comprises our Long-Distance Transport business unit. DB Fernverkehr AG's regularly scheduled daily service is the business unit's core business. Based on our customer promise of providing attractively priced, fast and comfortable, city-center to city-center connections, we intend to continue growing at a faster pace than the overall market in the future. DB AutoZug GmbH and CityNightLine CNL AG, our independently operating subsidiary companies providing car carrier and sleeping car services, respectively, flank this offer. Our Long-Distance Transport business unit not only provides mobility services within Germany, but its offers extend into neighboring countries as well. At the same time our long-distance services are closely linked to regional and urban transport by offers like the BahnCard's CityTicket function.

Regional Transport business unit

6,480 million € revenues
690 million € EBIT
25,700 employees

Within the Regional Transport business unit we provide travelers an extensive network of regional connections within metropolitan areas and the surrounding countryside. Integrated transport operations run by DB Regio AG and its subsidiary companies link together offer planning and service implementation at local levels for rail and bus services. Our goal is to offer integrated urban transport services that fully meet local transport requirements. A streamlined organization structure that meets market needs was built based on the premise of being customer-oriented and profitable.

Rail passenger regional transport is changing. More and more routes are being publicly tendered, and in the coming 15 years all of the routes will be put out for bids. We will defend our position as the biggest provider of regional transport services within Germany through our integrated transport concepts, an up-to-date fleet of vehicles as well as convincing services. At the same time, we also see opportunities to enter new markets and gain new customers. To accomplish this we will optimize our offers, bearing in mind the demands of our customers and the contracting organizations.

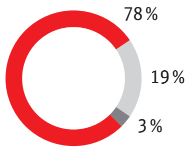
Urban Transport business unit

1,805 million € revenues
154 million € EBIT
12,238 employees

The Urban Transport business unit is the most recent addition to the Passenger Transport Group division. It is responsible for S-Bahn (metro) operations in Berlin and Hamburg as well as our bus services. We offer public road passenger transport services independently or on behalf of cities and counties. The business unit positions us to take advantage of opportunities arising from the liberalization and further development of a market that is currently still very fragmented. The gradual opening of this market is anticipated to lead to a successive consolidation in the coming years. In terms of our future prospects we are focusing our attention on the growth opportunities available in neighboring European urban transport markets as our opportunities for collaboration within Germany are limited by the current interpretation of cartel law.

Transport and Logistics Group Division

Revenue structure



Global logistics competence plus rail know-how

Since the successful integration of Schenker in 2002 we have not only become the leading European provider of rail freight transport, but we are also one of the leading companies in the freight forwarding and logistics sector. During the year under review we were present in the market with our Schenker, Railion and Stinnes business units.

Schenker has a leading position in European land transport and in global sea and air freight. Railion is the leading provider of rail freight services across Europe. We leveraged the consolidation tendencies in the global logistics markets to further strengthen Schenker's competitive position, in particular with our acquisitions of BAX and Star-Trans.

We further expanded the Railion network during the previous year with the launch of Railion Italia and the acquisition of RBH Logistics. The market and the competitive environment in rail freight are particularly marked by a high degree of change and intense competition, which offers major opportunities for further business development. Increasing internationalization and the new cross-border alignment of production structures and material flows are leading to a continuing increase in demand for international logistics services. The deregulation of rail freight commencing at the European level in 2007 opens new perspectives for rail as a mode of transport. Liberalization has been almost completely implemented along the North-South corridor. Railion is already well positioned along this axis because of its own locally placed subsidiary companies. The East-West corridor now opens new opportunities for growth. At the same time, it is necessary to integrate rail freight transport into all-inclusive logistics offers in view of current and future customer requirements. We have already realigned our strategy to meet these demands.

Market positions in transport and logistics 2005

#1 in European rail freight transport *Based on tkm*	***#1 in European land transport*** *Based on revenues*	***#2 in global air freight*** *Based on t*	***#3 in global ocean freight*** *Based on TEU*	***#6 in global contract logistics*** *Based on revenues*
# 1 Railion	*# 1 Schenker*	*# 1 DHL*	*# 1 Kühne & Nagel*	*# 1 DHL*
# 2 PKP	*# 2 DHL*	*# 2 Schenker*	*# 2 DHL*	*# 2 CEVA Logistics*
# 3 SNCF	*# 3 DSV*	*# 3 UPS*	*# 3 Schenker*	*# 3 Kühne & Nagel*
# 4 Trenitalia	*# 4 Dachser*	*# 4 Panalpina*	*# 4 Panalpina*	*# 4 Ryder*
# 5 RCA	*# 5 Geodis*	*# 5 Kühne & Nagel*	*# 5 UPS*	*# 5 Wincanton*

All data on competitors is based on annual reports, independent research or in-house estimates.

Schenker business unit

13,232 million € revenues
367 million € EBIT
54,905 employees

With more than 54,900 employees working in over 1,100 locations in over 130 countries, our Schenker business unit is an acknowledged global player in markets characterized by rapid rates of growth, fierce competition and accelerating consolidation. Schenker is a market leader in European land transport and also in the global air and sea freight business sectors. We are determined to retain and further expand these positions in the future.

The acquisition of BAX, a US logistics company, during the year under review was part of our long-term strategic approach to become market leader in the growing logistics business, coupled with a strong position in all of the world's growth regions. Following the integration of BAX into the worldwide Schenker network, the combined organization now has top-ranked positions in European land transport, global air and sea freight, as well as in contract logistics. BAX and Schenker complement each other's activities excellently in the categories of geographic presence and customer profiles. During the integration process we place great emphasis on enhancing customer benefits, improving our networks, harmonizing business processes and increasing overall competitiveness. The integration of the two firms' operations is in the advanced stages and in numerous countries the combined organization is already active in the market under the Schenker name.

As an international provider of integrated logistics services, the Schenker business unit supports industry and trade in handling the global exchange of goods via land transport, global air and sea freight services, as well as all of the related logistical services. Our employees prepare seamless solutions tailored to meet the current and future demands of our customers. International teams of specialists link together the modules of our entire range of services to build complex value chains in order to ensure reliable flows of goods and information. This makes us a single source provider for all the key services required by our customers:

- As a European land transport specialist, we connect the major European business regions via a tightly-knit network of scheduled line services.
- We are equally specialized in providing global air and sea freight solutions as well as all of the related services.
- Our integrated logistics centers are located at the crossroads of global flows of goods and serve as effective interfaces between various modes of transport, thereby enabling a wide range of value-added services to take place.

Railion

3,194 million € revenues
226 million € EBIT
22,635 employees

Stinnes

608 million € revenues
16 million € EBIT
1,622 employees

Railion and Stinnes business units

During the 2007 financial year we adjusted the structures within the rail freight transport area in order to meet the demands posed by our markets and customers. Production and sales within the rail freight segment were moved closer to each other.

Today, Railion is already Europe's biggest and top performing rail carrier. Cross-border transports already account for more than half of our business. The European perspective provides us with enormous growth potential. Railion especially benefits from its strengths when it comes to long-distance transports and when large volumes of freight have to be consolidated. We have paved the way for this with our Railion network, our own access to foreign networks and by expanding our cooperative efforts at the international level.

Single car transport is the largest open production system in the European transport market. Here we offer a product structure with varying service levels. Block trains are used to transport large volumes of goods from point-to-point and especially from factory to factory.

We have consolidated our bulk goods and our combined rail/road activities within our Stinnes business unit.

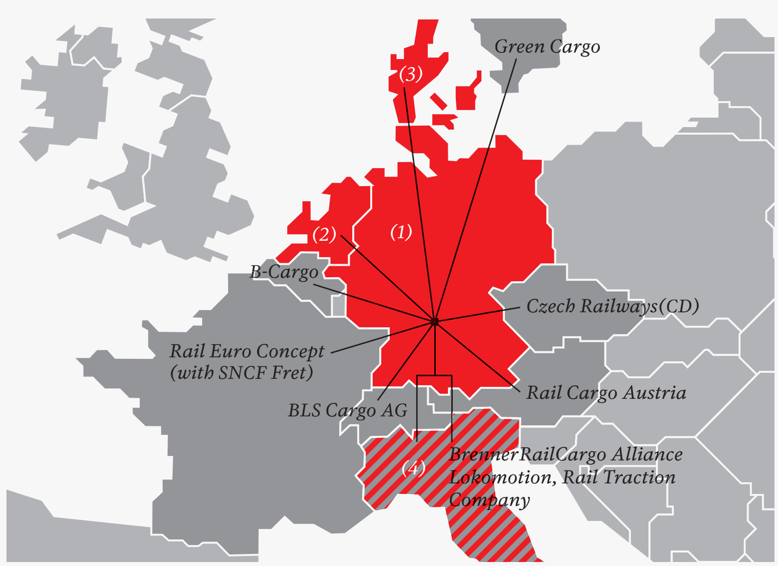
Our combined rail/road transports unite the advantages offered by various modes of transport with rail: containers arriving from overseas are loaded onto rail cars in major European harbors like Rotterdam or Hamburg and then transported to their regional

Railion: Strategic focus on Europe

Our mission:
One-stop provider of high-quality cross-border transports

Our network:
- *Railion Deutschland (1)*
- *Railion Nederland (2) since 2000*
- *Railion Danmark (3) since 2001*
- *Railion Italia (4) since 2005*

Our perspective:
Opening of the European rail freight markets in 2007

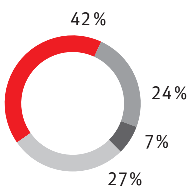


Railion network and partnerships/affiliates
Railion network
Railion partnerships/affiliates

destinations. In the future we will bring sales and production activities for our combined rail/road service under a single management as we align our structures to meet market demands and position ourselves along the major European trade corridors. We offer our customers comprehensive logistics solutions for bulk goods transport and, working together with them, develop new innovative concepts.

Infrastructure and Services Board division

Revenue structure



- Track Infrastructure
- Passenger Stations
- Services
- Energy

2005 to 2006: +16.4%

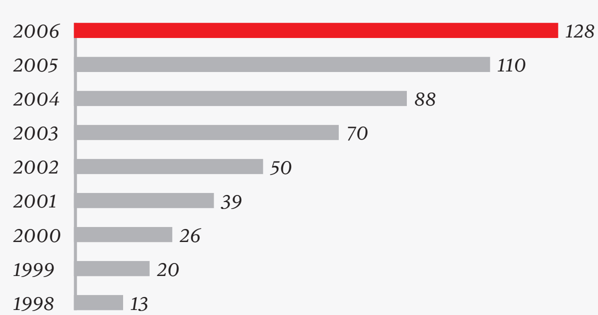
A strong backbone for efficient rail transport in Germany

The key prerequisites for smoothly functioning rail transport are a high quality infrastructure and reliable and affordable services – and, correspondingly, for the long-term competitiveness of the rails as a mode of transport. We bundled together all of our activities related to infrastructure and services in order to optimize our organizational structure. The Infrastructure and Services Group division comprises passenger stations, the track infrastructure, energy supply and our extensive services in the service, facility management, fleet management, IT, telematics and vehicle maintenance areas. Our construction project activities are also a part of the organization. The purpose of this move is to further simplify the interfaces, particularly between infrastructure companies and their business relations with providers of infrastructure-related services as well as vis-à-vis local authorities that are involved in our infrastructure activities.

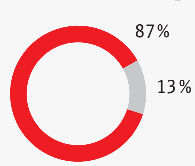
"Open Access" in Germany

- *The principle of non-discriminatory access to track infrastructure was established in Germany with the start of the German Rail Reform in 1994.*
- *Germany has a leading position across Europe in this area: the independent "Rail Liberalization Index" confirms the overall high degree of market liberalization achieved in Germany in comparison to the rest of Europe.*
- *When the 2007 timetable was prepared we worked closely with our customers to eliminate about 10,000 cases of time and route overlaps. Only six cases were settled on a priority basis. There was no need to use the maximum bid procedure in any case.*
- *The Federal Network Agency (Bundesnetzagentur) is responsible for ensuring that access to the rail infrastructure takes place on a non-discriminatory basis.*
- *Pursuant to amendments made to the third amended version of the German General Railways Act (Allgemeines Eisenbahngesetz), as of January 1, 2006 responsibility for regulating access to the rail infrastructure was transferred from the Federal Railways Agency (Eisenbahn-Bundesamt) to the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railroads (Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen).*

Train kilometers of non-Group railways using the DB network *(million train-path km)*



Struktur of train-path kilometers



- *DB Group companies*
- *Non-Group railways*

Total: 1,016 million train-path km

2005 to 2006: +1.8%

Track Infrastructure business unit

548 million € revenues
100 million € EBIT
41,356 employees

The Track Infrastructure business unit consists of DB Netz AG, a service provider to currently about 350 rail transport companies – including 328 non-Group railways. All of them use the German rail network that is over 34,000 km long and the largest in all of Europe. DB Netz AG acts as an independent network operator to ensure non-discriminatory access to its infrastructure. The train kilometers traveled by non-Group railways on the DB network have been increasing strongly for years. DB Netz AG is responsible for the operation of the high-performance track infrastructure (long-distance/major metropolitan areas network, regional networks, marshalling yards and transshipment terminals). At the same time it is also responsible for the marketing of customer-oriented track usage offers, drawing up timetables in close cooperation with customers, as well as maintaining and repairing the infrastructure. This also involves the further development of the rail infrastructure by investing in the existing rail network, in modern command and control technology, as well as building new lines and upgrading old ones. Funding provided by Federal Government and States to finance the infrastructure plays a central role. Our track network is available to all railways on a non-discriminatory basis.

Passenger Stations business unit

310 million € revenues
136 million € EBIT
4,557 employees

Our passenger stations are the gateway to the world of rail transport, as well as hubs linking together various modes of transport. They are also marketplaces and calling cards for cities and regions. The scope of the business unit's activities includes the operation of passenger stations as traffic stations as well as the development and marketing of the floor space within the stations. Acting as an independent firm, DB Station & Service AG provides non-discriminatory access to its infrastructure. The number of station stops of non-Group railways has been rising strongly for years.

Since the start of the German Rail Reform, the passenger stations have been continually refurbished and modernized to meet the needs of travelers and station visitors. These efforts have focused on providing comprehensive and competent service, high levels of security, good customer information and a functional layout, without losing sight of increased profitability, especially for heavily frequented stations.

Energy business unit

362 million € revenues
166 million € EBIT
1,628 employees

DB Energy is responsible for supplying the DB Group and other companies with all energy-related services and providing a single source for the corresponding technology know-how and control technology. In accomplishing this task DB Energy relies on a comprehensive and technically complex infrastructure. As an independent energy manager it ensures the smooth operation of all facilities. It provides traction power and fuel on a non-discriminatory basis to all railway companies in Germany.

Services business unit

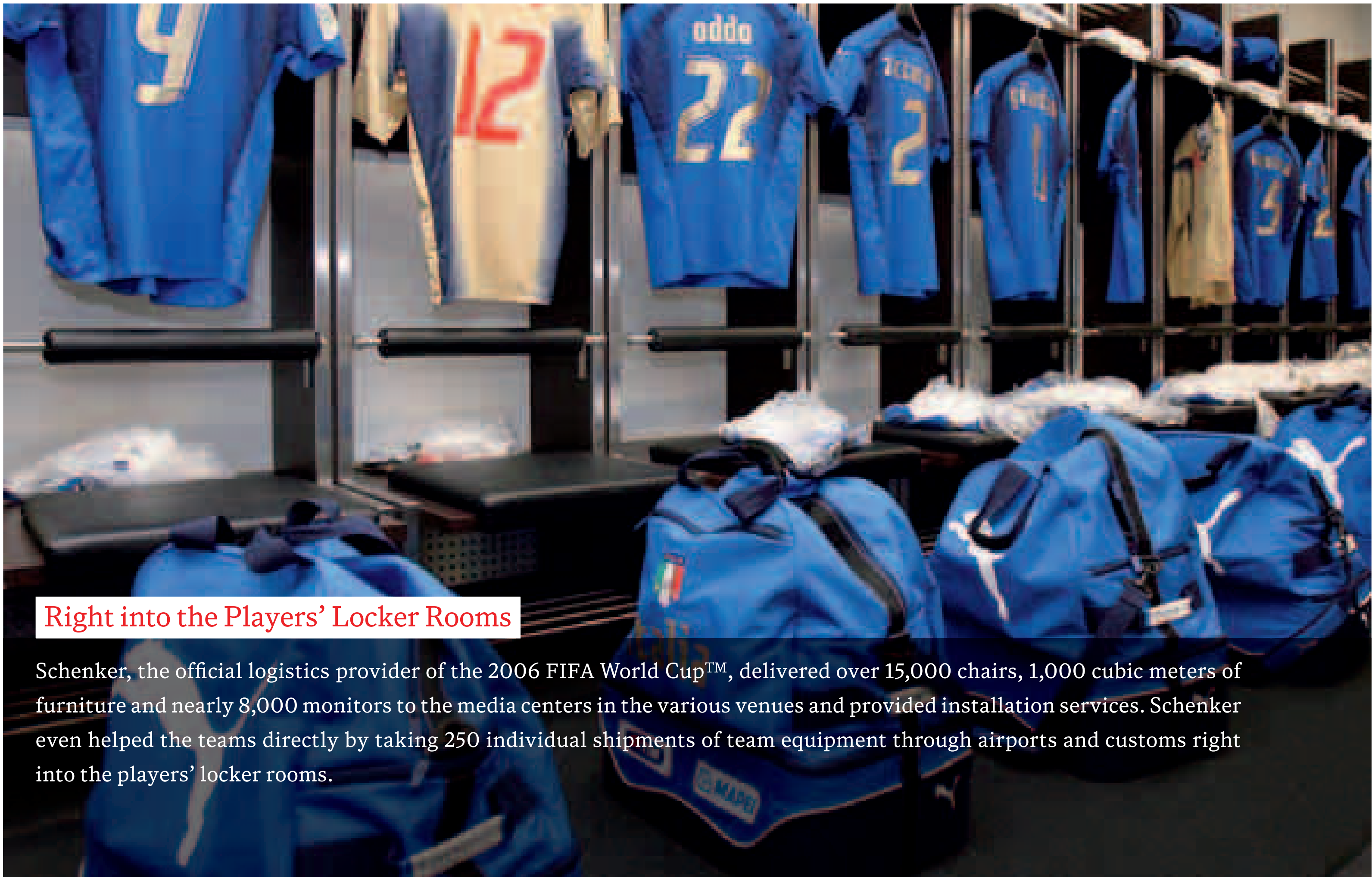
94 million € revenues	
31 million € EBIT	
26,689 employees	

The Services business unit plays a central role towards the further improvement of the quality of our services and cost structures. It covers a broad range of services, which are consistently adapted to meet market needs. Because of the business unit's primary support function, it works mainly for intra-Group customers.

- DB Systems is our provider of IT services. As a full-service provider of IT solutions it develops and operates solutions for mobility and the logistics markets. Its portfolio covers the entire IT value chain – from consultancy and concept development through to development to operation and support services.
- DB Telematik (Telematics) plans, implements, operates and maintains telecommunications solutions for the DB Group and other companies. This applies to both the fixed line and mobile telephone sectors. One example of its responsibilities is our entire telecommunications network, which is one of the largest independent telecommunications networks in Germany. DB Telematics' service spectrum also includes digital radio networks like GSM-R (Global System for Mobile Communication – Rail), which are key for implementing the highest security standards.
- DB Kommunikationstechnik (Communications Technology) is our specialist provider of technical support services. Its range of services includes the maintenance and repair of IT and network technology, security technology and passenger information facilities, automatic ticketing machines as well as printing and information logistics.
- DB Sicherheit (Security) bundles together the security functions within the DB Group and provides comprehensive and professional security services for travelers, employees, freight, facilities and real estate at almost 100 locations. DB Security is the leading provider of security services for public transport facilities in Germany.
- DB Services is our systems provider of services related to real estate and transport. The range of services offered includes professional facility management for commercial, administrative, transport and industrial buildings and property. In addition, DB Services prepares and cleans vehicles and provides various services related to track maintenance (e. g. vegetation control, securing of construction sites). DB Services also works for shipping companies, airport operators and airlines.
- DB Fahrzeuginstandhaltung (Vehicle Maintenance) is a reliable service provider for us and many other private and state-owned railways across Europe. DB Vehicle Maintenance operates specialized facilities for inspection, conversion, modernization and component overhaul work. Its services are rounded out with maintenance work and the repair of accident-related damages.
- DB Fuhrpark (Fleet Management) provides mobility and fleet management services to DB Group, the German army, and other companies, including the Swiss Post Office. DB Fleet Management is also one of the largest leasing companies in Germany. Its DB Carsharing service and its innovative "Call a Bike" bicycle rental service offer a comprehensive mobility network to our customers.

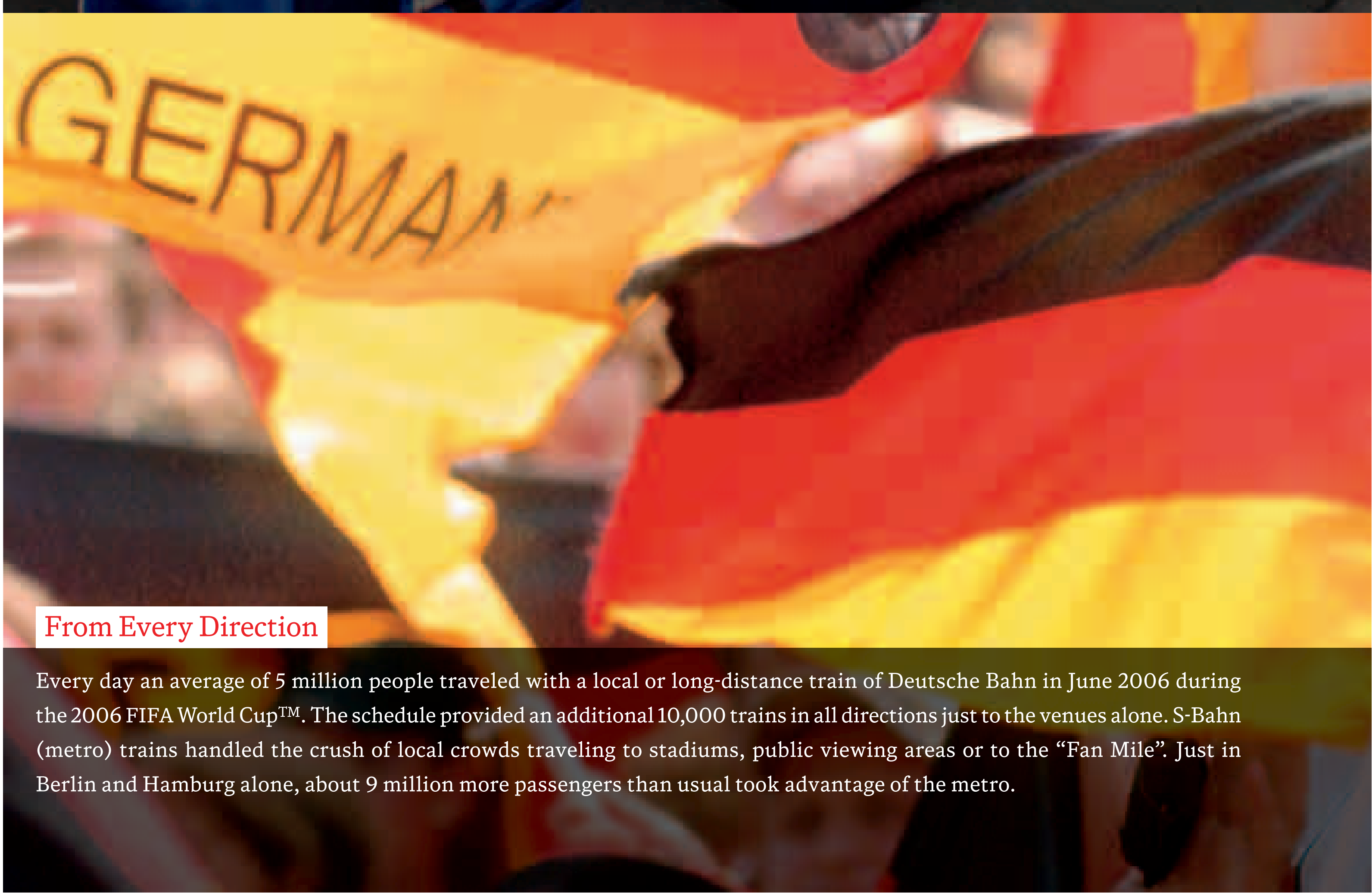
Highlights

The 2006 FIFA World Cup™ was also a spectacular highlight for the DB Group, and one that we most closely associate with two other memorable achievements: the on-time inauguration of the Berlin hub, featuring the new Berlin Central Station as Europe's largest cross-over station, and the start of operations on the new and expansion Nuremberg–Ingolstadt–Munich line. The photo spread on the following pages also illustrates some of the other major projects and initiatives that helped us advance our business and service capabilities in the Passenger Transport (pages 32–35), Transport and Logistics (pages 36–39) and Infrastructure and Services (pages 40–43) Group divisions during the year under review.



Right into the Players’ Locker Rooms

Schenker, the official logistics provider of the 2006 FIFA World Cup™, delivered over 15,000 chairs, 1,000 cubic meters of furniture and nearly 8,000 monitors to the media centers in the various venues and provided installation services. Schenker even helped the teams directly by taking 250 individual shipments of team equipment through airports and customs right into the players’ locker rooms.



From Every Direction

Every day an average of 5 million people traveled with a local or long-distance train of Deutsche Bahn in June 2006 during the 2006 FIFA World Cup™. The schedule provided an additional 10,000 trains in all directions just to the venues alone. S-Bahn (metro) trains handled the crush of local crowds traveling to stadiums, public viewing areas or to the “Fan Mile”. Just in Berlin and Hamburg alone, about 9 million more passengers than usual took advantage of the metro.

Twice as Attractive

Soccer fans from around the globe as well as some national teams relied on Deutsche Bahn to get them to “their” game safely and on time. The “World Cup BahnCard 25” offer was a big sales hit and 400,000 of them were sold for 19 euros each. What made this offer doubly attractive to German fans was that they could use their “World Cup BahnCard 25” free of charge for an additional month every time the German national team advanced another round in the tournament.

A New Landmark for Berlin

In a ceremony attended by German Chancellor Angela Merkel, the new Berlin Central Station was inaugurated on May 26, 2006. Within the first 100 days, 30 million visitors and travelers took possession of Europe's biggest and most modern cross-over train station. The first-time linkage of east-west trains with north-south trains has fundamentally rearranged Berlin's rail traffic. Every day about 1,100 long-distance and regional as well as S-Bahn (metro) trains stop at the new Central Station. Eighty stores and restaurants offer a wide selection of shopping and dining experiences over three levels with a total area of approximately 15,000 square meters.

From North to South

The new north-south connection is completely integrated in the overall traffic concept of the Berlin Central Station, and crosses below the city center in a 3.4 kilometer tunnel. In May 2006, the simultaneous opening of the Berlin Central Station, the north-south connection, the stations at Berlin-Südkreuz and Berlin-Gesundbrunnen as well as the three regional passenger stations Potsdamer Platz, Lichterfelde Ost and Jungfernheide, marked the conclusion of one of the biggest construction projects in the history of German rail traffic.

Twice as Fast

The newly conceived and accelerated flow of traffic that arose with the completion of the Berlin Central Station, has had an effect on many German train connections. The expanded Berlin–Halle/Leipzig route, which also began operations in May 2006, can now accommodate speeds up to 200 km/h. The fastest trains only need one hour to travel between the two cities. Total travel time has been cut by 50 minutes – or about in half. Regional transport has benefited from travel time improvements of up to 40 percent.

The State-wide Ticket is a Sales Hit

More than ten million state-wide tickets (Länder-Tickets) were bought by our regional transport customers between January and December 2006 – a new annual record. Bavaria was the top selling state with more than 3.3 million tickets sold, closely followed by Lower Saxony with sales of 1.6 million tickets, where demand grew by 63 percent over the same year-ago period. The state-wide tickets are a very affordable offer in local transport for single passengers, families and groups traveling.

Successful Local Transport

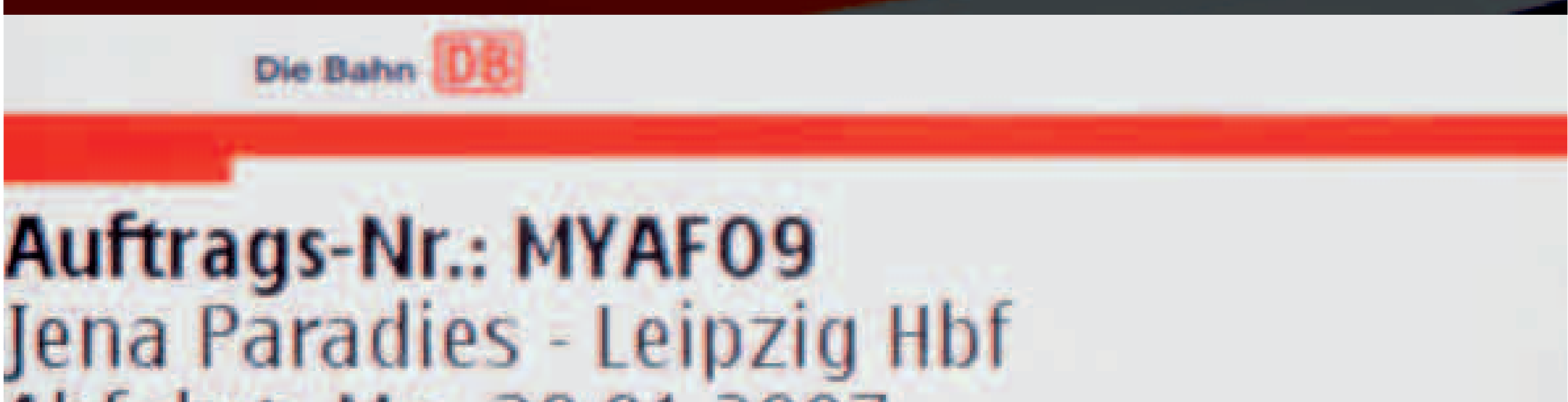
May 2006 marked the tenth anniversary of the regionalization of rail passenger transport with a favorable record. During this period we were able to expand services by 15 percent while demand even increased by 30 percent. Regionalization initiated lively competition in which DB Regio has positioned itself as one of the most successful companies in the industry.

Pilgrimage by Train

Over 130,000 faithful travelers were carried by about 60 regional trains, 480 S-Bahn (metro) trains as well as our regularly scheduled long-distance trains to see Pope Benedict XVI when he visited his Bavarian homeland in September 2006. Frequently running shuttle routes and a tightly meshed network of stops enabled the DB Group to deliver its greatest coordination performance in Bavaria to date. Nearly 1,000 additional employees looked after the pilgrims at the stations. By the way, Schenker made sure that the Pope could count on the availability of his “Papamobile” – on time and at the right place.

New Trains and Busses for Comfortable Travel

Also in 2006, we continued to invest in the modernization of our local transport fleet: 106 new double-deck coaches went into service and 86 more were ordered for delivery in 2007 and 2008. About 2,000 of these vehicles are currently operating and the double-deck coaches are the reliable top performers within the German local transport system. Thirty diesel multiple units of the 648.3 series, valued nearly 70 million euros, were ordered for the Nuremberg diesel network. Our subsidiary Regionalbahn Schleswig-Holstein invested a total of 2.5 million euros to upgrade the interiors of 17 diesel multiple units of the 628 series. The 250th bus fueled by natural gas began operations in December 2006 for the regional transport systems in Franconia and Eastern Bavaria.



Short Cuts

To further accommodate travelers, we have implemented innovative distribution channels. Since August 2006, customers can now have their tickets sent directly to their mobile phones via MMS (Multimedia Messaging Service) – even up to ten minutes prior to the selected train's departure. KaDeWe, a famous Berlin department store, is the most prominent location of the five nationwide DB Mobility Centers, where customers have been able to plan and book train travel where they shop since June 2006. Earlier in the spring, another special price campaign was introduced at McDonald's restaurants, titled "4-man-defense-chain" (Viererkette). In addition, in December 2006 Tchibo sold a million train tickets for a special fare price of 29 euros in its over 1,000 stores.

More Comfort

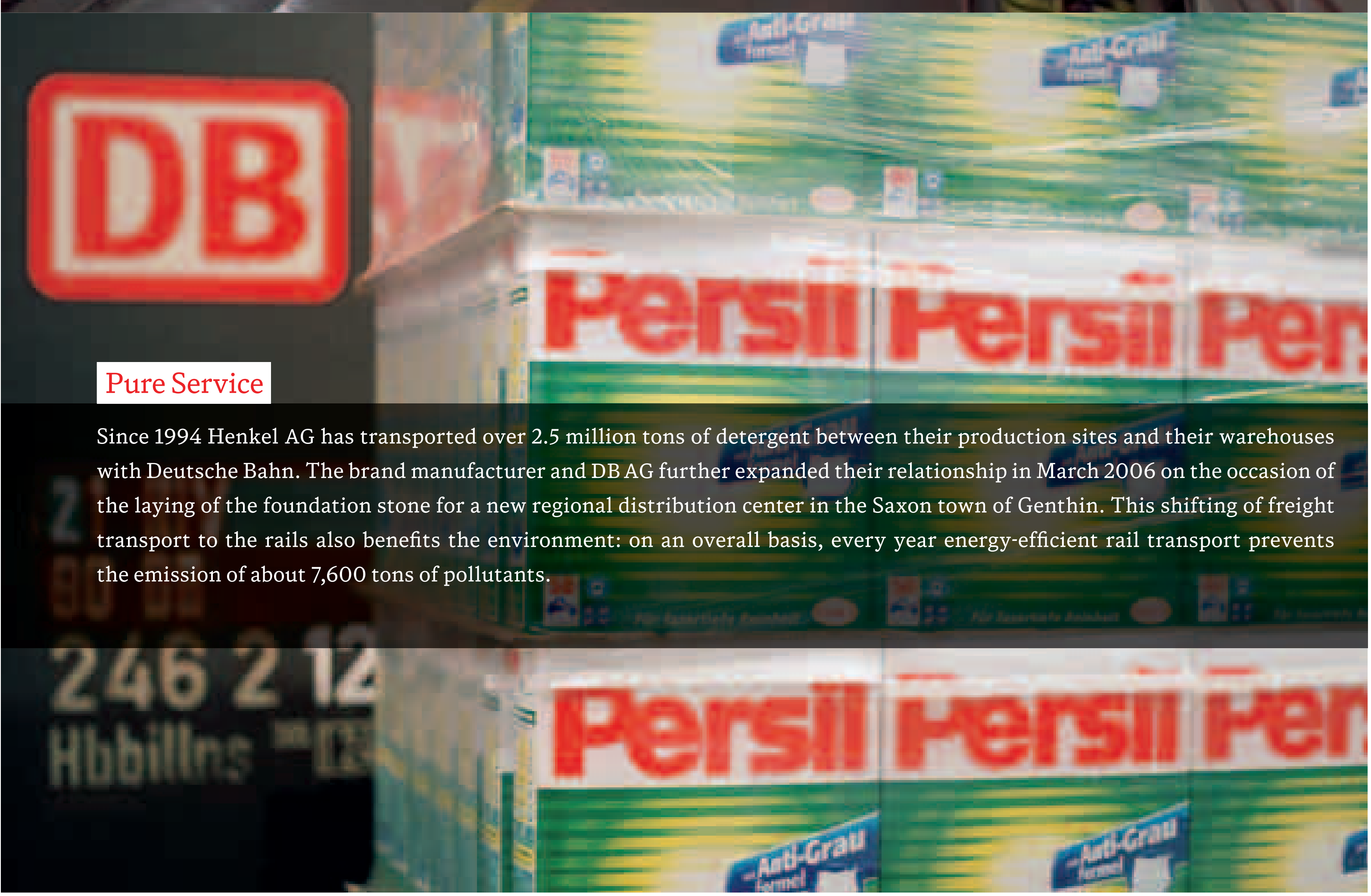
Our onboard service was improved by the addition of a variety of menus prepared from recipes of leading German and international chefs – for example by exotic meals from countries competing in the 2006 FIFA World Cup™ as well as regional delicacies from individual host cities. As a pilot project on the Hamburg–Berlin route, service in the exclusive first-class lounges was expanded in November 2006 by equipping them with complimentary Internet access via hot spots. Additionally, our first-class customers are being served at new, specially designed service counters at both central stations.

Cars Take the Train

The Dr. Ing. h. c. F. Porsche AG has broadened its cooperation with us. Beginning in June 2006 shipment of components to their Swedish partner Valmet was switched from the road to rail. Starting in January 2006 body parts for the Volvo Car Corporation and Volvo Trucks are being transported through five countries from Sweden to Belgium via an innovative train circuit. Just during the year under review alone we carried 308 million tons of rail freight. This reduced the burdens on roads by about 100,000 long-distance trips by truck. If these trucks were lined up bumper-to-bumper they would stretch from Hamburg to Rome.

"Pride of the Bavarians"

The Schenker experts displayed their great capabilities with the move of the historical 110-ton express locomotive S 3/6, also known as "Pride of the Bavarians". This move took place in April 2006 and was the logistical highlight of the relocation of the entire traffic department of Deutsches Museum (German Technology and Science Museum) in Munich to the trade fair grounds at the Theresienhöhe in Munich. Since October 2006, Schenker Industrial Logistics uses the latest high-tech systems to manage the entire supply of replacement parts for Fujitsu Siemens Computers from the logistics center near Frankfurt/Main.

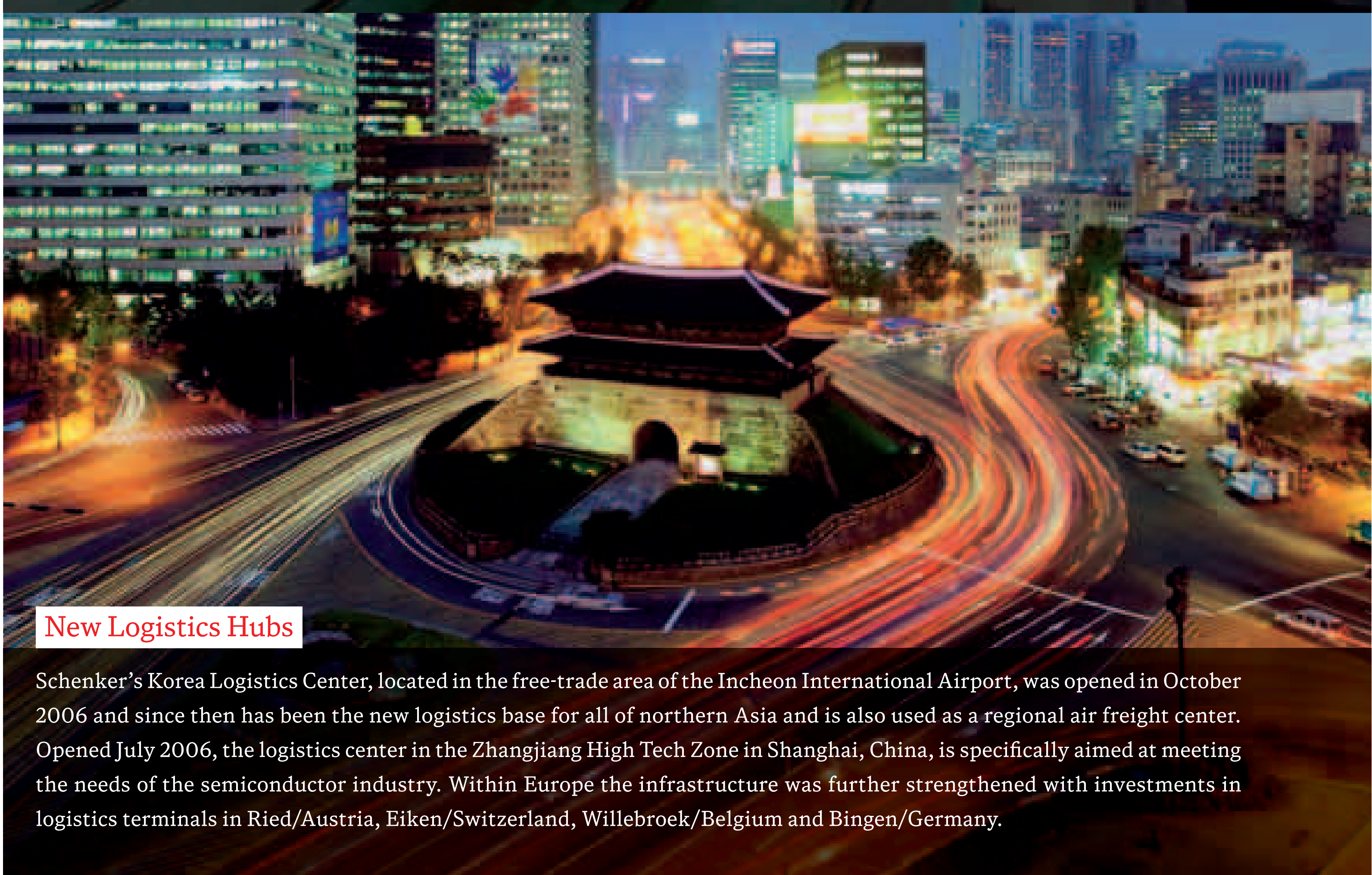


Pure Service

Since 1994 Henkel AG has transported over 2.5 million tons of detergent between their production sites and their warehouses with Deutsche Bahn. The brand manufacturer and DB AG further expanded their relationship in March 2006 on the occasion of the laying of the foundation stone for a new regional distribution center in the Saxon town of Genthin. This shifting of freight transport to the rails also benefits the environment: on an overall basis, every year energy-efficient rail transport prevents the emission of about 7,600 tons of pollutants.

Crossing the Baltic by Train

In the fall of 2006 a new ferry connection to the major Russian port of Baltijsk near Kaliningrad was agreed on, thereby opening up a new route for German rail freight transport to participate in the expected increased growth of goods shipped to and from Russia. On the German end the ferry will depart from Sassnitz-Mukran, Germany's largest train ferry port and the only site in all of Central Europe that can handle Russian wide-track cars. The new ferry line supplements the route between Sassnitz-Mukran and Kleipeda in Lithuania.



New Logistics Hubs

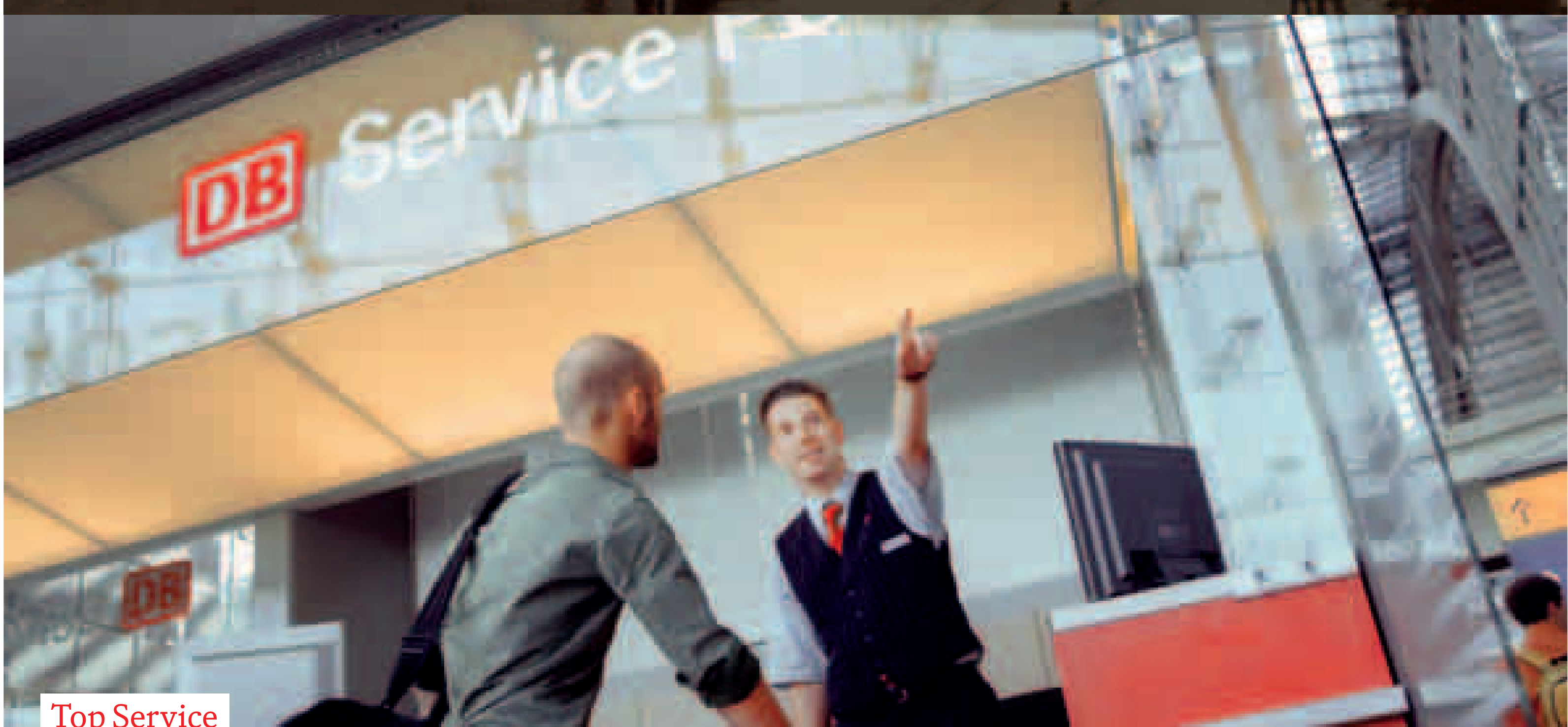
Schenker's Korea Logistics Center, located in the free-trade area of the Incheon International Airport, was opened in October 2006 and since then has been the new logistics base for all of northern Asia and is also used as a regional air freight center. Opened July 2006, the logistics center in the Zhangjiang High Tech Zone in Shanghai, China, is specifically aimed at meeting the needs of the semiconductor industry. Within Europe the infrastructure was further strengthened with investments in logistics terminals in Ried/Austria, Eiken/Switzerland, Willebroek/Belgium and Bingen/Germany.

Worldwide Network

The acquisition of BAX Global, a U.S. logistics company headquartered in Irvine, California, has advanced the DB Group up to become one of the worldwide leading providers of transport and logistics services. The deal was completed in January 2006 and perfectly complements Schenker's existing business in terms of customer structure, services and products as well as geographic reach. As a result of the carefully planned expansion of the network in North America and China, DB Group is better positioned in these growth markets to deliver one-stop worldwide logistics services to its customers. Furthermore, in February 2006 the Hong Kong-based StarTrans Group was acquired, which is specialized in providing logistics services to the textile industry within the Asia-Pacific region.

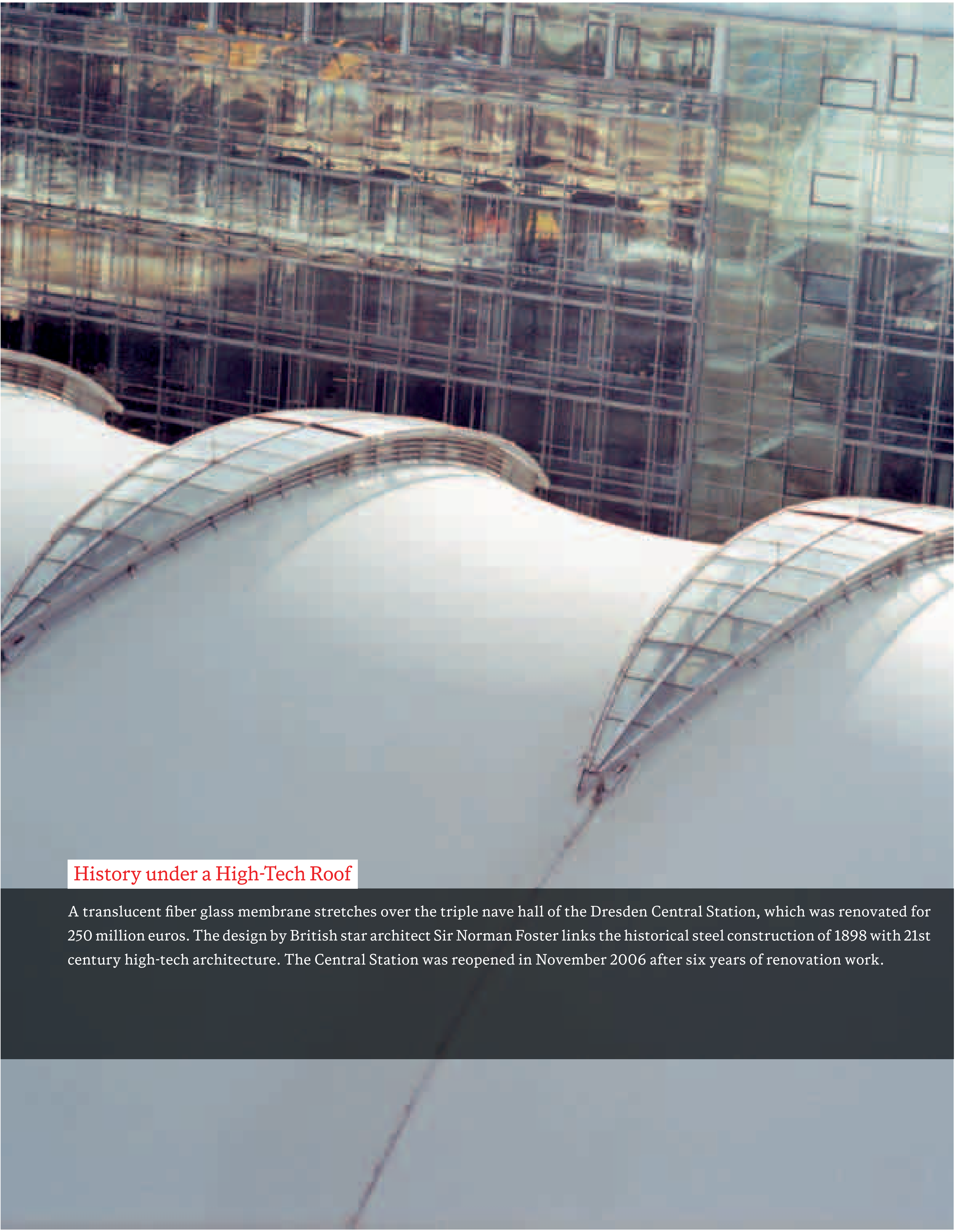
Historical Celebration

The Hamburg Central Station was opened on December 6, 1906. Before, German Emperor William II had personally intervened in the planning process and ordered architectural modifications. Exactly 100 years later, the Hanseatic city celebrated the anniversary of its central station, which is Germany's most frequented with about 450,000 persons passing through it every day.



Top Service

Customer service at passenger stations has been expanded further. Now 82 Service Points provide passengers and visitors a first place to request information and support. Reception staff and guides at ticketing machines at 40 DB Travel Centers across the country ensure that customer requests are quickly met. Fourteen DB Lounges around the country provide our first-class and "bahn comfort" customers with exclusive areas where they can work with laptops and enjoy complimentary snacks, beverages and newspapers.



History under a High-Tech Roof

A translucent fiber glass membrane stretches over the triple nave hall of the Dresden Central Station, which was renovated for 250 million euros. The design by British star architect Sir Norman Foster links the historical steel construction of 1898 with 21st century high-tech architecture. The Central Station was reopened in November 2006 after six years of renovation work.

Strategic Strengthening of Rail Infrastructure

Opened in May 2006, the new and expansion Nuremberg–Ingolstadt–Munich line permits trains to travel at speeds of up to 300 km/h, cutting travel time between the two cities by 40 minutes to nearly one hour. Beyond Bavaria, travel time from Munich to Berlin is now less than six hours and only three and a half hours to Hanover. The speed of the regional trains traveling on the line is unique in Germany: trains can travel up to 200 km/h.

Capital Expenditures in Rail and Facilities

The S-Bahn (metro) tunnel below the center of Frankfurt was completely renovated in the summer of 2006. This project was part of a 350 million euro one-year capital expenditures program for the State of Hesse alone for maintaining and modernizing the rail infrastructure.

Digital Switching

With its highly automated control engineering, the switching yard station in Seelze, Lower Saxony, is one of the DB Group's most important train marshalling facilities as well as a national and international hub for rail freight transport. After completion of several years of modernization in July 2006, up to 200 cars per hour can be marshalled to form a new train. Computers are used to precisely calculate the routes of the freight cars, taking into consideration their weight, operating characteristics and the influence of weather.

Page 27 Inauguration of the new Berlin Central Station Page 28/29 *2006 FIFA World Cup™:* The Italian team's locker room in the Berlin Olympic Stadium / Brazilian soccer fans in the Berlin-Spandau passenger station / Scene along the Berlin "Fan Mile" (Fan Fest) Page 30/31 *The Berlin Hub:* Glass facade of the Berlin Central Station / ICE in a tunnel in the north-south connection in Berlin / An ICE T arriving in the Leipzig Central Station Page 32/33 *Passenger Transport, 1:* Regional Express train near Bad Münster am Stein, Hesse / A regional train entering the Cologne Central Station / Pope Benedikt XVI in Munich Page 34/35 *Passenger Transport, 2:* New double-deck car in the Berlin Central Station / Confirmation for a ticket ordered via mobile phone / Guests in an ICE 1 onboard restaurant Page 36/37 *Transport and Logistics, 1:* Porsche's car-loading station in Kornwestheim, Baden-Württemberg / Special transport of the S 3/6 high-speed locomotive in Munich / Henkel's shipping center in Genthin, Saxony-Anhalt Page 38/39 *Transport and Logistics, 2:* Railroad ferry harbor in Sassnitz-Mukran, Mecklenburg-West Pomerania / Traffic at the Namdaemun Arch in downtown Seoul, South Korea / Bax truck in nighttime Las Vegas Page 40/41 *Infrastructure and Services, 1:* Historical view of the Hamburg Central Station / Service Point in the Berlin Central Station / New roof of the Dresden Central Station Page 42/43 *Infrastructure and Services, 2:* ICE 3 on the new and expanded Nuremberg–Ingolstadt–Munich line / Renovation work in the metro tunnel below the Frankfurt inner city / Electronic interlockings in the Seelze, Lower Saxony marshalling yard

Group Management Report

Overview

▮ Business continues to develop favorably ▮ Group portfolio strengthened by new acquisitions

The most successful financial year in the history of Deutsche Bahn

Selected key figures € million	2006	2005	Change absolute	%
Revenues	30,053	25,055	+ 4,998	+ 19.9
Revenues – comparable basis	26,879	24,959	+ 1,920	+ 7.7
EBIT	2,477	1,352	+ 1,125	+ 83.2
Net profit for the year	1,680	611	+ 1,069	+ 175
ROCE	7.5 %	5.0 %	–	–

All of the key operational and financial figures for the year under review posted significant gains over the figures of the previous year. These achievements confirm the DB Group's upward trend. Once again, we were able to notably improve our Return on Capital Employed (ROCE), one of our key value management figures.

The business units provided broad support for the DB Group's favorable results, and generally posted very satisfactory operational and business results.

The favorable results posted during the year under review were driven in particular by the good economic environment, the comprehensive improvement of our offers, the successful start of operations of new track infrastructure, the favorable course of the 2006 FIFA World Cup™, as well as the strong and further increased presence of the DB Group in all of the world's growth regions. As a result we were able to confirm or even further expand our position in our relevant markets.

The progress made by the Railion business unit is worth a special note. Here, we were able to achieve notably favorable operational results sooner than we originally anticipated. Results posted by the Long-Distance Transport business unit were once again better and confirmed the turnaround seen in the previous year was not a one-time event. The Schenker business unit grew strongly both in absolute and relative terms – before and after adjustments for newly acquired companies, especially BAX. During the year under review the Regional Transport business unit was able to further build on the good results it posted the previous year.

Group portfolio optimization consistently continued

In addition to organic growth, we also take advantage of other opportunities to further strengthen our competitiveness, such as targeted M&A opportunities. Our acquisitions and divestments are driven by the goal of bringing the DB Group closer to the realization of its strategic goals.

The following transactions are especially important for comparing performance with the previous year:

- **Acquisition of BAX Global (BAX):** The conclusion of the agreement to purchase 100 % of the shares of BAX Global Inc., Delaware/USA, from The Brinks Company, a listed American company, in November 2005, marked an important step forward in our efforts to further expand our logistics activities. BAX offers worldwide air and sea freight shipping services, transport services within the USA and supply chain management services. BAX's business portfolio ideally complements our existing activities in terms of customer industries served and regional strengths. The integration of BAX in the Schenker business unit allowed us to further develop our position as a leading international provider of logistics services – especially in the Asia-Pacific region, as well as in China and the USA – in a significant manner. The complementary strengths of the two companies enabled the DB Group to become one of the world's leading transport and logistics firms. The purchase price was based on an enterprise value of about USD 1.1 billion (approx. € 950 million). BAX was fully included in the full-year consolidated financial statements for the first time in the year under review.
- **Acquisition of the StarTrans Group (StarTrans):** We initially acquired 80 % of StarTrans, a Hong Kong/China-based company, in February 2006. StarTrans operates 14 companies located in Hong Kong, South-East Asia and the USA, which are primarily engaged in the air freight business with a main focus on the textiles industry. The newly acquired stake in StarTrans more than doubled the Schenker business unit's share of the vital trans-pacific routes between Hong Kong and North America, and also broadened its access to US customers. The purchase price was based on an enterprise value of about € 0.1 billion. StarTrans was included in the consolidated financial statements for the first time in the year under review as of May.
- **Acquisition of Roll Spedition GmbH (Roll):** Spedition Roll was acquired on January 1, 2006 as part of our efforts to strengthen our land transport and logistics activities, and also to expand our domestic network. Roll is a leading regional provider of logistics services and operates a modern logistics center for freight handling and warehouse logistics. No notable overlaps exist between Roll and DB Group's previous activities in either their customer portfolio or less-than-carload handling systems. Roll was included in the consolidated financial statements as of December 1, 2006.

- **Acquisition of RAG Bahn und Hafen GmbH (RBH):** We already acquired RAG AG's rail logistics activities in 2005 to strengthen the Railion business unit. RBH reinforces our position in the pan-European bulk commodities logistics sector. The company was renamed RBH Logistics GmbH in December. RBH was included with its balance sheet in 2005 and was fully consolidated for the full twelve months for the first time in the year under review.
- **Sale of Deutsche Eisenbahn-Reklame GmbH (DERG):** We sold all of our shares in DERG during 2005. The sale took place effective November 30, 2005.
- **Sale of STINNES-data-SERVICE GmbH (SDS):** All shares of SDS were sold in 2005. The sale took place effective January 1, 2006.

Further changes in our portfolio were made to improve our competitive position and/or restructure our holdings. These include, for example, the acquisition of the remaining 66.7 % of Linjegods AS, Oslo, Norway, which gave us 100 % ownership. In January 2006 the company was renamed Schenker Linjegods AS. Linjegods was included with its balance sheet in 2005 and was fully consolidated for the full twelve months for the first time in the year under review.

Business Environment

▮ Support from overall favorable economic conditions ▮ Energy prices rise again sharply ▮ Issuer's credit spreads remain low

The majority of our passenger transport business, as well as our freight transport business, is highly dependent on economic developments within our home market, Germany. Growth drivers were stronger in Germany in 2006 than in the previous year. As in previous years, our worldwide-oriented logistics activities once again benefited from unchanged strong and dynamic global trade and commerce.

Economic development grows at faster pace than in previous year

Total economic development: increase in gross domestic product (GDP) %	**2006**	**2005**
World	3.8	3.3
USA	3.4	3.2
Japan	2.2	1.9
China	10.7	10.4
Euro zone	2.7	1.4
Germany	2.7	0.9

Data for 2006 is based on information and estimates available on February 27, 2007.

Despite high oil prices, the global economy continued to expand in 2006 although its pace slowed during the course of the year. The slowdown was mainly due to a cooling off of the US economy, which was not fully offset by increased growth seen in the Euro zone and the United Kingdom. Asia was once again the world's fastest growing region. China's economic growth once again attained the high level noted in 2005.

The Euro zone economy strengthened over the course of 2006 and was mainly driven by domestic demand, which in turn was fueled by sharp increases in investments made in plant and equipment. The pace of private consumption accelerated slightly while investments in construction expanded noticeably. Both the export and import sectors of the economy posted significant growth. The GDP of the new members in the European Union (EU) grew on average by about 5.5 %, which was – once again – a significantly more dynamic pace than posted in total.

The recovery of the German economy gained greater momentum in 2006. In addition to the continued strong growth of exports, domestic demand began to play an increasingly dominant role. Driven by the uninterrupted expansion of the global economy, German exports posted double-digit growth rates. Companies' improved sales and earnings outlooks and increased capacity utilization rates led to a further rise in investments in plant and equipment. Investments in new construction picked up for the first time following ten years of decline. Although private consumption got off to an unsteady start, it picked up strongly in the second half of the year as shoppers brought their planned purchases forward to avoid paying the higher value added tax (VAT) rate that took effect on January 1, 2007. The number of employed persons, especially those holding jobs requiring mandatory social insurance contributions, grew noticeably as the average unemployment rate for the year declined to 10.3 %.

Energy prices climb significantly once again

The average price for crude oil in 2006 was over USD 65/barrel (bbl), or nearly 20 % higher than in 2005. Energy markets continued their unbroken dynamic performance during the first half of 2006. Driven by high demand and the heavy involvement of financial investors, the price of crude oil broke all records in the summer of 2006 as it soared to just over USD 78/bbl. However, as geopolitical risks began to appear less threatening, the US hurricane season remained calm, and winter was comparatively mild, the price of oil retreated to its starting level at the beginning of the year. These factors were reflected by the prices of crude oil at the end of 2006 as they moved in a range between USD 59/bbl and USD 64/bbl. Declining oil prices led the Organization of Petroleum Exporting Countries (OPEC) to agree on production cuts, for the first time since 2004. Total cuts of 5 % were agreed for November 2006 and February 2007 to keep prices from falling below the USD 55 to USD 60/ bbl level.

The average price of electricity for the year also rose again. At € 50/megawatt hour (MWh) it was 10 % over the price noted in 2005. The increase was driven by higher prices for the fossil fuels of coal, oil and gas, as well as a sharp increase in prices for CO_2 emissions at the beginning of 2006. The emissions market, however, collapsed in April as it became apparent that the first trading period (2005–2007) would not face a shortage of trading rights. Swings in electricity prices intensified further in 2006 due to the higher capacities of newly available wind power and lower standby readiness of reserve power plants. This led to a greater correlation between the price of electricity and the weather, whereby the weather-dependent relationships between the supply and demand for electricity were mutually reinforcing. This was proven as the cold spell at the start of the year and the summer heat wave led to record bids of up to € 300 for 1 MWh base load.

Euro appreciates

Over the course of 2006 the euro was able to make up almost all of the losses it incurred vis-à-vis the US dollar in the previous year, which it had ended at USD 1.17. It advanced a total of 12 % to the US dollar in two major upward moves. The euro reached its peak value over the US dollar at the end of 2006 when it was worth over USD 1.33. The euro also advanced against the Japanese yen (JPY). Despite the end of Japan's zero interest rate policy, the yen was unable to recover any ground as the euro set a new record of JPY 157.

Interest rates rise again

Driven by high commodity prices and an initially favorable evaluation of the economy, bond yields rose continually until the summer. Interest rate hikes by central banks contributed to the trend, especially in the short-term segment of the bond market. The bond market only recovered temporarily after commodity prices began to sag. Interest rates began to climb again as the economic outlook began to brighten in Europe. Prices for short-term bonds, in particular, declined in anticipation of rising key interest rates and led to a slightly inverse interest rate curve for the euro at the end of 2006. Investor interest in new issues remained quite high in 2006 in light of heavy demand for investments. As a result, issuer's credit spreads remained at a historically low level.

Development in Relevant Markets

▮ Rail passenger transport continues to gain market share ▮ Rail freight transport posts strong growth ▮ Uninterrupted growth noted in international logistics markets

Passenger rail transport posts strong growth in Germany

German passenger transport market	Growth rates		Market share	
% based on transport performance	2006	2005	2006	2005
Rail passenger transport	+ 3.8	+ 3.3	9.4	9.0
DB Group	(+ 3.1)	(+ 3.3)	(9.0)	(8.6)
Non-Group railways	(+ 25.0)	(+ 3.8)	(0.4)	(0.4)
Public road passenger transport	+ 0.9	- 0.5	9.2	9.0
DB Group[1)]	(- 4.2)	(- 12.1)	(1.0)	(1.1)
Motorized individual transport	- 1.7	- 1.5	80.2	80.9
Air traffic (domestic)	+ 4.1	+ 2.5	1.2	1.1
Total market	- 1.0	- 1.0	100.0	100.0

1) On a comparable basis
Data for 2006 is based on information and estimates available on February 27, 2007.

Based on DB figures, the German passenger transport market (consisting of all motorized vehicles: motorized individual transport, rail, public road passenger transport as well as domestic air traffic) contracted slightly once again in 2006. This was mainly driven by ongoing declining demand noted in the dominant category, motorized individual transport, due to a 5.6 % increase in fuel prices in 2006 compared to 2005.

In an otherwise generally favorable economic environment that featured growing employment and expanding consumption figures, rail transport once again grew on an overall basis and recorded an improvement in its share of market.

Business units within the DB Group's Passenger Transport division made very important contributions toward this very favorable development as their transport performance figures grew in long-distance, regional and urban transport [i]. We estimate that the non-Group railways, which are primarily engaged in regional transport, were able to significantly increase their transport performance. This is mainly due to their taking over former DB routes. In the interim, the share of market held by non-Group railways is currently estimated at 15.2 %, based on train kilometers in regional transport. On an overall basis, a total of almost 2.1 billion passengers were transported in regional and urban rail transport – more than ever before.

[i] More details on page 61 (Long-Distance Transport), page 63 (Regional Transport) and page 64 (Urban Transport)

Public road passenger transport grew modestly in 2006 due mainly to gains made by regularly scheduled bus, streetcar and subway transport. Transport performance posted by the DB Group's bus companies declined slightly due to lost tenders, among other reasons. In 2006 we once again observed the increasing role played by the subsidiaries of large internationally active groups within the structure of market participants.

Competition in the domestic air carrier market is price-based and indicates the start of a consolidation process in the cheap flights market. Growth in this sector was somewhat higher than in the previous year due to heightened intramodal competition.

Rail posts strongest growth in German freight transport market

German freight transport market	**Growth rates**		**Market share**	
% based on transport performance	**2006**	**2005**	**2006**	**2005**
Rail freight transport[1]	+12.0	+3.8	17.2	16.4
DB Group	(+9.5)	(–1.7)	(14.3)	(14.1)
Non-Group railways	(+28.0)	(+55.9)	(2.8)	(2.4)
Road freight transport	+8.0	+3.0	70.0	69.7
Inland waterway transport	–0.2	+0.7	10.3	11.0
Long-distance pipelines	–4.0	+3.1	2.6	2.9
Total market	+7.0	+2.9	100.0	100.0

[1] RBH Logistics GmbH recorded under DB Group since 2006.
Data for 2006 is based on information and estimates available on February 27, 2007.

The total German freight transport market (rail, road, inland waterway and long-distance pipelines) developed very favorably in 2006. The total rate of growth of transport performance more than doubled. Impulses from the overall environment influencing freight transport in Germany were noticeably more favorable than in the previous year. This development was supported by unbroken strength noted in German foreign trade, as well as growing domestic demand. High demand for transport services led to bottlenecks in shipping space, especially in the truck transport sector. Price increases were increasingly seen against a background of further rising (energy) costs, while competition remained at a very high level.

Starting in 2006 we – and our competitors – are noting gross transport performance for rail freight transport. This means that figures for shipments in loaded containers now include the weight of the container. Previous years' figures were adjusted to permit comparability.

Rail once again posted the highest rate of growth of all modes of transport. As a result, the share of market held by rail freight transport expanded for the fourth consecutive year. DB Group companies active in the rail freight transport business noted in total a

[i] More details on pages 67 ff.

very strong growth[i]. Transport performance reported by non-Group railways once again posted strong increases in performance as their share of the rail freight transport market rose again in 2006.

Transport performance recorded by road freight transport (German and foreign trucks – including cabotage routes in Germany) continued to grow at a high level. Positive factors for German truck transport stemmed primarily from revived domestic demand led by the recovery of the construction industry among other factors. Germany's strong foreign trade sector was a key driving factor, especially for foreign trucks, which dominate cross-border traffic routes.

In terms of the types of freight transported, the greatest increase by far was noted by vehicles/machinery/semi-finished and finished goods, as well as so-called special freight (primarily container routes).

The positive economic effects were not, however, strong enough to fully offset the weather-related declines noted by the inland waterway transport segment, which were particularly evident at the start of the year. Drifting ice as well as high and low water levels led to a noticeable reduction in business activities. As a result the segment's transport performance in 2006 was unable to even reach the weak results posted in 2005, although total tonnage transported rose by almost 3 %. While the strongest increases were noted in the coal and stones/earths categories, the number of containers transported was slightly below the previous year's level.

Non-Group railways once again used DB rail infrastructure more intensely

Ever growing numbers of non-Group railways are taking advantage of the 1994 market liberalization to increasingly utilize our rail infrastructure within Germany. About 350 rail companies (of which 328 were non-Group) were active here in 2006. The development of the key figures relevant for our infrastructure companies is dependent on their customers' operational programs and, accordingly, on developments noted in the transport markets. Train kilometers generated by DB Group and non-Group customers in the rail passenger and freight segments determine the utilization of the existing infrastructure and thus demand for products and services. Slight increases were noted in demand for track allocation[i] as well as the number of station stops[i] in 2006. In view of the transport markets, our infrastructure companies are indirectly exposed to heavy market pressures from their customer's experience. This stems from intensive inter- and intramodal competiton in the transport market and the related mobility and logistics markets.

[i] More details on page 70 respectively 71

The development of the retail trade plays a very important role in these activities. The mix of shops and the goods and services available in our passenger stations competes with department stores, offers available in pedestrian zones, marketplaces, as well as other outlets within the retail and food and beverage industries. German retailers posted a 0.3 % increase in sales in real terms in 2006, which was mainly driven by non-food retail sales (+1.2 % in real terms). These results were supported by purchases brought forward to avoid paying the increased VAT that took effect on January 1, 2007. The German food and beverage industry benefited from the large numbers of people who visited Germany to personally experience the 2006 FIFA World Cup™; real revenues in this segment stabilized following declines seen in the previous years.

Dynamic development of the international transport and logistics markets

[i] More details on pages 65 ff.

The Schenker business unit's relevant markets recorded further growth in 2006. As in previous years market growth closely tracked economic developments and grew at a faster pace in the global markets than in the German and inner-European freight transport markets. Within this business environment our Schenker business unit was able to continue expanding[i].

In 2006 European land transport benefited from the favorable economic development noted in Europe. This led to a corresponding rise in demand for transport services in the road freight transport sector. However, within this market environment heightened demand increasingly led to extremely tight capacities. Together with the ongoing high prices for diesel fuel, these developments caused freight carriers to raise their prices. These costs could only be partially passed on to customers in the form of fuel surcharges in light of unrelenting intensive competitive pressures. For these reasons the market situation over the course of the year was marked by higher volumes of transported goods and correspondingly higher revenues. At the same time, however, gross margins weakened further. Continuing heavy pressures on margins were due to aggressive pricing strategies employed by major competitors, and secondly by the continuing consolidation within the logistics services sector.

The worldwide air freight market also posted favorable growth. In general, freight rate levels remained stable. The strongest growth rates were once again noted for routes originating in Asia, and the inner-Asian routes. Developments also remained positive on the routes between Europe and North America. Due to the continued tense competitive situation, as well as fuel and security surcharges, price pressures remained unabated in the air freight sector. It was not always possible for the carriers to pass on the increased prices to their customers, which had a corresponding impact on their gross profit margins.

In the sea freight sector exports from Asia – especially China – to Europe and America fueled growth in the global sea freight markets in 2006. In addition – as in the air freight sector – inner-Asian transport noted significant rates of growth. Within Europe routes originating in Eastern Europe posted especially high growth. The strong expansion of shipping companies' fleets outpaced existing demand resulting in declining sea freight rates in 2006. The market environment was marked by a growing consolidation of shipping companies on the procurement side and increased activities by leading package service integrators in the classical sea freight business.

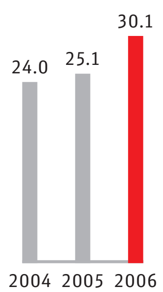
The market environment in the field of logistics/supply chain management was marked by continued growing demand for added-value logistics services in 2006. This was due to the growing internationalization of added-value chains, and secondly to reduced inventories owing to shorter product life cycles. As far as our customers are concerned, an even more intensive outsourcing of logistics activities by industrial firms around the world will be driven by further cuts in costs, improved quality levels and a stronger focus on their individual core areas of business. In this context the main growth regions are North America and Asia as well as Eastern Europe.

Business Performance

▮ Revenues rise sharply by 20 % (8 % on a comparable basis) to € 30.1 billion ▮ International business share climbs to 34 % ▮ EBIT up significantly by € 1,125 million to € 2,477 million

Revenues rise significantly

Revenues
€ bn



2004 to 2005: + 4.6 %
2005 to 2006: + 19.9 %

Revenues by business unit € million	**2006**	**2005**	**Change** absolute	**Change** %
Long-Distance Transport	3,234	3,050[1]	+ 184	+ 6.0
Regional Transport	6,480	6,452	+ 28	+ 0.4
Urban Transport	1,805	1,726[1]	+ 79	+ 4.6
Schenker	13,232	9,042[2]	+ 4,190	+ 46.3
Railion	3,194	2,830	+ 364	+ 12.9
Stinnes	608	554[2]	+ 54	+ 9.7
Track Infrastructure	548	511	+ 37	+ 7.2
Passenger Stations	310	287	+ 23	+ 8.0
Services	94	124	- 30	- 24.2
Energy	362	207	+ 155	+ 74.9
Other	186	272	- 86	- 31.6
DB Group	**30,053**	**25,055**	**+ 4,998**	**+ 19.9**
BAX, RBH, Linjegods, Roll and StarTrans shares of revenue (each for 2006), resp. DERG and SDS (each for 2005)	3,174	96	–	–
DB Group – comparable	**26,879**	**24,959**	**+ 1,920**	**+ 7.7**

[1] As of this business year Bayern Express & P. Kühn Berlin GmbH results are included in Urban Transport business unit; previous year's figures have been adjusted accordingly.
[2] As of this business year the Hangartner Group results are included in Schenker business unit; previous year's figures have been adjusted accordingly.

The favorable development of performance in rail transport and in logistics, as well as new additions to the scope of consolidation (especially BAX) in the year under review, led to a further noticeable increase in revenues. A significant rise was also clearly apparent once again on a comparable basis. The Schenker, Railion and Long-Distance Transport business units posted the largest gains in absolute terms.

[i] More details on pages 61 ff.

Detailed information about the individual business units' performance may be found in the chapter "Development of Business Units"[i].

The structure of total contributions to revenues shifted further in favor of the business units within the Transport and Logistics Group division. Due to the strong growth in revenues generated by our existing business and the new additions to the scope of consolidation (especially BAX), the division's share of revenues for the year under review represented 57 % (2005: 50 %) of total DB Group revenues. The share of revenues generated by business units within the Passenger Transport Group division declined slightly to 38 % (2005: 45 %). As in the previous years business units within the Infrastructure and Services Group division achieved – while demand by non-Group customers continued to grow – the major portion of their revenues with intra-Group customers. The division's 4 % share of total DB Group revenues was slightly lower than in the previous year (2005: 5 %).

Revenues by region € million	2006	Share %	2005	Share %
Germany	19,857	66	18,534	74
Europe (excluding Germany)	5,968	20	4,801	19
North America	1,769	6	720	3
Asia/Pacific	2,180	7	816	3
Rest of world	279	1	184	1
DB Group	**30,053**	**100**	**25,055**	**100**

The share of revenues contributed by business activities outside of Germany increased again during the year under review from 26 % to 34 %. Individual revenues in each of our four main regions grew between € 1.0 billion to € 1.4 billion. The shifts in revenue contributions mirror, in particular, the strong presence of BAX in the Asia / Pacific and North America regions.

Income outpaces expenses

Exerpt from Statement of Income € million	2006	2005	Change absolute	 %
Total income	34,802	29,094	+ 5,708	+ 19.6
thereof other operating income	(2,859)	(2,366)	+ 493	+ 20.8
Total expenses	- 32,325	- 27,742	- 4,583	+ 16.5
Cost of materials	- 16,449	- 12,650	- 3,799	+ 30.0
Personnel expenses	- 9,782	- 9,211	- 571	+ 6.2
Depreciation	- 2,950	- 2,801	- 149	+ 5.3
Other operating expenses	- 3,144	- 3,080	- 64	+ 2.1
Operating profit (EBIT)	**2,477**	**1,352**	**+ 1,125**	**+ 83.2**
Financial result	- 922	- 862	- 60	+ 7.0
Profit before taxes on income	**1,555**	**490**	**+ 1,065**	**–**
Taxes on income	125	121	+ 4	+ 3.3
Net profit for the year	**1,680**	**611**	**+ 1,069**	**+ 175**

Total income earnings rose significantly reflecting our favorable revenue growth. Other operating income was considerably higher than in the previous year. This figure also mirrors the effect of the Federal Administrative Court's (Bundesverwaltungsgericht; BVerwG) decision regarding total payment of € 256 million for the provision of rail police services by the Federal Border Police (Bundesgrenzschutz) between 2002 and 2005[i].

[i] More details on page 100

The successes we achieved with Group-wide measures implemented to increase efficiency and improve our cost structures were more than offset by the additions to our scope of consolidation (especially BAX), by higher energy prices as well as by increased transport costs incurred partly because of significantly higher freight rates within the Schenker business unit. This is reflected, in particular, in the notable increase in our cost of materials, where the share attributable to BAX amounted to € 1,905 million.

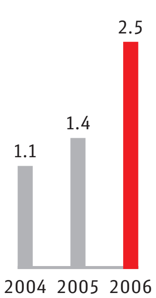
Personnel expenses were also slightly higher than in the previous year. Favorable effects derived from the collective reduction of working hours at major DB Group companies, which took effect for the first time for a full financial year, were more than offset by the increased number of employees. BAX's share of personnel expenses amounted to € 391 million.

The slight increase in depreciation stemmed from the unchanged high level of our capital expenditures to modernize our rail business as well as to further develop our logistics activities. In addition, during the year under review we incurred unscheduled depreciation primarily related to passenger cars in the Regional Transport business unit, and track installations because of damaged concrete cross-ties in the Track Infrastructure business unit.

Other operating expenses increased marginally during the year under review due primarily to the first-time inclusion of BAX (+ € 274 million).

Operating profit improves again

EBIT
€ bn



2004 to 2005: + 18.2 %
2005 to 2006: + 83.2 %

EBIT by business unit € million	**2006**	**2005**	**Change** absolute	**Change** %
Long-Distance Transport	124	50[1]	+ 74	+ 148
Regional Transport	690	554	+ 136	+ 24.5
Urban Transport	154	115[1]	+ 39	+ 33.9
Schenker	367	259[2]	+ 108	+ 41.7
Railion	226	12	+ 214	–
Stinnes	16	1[2]	+ 15	–
Track Infrastructure	100	17	+ 83	–
Passenger Stations	136	136	–	–
Services	31	128	– 97	– 75.8
Energy	166	98	+ 68	+ 69.4
Other/consolidation	467	– 18	+ 485	–
DB Group	**2,477**	**1,352**	**+ 1,125**	**+ 83.2**
EBIT share BAX, Linjegods, RBH, Roll and StarTrans	(39)	–	–	–

[1] As of this business year Bayern Express & P. Kühn Berlin GmbH results are included in Urban Transport business unit; previous year's figures have been adjusted accordingly.
[2] As of this business year the Hangartner Group results are included in Schenker business unit; previous year's figures have been adjusted accordingly.

The EBIT figure is a key measure of performance for the DB Group and its business units. As a result of the previously mentioned developments we were able to further improve our EBIT significantly. At the business unit level the Railion, Regional Transport, Schenker and Track Infrastructure business units recorded the most notable increases in results in absolute terms. In addition, the Long-Distance Transport and Energy business units also developed very favorably. The Passenger Stations business unit confirmed the good results it turned in the previous year. The Services business unit reported lower results. The item other/consolidation posted a sharp increase due to one-time effects[i]. This item was influenced by the Federal Administrative Court's decision regarding payment for the provision of rail police services by the Federal Border Police[i] between 2002 and 2005. Moreover, some of our subsidiaries in this area recorded improved results.

[i] More details regarding the adjusted EBIT on pages 80 ff.

[i] More details on page 100

Detailed information about the individual business units' performance may be found in the chapter "Development of Business Units"[i].

[i] More details on pages 61 ff.

Performance improves notably

Financial result declined slightly as of December 31, 2006. The € 4 million increase in net interest income was more than offset by the € 58 million decline in result from investments accounted for using the equity method and a € 6 million decline in other financial result. Result from investments accounted for using the equity method was especially affected by the reclassification of our holding in Scandlines AG, which was held for sale as of April (effect: – € 39 million). During the year under review the DB Group announced it was interested in selling its stake in Scandlines AG and initiated sales proceedings.

On balance, the overall favorable developments noted during the year under review once again led to a significant improvement of our profit before taxes on income figure. In light of our increased deferred taxable income, our slightly improved favorable tax position led to a noticeable improvement in our net profit for the year.

Net result attributable to minority interest holders declined to € 15 million (2005: € 31 million). The above-mentioned developments led to an improved net profit for the year after deduction of amounts due to minority interest holders that rose by € 1,085 million to € 1,665 million (2005: € 580 million). This resulted in earnings per share of € 3.87 (2005: € 1.35).

Long-Distance Transport business unit

Selected key figures € million	2006	2005[1]	Change absolute	Change %
Rail transport performance (million pkm)	34,458	33,641	+ 817	+ 2.4
Passengers rail (million)	119.9	118.7	+ 1.2	+ 1.0
External revenues	3,234	3,050	+ 184	+ 6.0
EBIT	124	50	+ 74	+ 148
Gross capital expenditures	262	259	+ 3	+ 1.2
Employees (FTE as of December 31)	14,641	14,516	+ 125	+ 0.9

[1] As of this business year Bayern Express & P. Kühn Berlin GmbH results are included in Urban Transport business unit; previous year's figures have been adjusted accordingly.

Major events

- Approximately half a million people traveled via ICE, IC and EC trains to the soccer matches held during the 2006 FIFA World Cup™ in Germany.
- Customer acceptance of our special price offers remained at a high level. During the year under review we renewed and marketed our "Winter Special", "Summer Special" and "Fall Special" offers and carried out additional partner actions with McDonald's and Tchibo.
- The number of issued BahnCards rose by 400,000 cards to 3.6 million cards. This performance was supported by the favorable effects of our entry level offers.
- We expanded the frequency of ICE service on many routes. For example, ICE trains now run on an hourly basis on the Hamburg–Berlin–Leipzig–Munich route. In addition, we were also able to noticeably reduce the traveling time on many routes.
- We further expanded our ICE fleet and continued the extensive redesign of the ICE 1 fleet we began last year.
- We expanded our customer loyalty program, bahn.bonus, with new restaurant car and Bordbistro offers, by opening three new lounges and launching a pilot project to upgrade first-class travel between Berlin and Hamburg.
- We expanded our sales channels by opening four new DB Mobility Centers and inaugurating the sale of tickets via mobile phone.

Performance development

During the year under review the Long-Distance Transport business unit once again recorded a significant increase in its transport performance. This increase was driven by: the repeat of our special price offers, additional passengers traveling with us during the 2006 FIFA World Cup™, start of operations on new routes (the Berlin North-South Tunnel and the new and expanded Nuremberg–Ingolstadt–Munich route) with corresponding reductions in travel times, as well as increased frequency of trains on the

Hamburg–Berlin route. The share of ICE traffic in transport performance rose marginally to 63 % (2005: 62 %). The number of passengers rose again during the year under review.

Business development

Based on the very favorable development of the performance figures coupled with continuing improvements in our internal cost structures, the Long-Distance Transport business unit could once again notably increase its revenues and its EBIT. Our special price offers continued to be successful. Moreover, both the favorable market response to the improved offers we added to our schedules when the timetables were changed in December 2005, as well as the additional traffic volume during the 2006 FIFA World Cup™, contributed to gains in our performance. The general improvement in economic conditions in Germany also influenced results favorably.

Gross capital expenditures were at the previous year's level. Detailed information may be found in the "Capital Expenditures" chapter[i].

[i] More details on pages 77 ff.

Regional Transport business unit

Selected key figures € million	2006	2005	Change absolute	%
Rail transport performance (million pkm)	35,069	33,809	+ 1,260	+ 3.7
Passengers rail (millions)	1,215	1,172	+ 43	+ 3.7
External revenues	6,480	6,452	+ 28	+ 0.4
thereof from ordered-service contracts	(4,203)	(4,240)	- 37	- 0.9
EBIT	690	554	+ 136	+ 24.5
Gross capital expenditures	380	362	+ 18	+ 5.0
Employees (FTE as of December 31)	25,700	26,842	- 1,142	- 4.3

Major events

- Approximately four million people traveled via regional trains and S-Bahn (metro) trains to soccer matches during the 2006 FIFA World Cup™.
- DB Regio demonstrated its transport capabilities during the visit of Pope Benedict XVI. in Bavaria as more than 130,000 pilgrims traveled with our trains to celebrate masses and attend related events.
- Our special price offers continued to be well received. For the first time ever, ten million state-wide tickets ("Länder-Tickets" are valid within one federal state for one working day for second-class travel on Deutsche Bahn local trains for groups of up to five people) were sold during the year under review.
- In December we began operation of the Munich-Nuremberg-Express, Germany's fastest regional train service with top speeds of up to 200 kilometers an hour.
- The 2006 Accompanying Budget Act (Haushaltsbegleitgesetz) led to a reduction in funds for regional transport purposes for the years 2006 and 2007[i].

[i] More details on page 99

Performance development

Despite the tender-related loss of routes to competitors, we were also able to increase the Regional Transport business unit's transport performance during the year under review. In addition to effects influenced by the general economy and high fuel prices, our special price offers, above all, had a very favorable influence on results. Our flat rate tickets are worthy of a special mention as they are our leading offer and have proven to be permanent success stories. And finally, the 2006 FIFA World Cup™ also gave a strong boost to the number of passengers traveling via local public transport.

Tenders and transport contracts

During the year under review we successfully concluded additional long-term transport contracts with partners including the Hanover S-Bahn (metro), the Leipzig local transport association and RegioTram Kassel. During the year under review 28.1 million train-path kilometers were awarded by contracting organizations. We won tenders for the following networks: West Palatinate and South Palatinate, the Taunus Line, Augsburg I Diesel and the E-Track Infrastructure Augsburg and South Hesse.

Business development

Business once again developed favorably within the Regional Transport business unit. Revenues were just above the previous year's figures and the EBIT figure also improved further. The slight increase in revenues was due solely to higher farebox revenues. Revenues from ordered-service contracts were once again slightly lower. We increased our EBIT figure again due to overall favorable revenue growth, and especially due to further cost optimization.

Gross capital expenditures were slightly higher than in 2005. Detailed information may be found in the "Capital Expenditures" chapter[i].

[i] More details on pages 77 ff.

Urban Transport business unit

Selected key figures € million	**2006**	**2005**[1]	**Change** absolute	%
Rail transport performance (million pkm)	5,262	5,104	+ 158	+ 3.1
Passengers rail (million)	549.8	524.4	+ 25.4	+ 4.8
Bus transport performance (million pkm)	7,882	8,299	– 417	– 5.0
Passengers bus (million)	683.1	693.7	– 10.6	– 1.5
External revenues	1,805	1,726	+ 79	+ 4.6
thereof from ordered-service contracts	(348)	(298)	+ 50	+ 16.8
EBIT	154	115	+ 39	+ 33.9
Gross capital expenditures	98	97	+ 1	+ 1.0
Employees (FTE as of December 31)	12,238	12,472	– 234	– 1.9

[1] As of this business year Bayern Express & P. Kühn Berlin GmbH results are included in Urban Transport business unit; previous year's figures have been adjusted accordingly.

Major events

- Over nine million people traveled via the S-Bahn (metro) and buses to view soccer matches held during the 2006 FIFA World Cup™.
- A decision handed down by the Federal Supreme Court (Bundesgerichtshof; BGH) regarding cooperation between the DB Group and üstra, a municipal transport company in Hanover, placed a burden on future collaboration between the DB Group and other transport companies in Germany. In explaining their judgment the court noted the "dominant position" held by the DB Group in the local transport market in Germany. This opinion is at odds with our interpretation that the DB Group does not have any such position in the very fragmented urban transport market in Germany.

Performance development

Within the Urban Transport business unit the Berlin and Hamburg S-Bahn (metro) posted favorable growth as they increased the number of passengers as well as their transport performance during the year under review. Growth in this business area was favorably influenced by positive economic effects and high fuel prices, as well as the 2006 FIFA World Cup™. Transport performance in the bus segment declined for reasons including lost tenders in previous years.

Tenders

During the year under review we were able to increase the percentage of our winning bids for bus line services from 31% in 2005 to 35%. We observed a further increase in competition in the bus line service segment, which has become apparent in previous and still open invitations to tender bids. We countered corresponding cost-cutting pressures with a comprehensive series of measures.

Business development

Within the Urban Transport business unit the Berlin and Hamburg S-Bahn (metro) lines, as well as our bus activities, developed favorably in terms of their contributions to revenues and earnings. Revenues generated by the S-Bahn (metro) segment rose due to increases in farebox revenues due to volume and tariff reasons. Moreover, the Berlin S-Bahn (metro) incurred a one-time effect due to a new valuation of risks arising from ordered-service fees paid under proviso. We also recorded a slight increase in revenues in the bus area. Favorable revenue growth and improved efficiency were achieved by the business unit's S-Bahn (metro) and bus activities and were mirrored by the development of the EBIT figure, which was significantly higher than the previous year's figure.

Gross capital expenditures remained at last year's level. Detailed information may be found in the "Capital Expenditures" chapter[i].

[i] More details on pages 77 ff.

Schenker business unit

Selected key figures € million	**2006**	**2005**[1]	Change absolute	Change %
External revenues	13,232	9,042	+ 4,190	+ 46.3
EBIT	367	259	+ 108	+ 41.7
Gross capital expenditures	227	172	+ 55	+ 32.0
Employees (FTE as of December 31)	54,905	38,585	+ 16,320	+ 42.3

[1] As of this business year the Hangartner Group results are included in Schenker business unit; previous year's figures have been adjusted accordingly.

Major events

- The integration of BAX is progressing successfully. The merged organizations are already appearing locally as "Schenker" in numerous countries. Following the start of integration measures in the ocean freight sector, the next step will be the consolidation of air freight operations. The common information technology strategy will ensure the smooth three-phase migration to a unified environment. The legal consolidation of companies is taking place on a step-by-step basis in accordance with the local legal conditions in the individual countries.
- Schenker was once again closely involved with major sports events like the Olympic Winter Games in Turin and the 2006 FIFA World Cup™ during the year under review. In addition, Schenker was appointed the official service provider of freight forwarding and customs clearance services for the 2008 Olympic Games in Beijing, China.
- We expanded our comprehensive network by opening new logistics centers and branch offices in Korea, China, the Philippines, Austria, Switzerland and Germany, among other places.

Performance development

During the year under review the Schenker business unit once again posted very good growth: we increased the shipment volume in European land transport over the same year-ago period on average by 10 %. At the same time double-digit growth was primarily noted in Western Europe.

Excluding BAX, the volume of air freight shipped by Schenker during the year under review was 16 % higher than in 2005. Almost all of the routes posted double-digit rates of growth, especially the inner-Asian routes. Our ocean freight activities also benefited from generally increasing market growth seen during the year under review as they expanded at an even faster pace: excluding BAX, we increased the volume of containers carried by 18 % and once again posted double-digit growth. The main growth drivers were routes to and from Asia.

In the logistics/supply chain management area the Schenker business unit participated in the favorable market developments noted around the world. This took place as we expanded our existing business relationships and generated new ones.

Business development

During the year under review our Schenker business unit once again recorded a significant increase in revenues driven by our strong market position and unbroken dynamic developments noted in the world's growth regions. Excluding first-time inclusion of BAX, Linjegods, Roll and StarTrans, revenues grew by about 13 %.

Increased revenues were noted in all segments and all important regions. The European land transport area posted a notable increase in revenues in a market environment that was marked by further expansion as well as capacity bottlenecks. During the year under review the Schenker business unit also recorded notably higher revenues for its air and ocean freight operations.

Increased revenues noted for air and ocean freight operations were mainly driven by increased freight volumes. Key growth generators were once again inner-Asian shipments as well as routes from Asia to Europe and America. The logistics segment also recorded favorable growth as all regions posted higher revenues.

EBIT reflected the favorable development of revenues in 2006 and rose significantly in comparison to the previous year's figure, which had been influenced by one-time charges incurred in 2005. As anticipated, BAX's integration expenses kept its contribution to profits low. Our gross profit margin was burdened by higher energy prices and further rising pressures on margins. Gross profit margins further weakened within the European land transport sector, as we were unable to fully pass on higher costs to our customers. The tendency towards unpaired routes increased in the ocean freight sector and led to greater pressures on gross profit margins, especially for routes where demand was strong. Ocean carriers were able to push through higher rates although they could not be fully passed on to shippers. Fuel and security surcharges posed additional burdens on gross margins in the air freight segment.

Gross capital expenditures were higher than in 2005 due to the further expansion of our networks. Detailed information may be found in the "Capital Expenditures" chapter[i].

[i] More details on pages 77 ff.

Railion business unit

Selected key figures € million	**2006**	**2005**	Change absolute	Change %
Transport performance (million tkm)[1]	96,388	88,022	+ 8,366	+ 9.5
Freight carried (million t)[1]	307.6	274.6	+ 33.0	+ 12.0
Tons per train	473.7	454.4	+ 19.3	+ 4.2
External revenues	3,194	2,830	+ 364	+ 12.9
EBIT	226	12	+ 214	–
Gross capital expenditures	153	244	– 91	– 37.3
Employees (FTE as of December 31)	22,635	23,522	– 887	– 3.8

[1] Changeover to gross figures in 2006, previous year's figures have been adjusted accordingly.

Major events

- Service began on a new train ferry line from Sassnitz-Mukran on Rügen Island to the new Russian ferry harbor Baltijsk, near Kaliningrad, offering the train companies involved, Railion and RZD, the Russian railways, a high-performance train ferry connection to serve Eastern Europe.
- The first effective day of the 2006 timetable also marked the official launch of the "Production System 2ooX" project in single car transport (EV). The purpose of the project is to further improve EV service and prepare it to meet future challenges. In addition to improving efficiency, the new production system is intended to increase operational performance by concentrating long-distance EV train services in central corridors between major marshalling yards.

Performance development

The Railion business unit significantly improved its transport performance during the year under review. Both Railion Deutschland (+ 6.7 billion tkm) and Railion Nederland (+ 0.4 billion tkm), as well as Railion Italia (+ 0.1 billion tkm) developed very favorably. The first-time inclusion of RBH (+1.3 billion tkm) was an additional positive factor.

Railion Deutschland's transport performance set a new record in the year under review, rising by 8.2 % to 88.4 billion tkm. In addition to the positive stimulus generated by the improving economy, especially major increases noted in gross steel production, we also benefited from our pan-European structure. The clearest gains were recorded by the conventional carload transport segment in addition to mining products, mineral commodities and construction materials, as well as chemical products. The previous year's levels were also exceeded in almost all of the other freight categories. Operational performance (measured in train-path kilometers) in the combined rail/road transport area rose quite sharply by 13.3 %. Transport performance increased by 10.9 %. The number of block trains operated during the year under review was notably higher than in 2005. Growth drivers in 2006 included rising container volumes in the national segment (to and from German overseas seaports in the maritime transport segment, and transport under the direction of the operator Kombiverkehr in the continental-oriented train systems). Significant growth was also noted in the cross-border routes, primarily those with Poland, the Czech Republic, Scandinavia, Austria, Switzerland and Italy.

Cross-border routes represented about 56 % of Railion Deutschland AG's total transport performance and remained the key transport demand category.

Business development

The favorable development of performance was linked to clearly increased revenues, especially at Railion Deutschland. The first-time inclusion of RBH for the year under review further influenced results favorably.

Earnings also developed very satisfactorily. Following the slight decline noted in the previous year, we were able to shift our earnings situation up to a more favorable level earlier than we expected. The strong increase in revenues in 2006, combined with measures we implemented in the previous year to improve our earnings, led to a noticeable increase in EBIT during the year under review.

Gross capital expenditures were less than in the previous year. The decline was mainly due to the partial conclusion of our multi-year capital expenditure program for electric locomotives. Detailed information may be found in the "Capital Expenditures" chapter[i].

[i] More details on pages 77 ff.

Stinnes business unit

Selected key figures € million	2006	2005[1]	Change absolute	%
External revenues	608	554	+ 54	+ 9.7
EBIT	16	1	+ 15	–
Gross capital expenditures	4	8	– 4	– 50.0
Employees (FTE as of December 31)	1,622	1,591	+ 31	+ 1.9

[1] As of this business year the Hangartner Group results are included in Schenker business unit; previous year's figures have been adjusted accordingly.

Major events

- The DB Group is participating in an international consortium to build up combined rail/road transport (KV) in China. Plans call for € 1.2 billion to be invested in the construction of 18 KV terminals over the coming five years. We participate with an 8 % stake in the venture. The consortium includes CRCTC, a subsidiary of the Chinese railways ministry (34 % stake), New World, a Hong Kong-based financial investor (22 % stake), as well as four other companies.

Business development

Stinnes business unit holdings in Stinnes Freight Logistics (bulk goods transport) and Stinnes Intermodal (combined rail/road transport) posted good results during the year under review. Stinnes Freight Logistics posted higher revenues and earnings, while Stinnes Intermodal was able to improve its contribution to earnings despite marginally lower revenues.

Track Infrastructure business unit

Selected key figures € million	2006	2005	Change absolute	 %
Train kilometers on track infrastructure (million train-path km)	1,016	998	+18	+1.8
thereof non-Group railways	(128)	(110)	+18	+16.4
External revenues	548	511	+37	+7.2
EBIT	100	17	+83	–
Gross capital expenditures	4,419	4,038	+381	+9.4
Employees (FTE as of December 31)	41,356	42,950	–1,594	–3.7

Major events

- The start of operations on the newly built Nuremberg–Ingolstadt line and the expanded Ingolstadt–Munich line marked the completion of one of the biggest infrastructure projects in the history of Deutsche Bahn. The 171 km long line was built to handle train speeds of up to 300 km/h and provides a basis for attractive passenger transport offers. The line's geographic location makes it a relevant factor for national and international train operations.
- We established the infrastructure foundation for attractive passenger transport offers between Berlin and Leipzig by expanding the 186 km long line to handle train speeds of up to 200 km/h and equipping it with new command and control technology. This shortened the travel time of the ICE trains between Leipzig and Berlin to about one hour.
- DB Netz AG organized more than 47,000 lines for the 2007 annual timetable. The competitive situation in the German rail market, which is unique in Europe, was also reflected by the number of train path allocation requests for the 2007 annual timetable. Even though the majority of requests were made by intra-Group customers, registrations made by non-Group customers increased again, exceeding the figure noted in 2005.

Performance development

The favorable development of overall performance noted by rail transport in Germany was also mirrored by demand for train path allocation. The Track Infrastructure business unit noted another significant rise in the usage of the rail network by non-Group railways.

Business development

Revenues generated by intra-Group customers amounted to € 3,825 million and once again represented the greatest share of total revenues. These revenues declined slightly during the year under review. The development of external revenues rose over the comparable year-ago period and was supported by non-Group customers' increased demand for train path allocation.

Expenses for maintenance work remained at an unchanged high level necessitated by the network's high levels of quality and availability. Development of the business unit's EBIT improved significantly during the year under review and was influenced by higher revenues, as well as the success of our measures to increase efficiency.

Our modernization program continued with major emphasis on the existing network and command and control technology, and led to significantly higher gross capital expenditures than in 2005. Detailed information may be found in the "Capital Expenditures" chapter[i].

[i] More details on pages 77 ff.

Passenger Stations business unit

Selected key figures € million	2006	2005	Change absolute	Change %
Station stops in million	141.5	139.1	+ 2.4	+ 1.7
thereof non-Group railways	(15.6)	(13.0)	+ 2.6	+ 20.0
External revenues	310	287	+ 23	+ 8.0
EBIT	136	136	–	–
Gross capital expenditures	643	739	- 96	- 13.0
Employees (FTE as of December 31)	4,557	4,791	- 234	- 4.9

Major events

- Berlin saw the opening of its new Central Station. In addition, we also concluded numerous projects to modernize passenger stations including central stations in Aachen, Bielefeld, Bochum, Dresden, Gelsenkirchen and Kiel.
- The Hamburg Dammtor and Oberstdorf passenger train stations received "Train Station of the Year" awards from the Alliance-Pro-Rail (Allianz pro Schiene) organization.

Performance development

Following a 1.1% decline in the number of station stops in 2005, the figure rose slightly during the year under review. This increase was due mainly to increased demand by non-Group railways resulting from their successful bids for service. Demand generated by DB Group companies was at the previous year's level.

Business development

Intra-Group customers' status as the greatest contributors to total revenues remained unchanged in 2006 as they posted internal revenues of € 640 million. This figure was close to the level attained in the previous year. The Passenger Stations business unit was able to achieve a slight increase in its external revenues during the year under review. This was due on one hand to the higher number of station stops made by non-Group railways, whereby revenues generated in the area of the traffic stations rose. On the other hand, based on the overall improvement noted in domestic economic developments and the situation in the German retail sector, revenues generated by non-Group rentals climbed slightly. The opening of the new Berlin Central Station had a noticeable effect on these revenues.

The one-time effects of increased operational expenses mainly influenced the development of EBIT. As a result, EBIT remained at the previous year's level.

Our modernization programs also continued during the year under review. Gross capital expenditures were below the previous year's level. The decline was mainly driven by the completion of almost all work on the North-South connection in Berlin, and by the openings of the Berlin Central Station, Südkreuz and Gesundbrunnen passenger stations. Detailed information may be found in the "Capital Expenditures" chapter[i].

[i] More details on pages 77 ff.

Services business unit

Selected key figures € million	2006	2005	Change absolute	%
External revenues	94	124	- 30	- 24.2
EBIT	31	128	- 97	- 75.8
Gross capital expenditures	242	226	+ 16	+ 7.1
Employees (FTE as of December 31)	26,689	26,868	- 179	- 0.7

Major events

- DB Telematik (Telematics), in cooperation with providers of mobile phone services, is continuing to expand the GSM mobile phone transmission system along the rail network. For example, during the year under review, work was completed to provide expanded, seamless transmission coverage on the ICE line between Hanover and Würzburg.
- DB Fahrzeuginstandhaltung (Vehicle Maintenance) delivered 28 modernized ICE 1 trains by the end of 2006 as part of a comprehensive redesign program of the ICE 1 fleet.
- DB Sicherheit (Security) intensified its cooperation with the Federal Police within the framework of a security partnership program. These efforts successfully proved their value during the 2006 FIFA World Cup™.
- "Call a Bike", our innovative bicycle rental service, initiated operations in Stuttgart, the fifth city where the service is now available in Germany.
- DB Carsharing is now also represented at Germany's four major airports: Munich, Berlin-Tegel, Frankfurt/Main and Hamburg.

Business development

The development of the Services business unit was primarily marked by its support function on behalf of intra-Group customers. For this reason, the major portion of total revenues was once again contributed by internal revenues, which amounted to € 2,349 million. These revenues rose marginally during the year under review. Revenues generated by non-Group customers declined slightly during the year under review. External revenues were once again mainly contributed by DB FuhrparkService (Fleet Management), DB Systems (IT) and DB Telematik.

The negative development of EBIT is primarily due to the fact that effects on results related to efficiency measures implemented as part of our "Qualify" program during the year under review were no longer realized by the sevice companies, but were passed on to customers in the form of adjusted prices.

Gross capital expenditures were above last year's level. Detailed information may be found in the "Capital Expenditures" chapter[i].

[i] More details on pages 77 ff.

Energy business unit

Selected key figures € million	2006	2005	Change absolute	%
External revenues	362	207	+ 155	+ 74.9
EBIT	166	98	+ 68	+ 69.4
Gross capital expenditures	103	126	– 23	– 18.3
Employees (FTE as of December 31)	1,628	1,671	– 43	– 2.6

Major events

- The passage of the "Small Amendment to the Renewable Energy Sources Act" by the German Parliament (Bundestag) amended the German Renewable Energy Sources Act (Gesetz über den Vorrang erneuerbarer Energien; EEG) effective December 1, 2006. As one of greatest nationwide users of electricity, Deutsche Bahn is especially affected by this law promoting the use of water, wind, biomass and photovoltaic technologies to generate electricity. This amendment alters the terms of the hardship conditions by reducing the effective burden for users in energy-intensive industries, and rail transport companies. This also applies to DB Energy, which will benefit from lower prices for electricity.

Business development

With internal revenues of € 1,652 million, intra-Group customers' status as the greatest contributors to total revenues remained unchanged in 2006. This figure rose during the year under review. We were also able to record a notable increase in the external revenues earned by the business unit. This gain reflected the gain in transport performance noted for non-Group railways during the year under review, which led to increased demand for 16.7-hertz traction power and diesel. It also reflected the fact that we further expanded the Energy unit's activities during the year under review. Furthermore, the development of revenues was also affected by increased procurement costs for power, which we had to pass on to customers. EBIT rose noticeably during the year under review. The favorable development of revenues coupled with strict cost management resulted in a significant improvement in EBIT in comparison to the year-ago figure.

Gross capital expenditures were below the previous year's level. Detailed information may be found in the "Capital Expenditures" chapter[i].

[i] More details on pages 77 ff.

Financial Situation

▮ Excellent ratings reconfirmed in the year under review ▮ Net debt declined ▮ Gross capital expenditures once again at a high level ▮ Balance sheet structure generally stable ▮ Equity capital ratio improved to 19.0%

Financial management

DB AG's Treasury serves as the central treasury for the DB Group. This structure ensures that all Group companies are able to borrow and invest funds at optimal conditions. Before obtaining funds externally, we conduct intra-Group financing transactions. When borrowing external funds, DB AG takes out short-term loans in its own name, whereas long-term capital is generally obtained through the company's financing company, Deutsche Bahn Finance B.V., Amsterdam, Netherlands. The funds are passed on to the Group companies as time deposits or loans. This concept enables us to pool risks and resources for the entire Group, as well as consolidate our expertise, realize synergy effects, and minimize refinancing costs. After the Schenker organization was integrated into this concept in the years 2003 to 2005, a similar integration of the BAX treasury department was completed during the year under review.

We have a long-term debt issuance program of € 10 billion, under which approximately € 1.9 billion was still available for placement as of December 31, 2006. With respect to short-term financing, similar to the previous year, guaranteed unused credit facilities of approximately € 2.1 billion and a multi-currency multi-issuer commercial paper program of over € 2 billion, of which € 357 million had been used, were available as of December 31, 2006. The credit facility serves as back-up to secure the commercial paper program. In addition, credit facilities of € 784 million were also available for our operational business as of the date of record. These credit facilities, which are available to our subsidiaries located around the world, include the provision of working capital, as well as sureties for payment.

No major leasing transactions were concluded during the year under review.

DB Group's creditworthiness is regularly examined by the rating agencies Standard & Poor's and Moody's[i]. During the year under review these rating agencies conducted their annual rating reviews and subsequently reconfirmed DB AG's outstanding credit ratings: Moody's with "Aa1" and Standard & Poor's with "AA". Both of the ratings have remained unchanged since they were first issued in 2000. Moody's outlook for its rating remained "stable" while Standard & Poor's revised its outlook from "stable" to "negative" due to public discussions surrounding the planned privatization of DB AG.

[i] See also »Rating« chapter on page 12

Consolidated statement of cash flows

Summary € million	**2006**	**2005**	**Change** absolute	%
Cash flow from operating activities	3,678	2,652	+ 1,026	+ 38.7
Cash flow from investing activities	- 3,404	- 2,375	- 1,029	+ 43.3
Cash flow from financing activities	- 278	- 749	+ 471	- 62.9
Net change in cash and cash equivalents	- 10[1)]	- 460[2)]	+ 450	- 97.8
Cash and cash equivalents at year's end	295	305	- 10	- 3.3

1) Including consolidation effects of € 1 million and exchange rate effects of € –7 million
2) Including exchange rate effects of € 12 million

The favorable development of our business during the year under review led to a significant increase in the inflow of cash from operating activities. Accordingly, the increase resulted from the € 1,065 million improvement in profit before taxes on income, which rose to a total of € 1,555 million.

Cash outflow due to investment activities for the year under review was significantly higher than in the previous year and was heavily influenced, in particular, by the acquisition of BAX. Moreover, payments for property, plant and equipment and intangible assets amounted to € 6,584 million or € 283 million more than in the previous year (2005: € 6,301 million). In accordance with the relevant legal regulations, our capital expenditures in infrastructure are generally financed by means of interest-free federal loans, investment grants netted with properties and – to a lesser extent – funds obtained under the Local, Regional and Municipal Traffic Financing Act (Gemeindeverkehrsfinanzierungsgesetz) and the Railroad Crossings Act (Eisenbahnkreuzungsgesetz), as well as our own funds. Proceeds from investment grants declined by € 271 million to € 3,748 million (2005: € 4,019 million) during the year under review.

Cash flow from financing activities during the year under review was influenced by net proceeds of € 1,284 million (2005: € 0 million) from the issuance and redemption of bonds, as well as the net outflow of funds of € 1,101 million from borrowings and repayment of bank loans and commercial paper. Outflows for the repayment of interest-free loans amounted to € 362 million and were at the same level as in the previous year (2005: € 365 million). On an overall basis, cash flow from financing activities was significantly less than in the previous year.

We conducted three capital market transactions during the year under review to repay a portion of maturing bonds and loans that came due for payment in 2006. We responded to the heavy demand for the USD 800 million, 5.125 % five-year bond we issued in December 2005 by increasing the size of the issue by an additional USD 400 million. Furthermore, we also increased the volume of the 4.75 % bond we originally issued in 2003 by an additional € 300 million. We also floated a ten-year 4.00 % bond with a volume of € 500 million.

After taking securities and promissory notes into consideration, as of December 31, 2006 the DB Group had slightly less cash and cash equivalents available than it did as of December 31, 2005.

Net debt

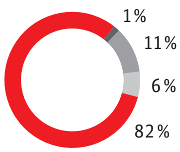
Net financial debt € million	**2006**	**2005**	**Change** **absolute**	**%**
Long-term financial debt	17,165	18,310	– 1,145	– 6.3
thereof interest-free loans	(3,292)	(3,296)	– 4	– 0.1
Short-term financial debt	2,716	1,664	+ 1,052	+ 63.2
thereof interest-free loans	(308)	(344)	– 36	– 10.5
Financial debt	**19,881**	**19,974**	**– 93**	**– 0.5**
– Cash and cash equivalents	295	305	– 10	– 3.3
Net financial debt	**19,586**	**19,669**	**– 83**	**– 0.4**

Financial debt is understood to include all interest-bearing liabilities including interest-free federal loans to finance infrastructure projects. During the year under review financial debt excluding interest-free loans declined slightly by € 53 million to € 16,281 million. In accordance with IFRS standards, the present value assigned to interest-free loans declined by € 40 million to € 3,600 million. This means that financial debt, including interest-free loans, was slightly less than in the previous year. The increase in the volume of outstanding bonds by € 1.1 billion and in the volume of commercial paper by € 0.4 billion was more than offset by the repayment of a EUROFIMA loan (€ – 0.3 billion), the reduction of amounts owed to banks (€ –1.1 billion) and a decline in remaining liabilities (€ – 0.2 billion). Despite the concurrent slight decline in cash and cash equivalents, net financial debt also declined. This meant that we were able to finance the acquisition of BAX without incurring a further increase in our indebtedness. After exclusion of the acquisitions of BAX and Star Trans, net financial debt would have declined noticeably by € 1,033 million to € 18,636.

The structure of maturities within our financial debt shifted as the total value of bonds maturing in the 2007 financial year will be about € 1 billion over the year under review.

Capital expenditures

Gross capital expenditures structure



- Passenger Transport
- Transport and Logistics
- Infrastructure and Services
- Other

Gross capital expenditures by business unit € million	2006	2005	Change absolute	Change %
Long-Distance Transport	262	259[1]	+ 3	+ 1.2
Regional Transport	380	362	+ 18	+ 5.0
Urban Transport	98	97[1]	+ 1	+ 1.0
Schenker	227	172[2]	+ 55	+ 32.0
Railion	153	244	- 91	- 37.3
Stinnes	4	8[2]	- 4	- 50.0
Track Infrastructure	4,419	4,038	+ 381	+ 9.4
Passenger Stations	643	739	- 96	- 13.0
Services	242	226	+ 16	+ 7.1
Energy	103	126	- 23	- 18.3
Other/consolidation	53	108	- 55	- 50.9
DB Group	**6,584**	**6,379**	**+ 205**	**+ 3.2**
- Non-repayable investment grants from third parties	3,748	4,019	- 271	- 6.7
Net capital expenditures	**2,836**	**2,360**	**+ 476**	**+ 20.2**

1) As of this business year Bayern Express & P. Kühn Berlin GmbH results are included in Urban Transport business unit; previous year's figures have been adjusted accordingly.
2) As of this business year the Hangartner Group results are included in Schenker business unit; previous year's figures have been adjusted accordingly.

During the year under review we continued on track with our modernization programs as our gross capital expenditures remained at a high level. Total capital expenditures were slightly over the previous year's figure. Major emphasis was placed on measures to improve performance and efficiency in the infrastructure area, station modernization measures, as well as the further rejuvenation of our vehicle fleets in rail and bus transport. In addition, we also invested in the further development of the logistics networks within the Schenker business unit.

Main capital expenditures made in the Long-Distance Transport business unit were for the expansion of the ICE fleet, the redesign of the ICE 1 and implementation of the European Train Control System (ETCS)[i] for ICE 1 trains for operation in Switzerland. Major priorities within the Regional Transport business unit were the procurement of electric multiple units of the 423 and 425 series for S-Bahn (metro) transport and the purchase of double-deck cars. The Urban Transport business unit focused primarily on acquiring new buses and buying dual-system vehicles for the Hamburg S-Bahn (metro).

[i] More details regarding ETCS on pages 92 ff.

The majority of capital expenditures made by the Schenker business unit were within Europe with emphasis placed on new construction and expansion of shipping facilities. These capital expenditures created the prerequisites needed for the efficient handling of the shipping volumes and business growth in the land transport and logistics categories. Additional focal points were on IT capital expenditures and the expansion of our activities in Asia, where our capital expenditures included a logistics project in

Korea. Capital expenditures made within the Railion business unit were once again focused on electric locomotives purchased within the framework of a multi-year modernization program and the market-oriented modernization of the freight car fleet.

Key capital expenditures made within the Track Infrastructure business unit were measures to strengthen the performance of the existing network, as well as for command and control technology. In addition, capital expenditures were also made in major projects like Nuremberg–Ingolstadt–Munich, Karlsruhe–Basle, Rostock–Berlin, City-Tunnel Leipzig and the German Unification Transport Projects (Verkehrsprojekte Deutsche Einheit; VDE), as well as the further expansion of the GSM-R network[i]. Capital expenditures made by the Passenger Stations business unit were dominated by the final construction measures for the Berlin hub project, including the Berlin Central Station, as well as the City-Tunnel Leipzig and further modernization work across the country (including the "Modernization Offensive North Rhine-Westphalia" and "Lower Saxony Is On The Move" projects).

[i] More details regarding GSM-R on pages 93 ff.

Within the Services business unit, DB Fuhrpark (fleet management) invested in replacing vehicles while DB Systems invested in replacing and expanding hard- and software. DB Fahrzeuginstandhaltung (vehicle maintenance) invested in upgrading maintenance facilities and components needed for the new generation of passenger transport vehicles.

The focus of capital expenditures made in the Energy business unit was on the nationwide renewal of sub-stations and switching locations, as well as in the area of the 110-kV traction current network, especially in southern Germany. Additional capital expenditures were made in facilities to support passenger stations and electronic interlockings. Work was also started on an additional modern converter facility that will provide power directly into overhead lines.

The structure of capital expenditures was again dominated by the business units within the Group division Infrastructure and Services, and within the business units, once again, by the Track Infrastructure business unit. The division accounted for 82 % of gross capital expenditures made in 2006 (2005: 80 %) with the Track Infrastructure business unit alone responsible for 67 % (2005: 63 %). Business units in the Passenger Transport Group division represented 11 % (2005: 11 %) and the business units within the Transport and Logistics Group division had a 6 % share (2005: 7 %).

Balance Sheet

Balance sheet structure %	2006	2005
Asset side structure		
Non-current assets	89.5	91.1
Current assets	10.5	8.9
Total assets	**100.0**	**100.0**
Equity and liabilities structure		
Equity	19.0	16.3
Non-current liabilities	54.3	59.4
Current liabilities	26.7	24.3
Total assets	**100.0**	**100.0**

As of December 31, 2006 total assets rose by € 1,339 million, or 2.8 %, to € 48,440 million (as of December 31, 2005: € 47,101 million).

Non-current assets amounted to € 43,360 million, rising by a marginal 1.1% over the year-ago figure (as of December 31, 2005: € 42,907 million). The main reasons for this were the increase in intangible assets by € 739 million to € 1,619 million (as of December 31, 2005: € 880 million), which resulted from the acquisition of BAX, and secondly, a € 244 million rise in deferred tax assets to € 1,800 million. This is against a backdrop of continued positive earnings expectations within the currently foreseeable planning horizon. As we continued our modernization efforts the value of our total assets fell slightly below the previous year's level due to depreciation. The proportion of total assets represented by non-current assets declined slightly because they expanded at a slower pace of growth than total assets.

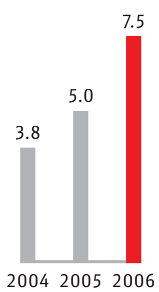
The change in current assets was heavily influenced by the increase in trade receivables (+21.6 %) arising from the expansion of business activities in the Schenker business unit and the acquisition of BAX. At the same time we continued our resolute working capital management across the DB Group. Total current assets increased by 21.1% to € 5,080 million (as of December 31, 2005: € 4,194 million). Cash and cash equivalents as of the date of record totaled € 295 million, or slightly below the previous year's figure (as of December 31, 2005: € 305 million). Structurally, there was a slight shift towards current assets.

The major changes to liabilities and equity during the year under review were related to equity and financial debt. Equity increased due to earnings by 20.1% to € 9,214 million, with a corresponding change in the equity ratio. Non-current liabilities again dominated the outside capital structure – including the Federal Government's interest-free loans for infrastructure financing – despite a slight decline in their share of total assets. The percentage of current liabilities rose slightly as of December 31, 2006, although, in line with our emphasis on mainly congruent maturity financing, it was significantly lower than for non-current liabilities.

▮ Continual progress: ROCE rose to 7.5 % ▮ Redemption coverage and gearing further improved

ROCE concept as a value-oriented control instrument conforming to capital market requirements

ROCE
%



ROCE € million or %	**2006**	**2005**	**Change** **absolute**	**%**
EBIT	2,477	1,352	+1,125	+83.2
– Special items of the individual financial year	334	2	+332	–
EBIT before special items	**2,143**	**1,350**	**+793**	**+58.7**
÷ Capital employed	28,693	27,013	+1,680	+6.2
= ROCE	**7.5 %**	**5.0 %**	**–**	**–**

Within the framework of our value management approach, we evaluate the prospects for business units and capital expenditure programs with respect for their strategic potentials, as well as their contributions to the long-term increase in our enterprise value. Our Return on Capital Employed (ROCE) is the primary tool used in this connection for value-oriented steering of resources.

We use target returns to manage the DB Group as well as individual business units, taking the nature and risk of each operating business into consideration. We measure the performance of our business activities against these target returns. Furthermore, we also use these targets as a basis for our planning and capital expenditures programs. As a minimum, the target returns are set at the level of the weighted average cost of capital (WACC).

The cost of capital is derived based on capital market requirements taking the mid-term nature of the control concept into consideration. We estimate the pre-tax cost of capital to be 8.8 % based on a mid-term target capital structure. The DB Group's mid-term ROCE target was set at 10 %.

To enable better comparability of accounting periods we use EBIT that has been adjusted for special items to calculate the ROCE, one of our key value management figures. During the year under review the adjusted EBIT figure was significantly lower than effective EBIT. Adjustments made for special items during the year under review were primarily book profits from the sale of financial assets as well as the effect of the Federal Administrative Court's (Bundesverwaltungsgericht; BVerwG) decision regarding payment to the Federal Border Police (Bundesgrenzschutz)[i] for providing rail police services between 2002 and 2005.

[i] More details on page 100

We were once again able to increase the ROCE during the year under review. This favorable development is attributable to the significant improvement of EBIT before special items and more than compensated for the renewed increase in capital employed.

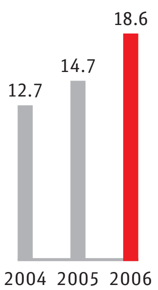
Capital employed represents the interest-bearing operational capital employed by the DB Group. Capital employed rose during the year under review due mainly to the increase in intangible assets and net working capital.

Derivation of capital employed from the balance sheet € million	**2006**	**2005**	**Change** absolute	%
Based on assets				
Property, plant and equipment/ intangible assets	41,081	40,430	+ 651	+ 1.6
+ Inventories	710	716	- 6	- 0.8
+ Receivables/other assets	4,196	3,462	+ 734	+ 21.2
- Other liabilities	7,499	7,560	- 61	- 0.8
- Other provisions	6,388	6,387	+ 1	+ 0.0
- Deferred income	3,407	3,648	- 241	- 6.6
= Capital employed	**28,693**	**27,013**	**+ 1,680**	**+ 6.2**
Based on equity and liabilities				
Equity	9,214	7,675	+ 1,539	+ 20.1
+ Financial debt	19,881	19,974	- 93	- 0.5
+ Retirement benefit obligations	1,514	1,414	+ 100	+ 7.1
+ Liabilities from derivatives	465	397	+ 68	+ 17.1
+ Deferred tax liabilities	72	46	+ 26	+ 56.5
- Assets from derivatives	30	112	- 82	- 73.2
- Deferred tax assets	1,800	1,556	+ 244	+ 15.7
- Financial assets	328	520	- 192	- 36.9
- Cash and cash equivalents	295	305	- 10	- 3.3
= Capital employed	**28,693**	**27,013**	**+ 1,680**	**+ 6.2**

Further improvements in redemption coverage and gearing

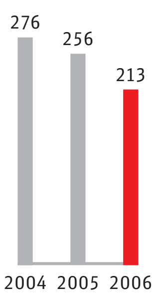
Redemption coverage

%



Gearing

%



Redemption coverage/gearing € million or %	**2006**	**2005**	**Change** absolute	**Change** %
EBIT before special items	2,143	1,350	+ 793	+ 58.7
+ Net operating interest[1]	- 907	- 866	- 41	+ 4.7
+ Depreciation[2]	2,935	2,765	+ 170	+ 6.1
= Operating cash flow	**4,171**	**3,249**	**+ 922**	**+ 28.4**
Net financial debt	19,586	19,669	- 83	- 0.4
+ Present value of operating leases	2,826	2,483	+ 343	+ 13.8
÷ Adjusted net financial debt	**22,412**	**22,152**	**+ 260**	**+ 1.2**
= Redemption coverage	**18.6 %**	**14.7 %**	**-**	**-**
Financial debt	19,881	19,974	- 93	- 0.5
- Cash and cash equivalents	295	305	- 10	- 3.3
= Net financial debt	**19,586**	**19,669**	**- 83**	**- 0.4**
÷ Carrying amount equity	9,214	7,675	+ 1,539	+ 20.1
= Gearing	**213 %**	**256 %**	**-**	**-**

[1] To properly determine redemption coverage we utilize net operating interest by eliminating those components of net interest income/expense related to the compounding of non-current liabilities and provisions and the reversal of deferred income.

[2] Adjusted for unusual items

The key figures for controlling the level of debt are gearing (the ratio of net financial debt to equity) as well as redemption coverage (ratio of operating cash flow to adjusted net financial debt – including present value of liabilities from operating leases). We strive for a level of debt commensurate with our outstanding current credit rating. The mid-term goal for redemption coverage is 30 %. For gearing our target is an equity to net debt ratio of 1:1.

During the year under review we increased our redemption coverage compared to the previous year. As was the case with the development of ROCE, this rise was primarily driven by profits, which was reflected in the improvement in operating cash flow. Gearing improved compared to the previous year through the increase in equity combined with a slight decrease in net financial debt.

Strategy

▮ DB is operating the transport networks of the future ▮ Maintaining and expanding leading market positions in all relevant markets ▮ Systematic further development of rail business and logistics competence

With the 1994 German Rail Reform Act we accepted the task of converting the former Federal Railways into a commercial enterprise. During the first years after the start of the German Rail Reform particular emphasis was placed on the modernization of the rail business and the elimination of the investment backlog that had accumulated over decades. We have achieved a lasting improvement in our service offers, quality and our profitability due to our resolute cost management and the continual optimization of our processes combined with numerous modernization measures.

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 as improving the intermodal competitive ability of the rail mode of transport. Our Group's vertically integrated structure is a fundamental prerequisite for accepting comprehensive responsibility for the further development of the overall rail system.

In addition to furthering the development of the rail system in Germany, we have also added to and expanded our portfolio in the European rail market as well as in the worldwide forwarding and logistics business. We further aligned DB Group's activities with changing and more demanding customer requirements by developing targeted enhancements to our core business. The acquisitions of Schenker (2002) and BAX (2006), in particular, unlocked additional potential for us to expand in European land transport, in the international air and sea freight business and in the field of contract logistics. Today, we have already achieved leading market positions in all of the relevant transport segments.

DB Group operates the transport networks of the future

Our track record shows that the DB Group has the unique ability to operate and further develop complex traffic and transport networks sustainably and profitably. We will apply this ability in the future to further assert our presence in a market and competitive environment that is extremely dynamic. Major opportunities are arising from the ongoing globalization process and the related strong expansion in global trade, as well as the liberalization of the European rail transport market. The increasingly tighter availability of fossil fuels, the rising burdens facing traffic infrastructures and the global climate change will reinforce the competitiveness of rail systems as an especially resource- and environment-friendly mode of transport. The challenge that we will particularly profit from is our ability to intelligently link the economic and ecological benefits of various modes of transport.

The eastward expansion of the European Union has also opened new opportunities. The changed conditions in the forwarding market have placed additional pricing pressures on forwarders. At the same time, the importance of Germany, our home market, as a transit country has risen. This poses major challenges to all modes of transport. In this context, the rail mode of transport is absolutely indispensable if the growing flows of traffic are to be mastered in an economically and environmentally sound manner.

The upcoming deregulatory actions planned across Europe provide us, as the leading operator of complex rail systems, with major opportunities. The EU member countries are obliged to ensure that the complete liberalization of rail freight transport takes place in 2007. The market opening for cross-border routes in the passenger rail transport sector will begin in 2010. This means that in the future we will have the same opportunities in the European rail market that international transport companies have already actively enjoyed for years in Germany due to the open access to the German market.

Based on our extensive experience as an operator of complex traffic networks and our many years of partnership with the public sector, we are already in demand today as a partner for the development and operation of traffic networks, especially those located in the emerging markets of Eastern Europe. We will also expand our efforts in this field in the future.

Another core competence of the DB Group is our ability to offer high-quality and reliable end-to-end transport services involving all modes of transport as well as complementary mobility and logistics services. This is of major importance in light of current and future customer demands.

The globalization of industrial structures with far-reaching relocations of production sites encourages expectations for disproportionate growth – in comparison to GDP development – of the transport and logistics sector. However, only those companies that are able to offer their customers comprehensive global logistics services will be able to participate in this development over the mid-term. In the passenger transport business there is a growing need to intelligently network various modes of transport, thus allowing for integrated solutions. DB Group has the unique know-how needed to develop and implement intramodal transport offers.

Against this backdrop we are pursuing the goal of further developing the DB Group into a leading provider of transport networks. To achieve this, we will further optimize our core business, offer integrated solutions to combine systemic strengths of various modes of transport and improve the interfaces to the upstream and downstream elements of the value chain. We will further expand our transport networks to relieve bottlenecks and where additional business potential is present.

Integrated mobility in Germany and positioning in Europe

Further growth is anticipated in the rail passenger transport sector within Europe. The liberalization of the markets in local and long-distance passenger transport has begun, but has progressed at varying speeds across Europe. In long-distance rail passenger transport Germany, with its open market access, has assumed a clear leadership position within Europe. In contrast, the number of tender offers for local transport routes has also been rising in other countries.

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 Transport, Regional Transport and Urban Transport business units, as well as networking them more closely together and creating intermodal mobility offers including back-up systems for information, ticketing and settlement.

The further development of the BahnCard into a mobility card, consistent fares through to the level of the various public transport associations, as well as the operations of DB Carsharing and "Call a Bike" have enhanced the appeal of our offers, which are increasingly extending beyond rail and bus transport. In addition, we will continue to expand cross-border transport and, if the occasion arises, take advantage of opportunities to enter foreign markets to further internationalize our activities on a measured basis. Accordingly, we are also emphasizing the further development of www.bahn. de to make it a comprehensive mobility booking platform for viewing Europe-wide train connections as well as almost all public local transport connections in Germany.

Our goal for the Long-Distance Transport business unit is to ensure a highly competitive offering of fast, high-frequency connections between German metropolitan areas and other European countries. In this context, we rely on the classical advantages of rail systems: rapid and relaxed travel, comfortable transport from city center to city center, including a lot of time for personal use. Our offers feature open access to systems thereby allowing customers to flexibly organize their travel arrangements. We have given priority to further improving the quality of our information and performance. Furthermore, we are continually developing our service and price concepts, along with our methods to increase customer loyalty, in target group-oriented ways. In the cross-border transport sector we will continue to intensify our cooperation with rail companies in neighboring countries.

The goal for the Regional Transport and Urban Transport business units is to continue providing attractively priced offers to ensure unencumbered mobility in both urban areas and the countryside. To a high degree we, in particular, are able to ensure the optimal integration of the various transport systems. This requires further improvements in productivity, quality and service. Currently, the German urban transport market is still highly fragmented and characterized by municipal providers. The gradual opening of this market leads to expectations that it will see a successive consolidation process in the coming years. Our opportunities for collaboration within Germany are limited by the current interpretation of cartel law. So we are looking at the prospects for growth opportunities in neighboring European urban transport markets, and for winning tenders in Germany.

Guaranteeing reliable, attractive and affordable infrastructure and services

The rail infrastructure determines the long-term competitive ability of the integrated rail system to a considerable extent. The central task here consists of providing high-quality, safe and reliable rail operations that are designed to meet the requirements of rail companies, thereby enhancing the competitiveness of rail as a mode of transport. Our range of services, and the corresponding pricing systems to use the infrastructure, have been designed on a non-discriminatory basis.

We strive to maintain a long-term sustainable and modern infrastructure partnership with the Federal Government based on a service and financing agreement in order to ensure the high quality of our infrastructure and the targeted further development of the rail network within Germany over the long term. This agreement should accommodate our business interests together with the Federal Government's constitutional obligation to ensure the rail infrastructure.

The Track Infrastructure business unit is facing the challenge of increasing performance capabilities to accommodate rapidly growing traffic flows along the main corridors. Another aspect is the cost-optimized and needs-oriented modernization of the infrastructure. The implementation will take place as part of our "Net 21" strategy, which is the strategic foundation for high-quality, reliable and safe rail-based transport. Selected expansion projects and new construction are intended to eliminate bottlenecks and achieve significant improvements in performance. Sufficient capacities should be created to accommodate future transport developments. For this reason we are segregating trains based on speed to achieve added capacity by increasing utilization, among other measures.

In the Passenger Stations business unit we are continuing our usage- and needs-based modernization measures 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. Our newly founded subsidiary, DB BahnPark, is responsible for improving the parking situation at our major stations. We see potential in increasing car park rental income at high-traffic locations. We will continue to sell off weakly used concourse buildings. Concurrently, we will continue making changes as needed to affected traffic stations' infrastructures.

Our Energy business unit secures rail transport companies' offers by providing them very safe supplies of electrical and diesel traction energy. Our procurement advantages, which are secured by long-term agreements and successful energy services, make major contributions towards maintaining energy prices at stable levels for the rail mode, despite rising commodity prices.

The Services business unit makes a considerable contribution to the value chain for the overall rail system because of its high-quality activities in the areas of vehicle maintenance, telecommunications services, facility management and fleet management. Once again, the main focus continues to be the further optimization of the business unit's offers.

High-performance global networks and logistics competence

The international transport and logistics markets are growth markets with increasing consolidation tendencies. We will have to strengthen our position in key markets and add new logistics services to our current services portfolio if we are to remain competitive and profitable over the long term. To achieve this goal we will systematically further develop our logistics competence and drive the expansion, as well as the linkage, of our transport networks in the coming years. Our primary goal is the further development of integrated products. In the future we will also further optimize intramodal interfaces, for example by expanding the seaport hinterland traffic in order to improve the links between maritime terminals and the European rail network. Today, we have already achieved leading market positions in all the relevant transport segments.

Our primary concern in the European land transport sector is the continuous improvement of our networks' performance and the development of innovative products, like complete loading offers. Furthermore, we are improving our offers in the area of rail logistics by tighter interactions with rail freight transport. The goal here is to further reinforce our current market leadership position in European land transport and increase the density of our network in the coming years, especially in Southern and Eastern Europe.

The successful integration of the business activities of BAX and StarTrans enabled us to further expand our network in America and Asia, thereby positioning us as one of the leading providers in the air and sea freight segments along the vital Asian and trans-Pacific trade lanes. The further expansion of our air and sea freight network astride important global shipping routes will also remain a priority in the future to ensure that we will continue participating successfully in the growth of this market.

We are developing innovative intramodal transport products for key industries in the field of contract logistics services, with which we have already won new globally active customers. The Schenker business unit's extensive know-how about the automotive, high-tech electronics, industrial and consumer retail/wholesale industries lets their customers focus even more strongly on their core business competencies than previously possible. In the future we will strengthen our integrated supply chain solutions and value-added service offers by expanding our capacities on a selective basis.

In tandem with the ongoing liberalization of the European rail freight transport markets, we are seeing a significant increase in international competition in this market in addition to the existing domestic competitive pressures. The Railion business unit is already well prepared to face the challenges arising from a further opening of the European market and, among other offers, provides customers end-to-end transport along the North-South corridor between Scandinavia and Italy. Promising projects like our collaboration with Green Cargo, a Swedish rail freight company, were also initiated. This also applies to the expansion of Railion Italia. Furthermore, we will also work to further optimize intramodal interfaces, for example by expanding seaport hinterland traffic in order to improve connections between the maritime terminals and the European rail network. European rail freight transport, in particular, will profit from these efforts as it is integrated into high-performing international networks.

We launched "RailPlus", our comprehensive restructuring program, in 2005. The purpose of this program is to meet the challenges posed by increasing competition in the rail freight transport market and to respond successfully to growing customer demands. Along with the creation of a new business model and the further development of production and sales concepts, a major priority here was providing better support to key customer groups. Our long-term goal in the Railion business unit is to maintain our leading position in the rail-based transport market in the European bulk goods markets.

Combined rail/road transport in Europe is the fastest growing segment in rail freight transport. We are the leading Europe-wide provider of rail services in the combined rail/road transport segment. We will strengthen this position by further developing our activities on a systematic basis. One of the ways we will achieve this is by focusing more intensively on high-volume European transport corridors. Additionally, the growth of seaport hinterland traffic offers big opportunities. In order to realize these opportunities, and defend our current market leadership role in Europe, we will improve our presence in the seaports and further extend the added-value chain beyond solely providing transport in the hinterlands of seaports.

Employees

▮ Number of employees increased slightly ▮ Efficiency gains in rail business and growth in the Schenker business unit ▮ Forward-looking collective labor agreements secure jobs in DB Group

Employees by business units FTE as of Dec 31	**2006**	**2005**	**Change** **%**	**Proportion** **%**
Long-Distance Transport	14,641	14,516[1]	+ 0.9	6
Regional Transport	25,700	26,842	- 4.3	11
Urban Transport	12,238	12,472[1]	- 1.9	5
Schenker	54,905	38,585[2]	+ 42.3	24
Railion	22,635	23,522	- 3.8	10
Stinnes	1,622	1,591[2]	+ 1.9	1
Track Infrastructure	41,356	42,950	- 3.7	18
Passenger Stations	4,557	4,791	- 4.9	2
Services	26,689	26,868	- 0.7	12
Energy	1,628	1,671	- 2.6	1
Other	23,229	22,581	+ 2.9	10
DB Group	**229,200**	**216,389**	**+ 5.9**	**100**

[1] As of this business year Bayern Express & P. Kühn Berlin GmbH results are included in Urban Transport business unit; previous year's figures have been adjusted accordingly.
[2] As of this business year the Hangartner Group results are included in Schenker business unit; previous year's figures have been adjusted accordingly.

The number of employees is calculated on the basis of full-time employees (FTE) to permit better comparability within the DB Group and over time. Figures for part-time employees are converted into figures for equivalent full-time employees in accordance with their share of the normal annual working time. As of December 31, 2006, the number of employees had risen in comparison to the same year-ago date. On a comparable basis, the number of employees is slightly below the level noted on the same year-ago date. Further efficiency gains were made in the rail business. The number of employees in the Schenker business unit increased further due to first-time consolidations (particularly BAX) and strong internal growth.

This is also reflected in the distribution of employees among the business units. In total, 35 % of DB employees work in the business units within the Transport and Logistics Group division (2005: 29 %), 23 % in the business units within the Passenger Transport Group division (2005: 25 %) and 32 % in the business units within the Infrastructure and Services Group division (2005: 35 %).

The share of DB employees outside of Germany increased further and currently stands at 20 %.

The challenge of managing diversity

In view of Germany's changing demographics, the increasing internationalization of the DB Group with activities in over 130 countries and the global origins of our DB employees, who come from about 50 nations, the management of diversity is a focal point of our human resources policy and the prerequisite for sustained business success.

For the DB Group, this means flexibly adapting to employees' differing living, working and learning styles in order to promote motivation and identification with our company. We actively support the integration process of employees and trainees from different backgrounds in collaborative working and project teams. One example of this is "DB Trainees Against Hate and Violence" ("Bahn-Azubis gegen Hass und Gewalt"), a successful program that has been active for several years. DB Group trainees and trainees from associated companies jointly develop projects focusing on issues of ethnic diversity and respect for others.

A further goal of our activities is to heighten awareness of employees' needs in order to identify suitable deployment and development options for each phase of life. Examples in this area are programs to help reconcile family and career (family service, telecommuting and flexible part-time models) and to integrate disabled employees, the DB Group-wide job market and the many programs for ensuring continuing recruitment of trainees, and qualification programs for life-long learning. As part of the "Employability and Demographic Change" project that started during the year under review, existing DB Group activities will be expanded to include best-practice approaches from the individual business units for recruiting young employees and promoting the employability of older employees.

In this respect, the social institutions such as the foundation, Stiftung Bahn-Sozialwerk (BSW), the health insurer BAHN-BKK, the association of German railroad sports clubs (Verband Deutscher Eisenbahnsportvereine; VDES), the insurance company DEVK and the Sparda Banks, which have joined together under the quality label "4 Stars", play a key role.

Meeting future needs

The DB Group is one of the largest vocational trainers in Germany. We meet our future need for qualified workers through vocational training and dual-track courses of study. Approximately 2,200 apprentices began their vocational training with the DB Group on September 1, 2006. In addition, 130 A-level secondary-school graduates (high-school graduates) began a course of study at the Professional Academy (Berufsakademie), where they combine practical training in the DB Group with a bachelor degree.

During the year under review, our "Chance plus" internship program provided an entry-level opportunity for 500 young people who lacked the required educational prerequisites. With Chance plus, we are fulfilling our commitment as part of the "National Pact for Training in Germany" ("Nationaler Pakt für Ausbildung in Deutschland") that was concluded between the government and industry and commerce in 2004.

As part of the nationwide project "Youth Imagines the Future" ("Jugend denkt Zukunft"), 14 innovation games were organized with partner schools. During the project week, pupils gained insights into the DB Group and prepared innovative concepts for the mobility market in a "future workshop". The DB Group also took part in "Girls' Day", a nationwide series of events to encourage girls and young women to enter technical occupations.

Successful continuing education measures

During the year under review, DB Training, the qualification and consulting provider of the DB Group, trained over 230,000 internal and external participants in more than 22,000 seminars at 70 locations across Germany.

In this regard, the 2006 FIFA World Cup™ was a case study in excellence. In the run-up to the World Cup, DB Training qualified over 30,000 persons for a variety of tasks at twelve sites in just ten weeks. 15,000 volunteers, over 6,000 service ambassadors and around 12,000 employees of private security companies were specially trained in the unique aspects of the World Cup.

Securing competitive employment conditions

As a continuation of the collective job security agreement (Beschäftigungssicherungs-Tarifvertrag; BeSiTV) signed in the previous year, the DB Group is working to protect employment in many of its subsidiaries by collectively reducing annual work time from 2,088 to 2,036 hours (39 hours per week) with proportionate adjustments in compensation. In accordance with internal agreements, the work time reduced per the collective wage agreement can be further reduced with corresponding adjustments to pay. However, in the event that working time is reduced below 2,036 hours per year, a portion of the loss in pay will be compensated. Fifty such job security agreements had been concluded by the end of the year under review.

Integrated Systems Rail

▮ Future-oriented further development of command and control technology ▮ Interoperability of vehicle fleet expanded ▮ Further cuts made in energy consumption ▮ Procurement volumes again at high level

The rail business is characterized by extensive depth of production, a high level of committed resources and capital, as well as very complex network structures. The individual technical components – from rail lines, to equipment, facilities and operating sites, through to rolling stock – are of major importance in achieving a smooth interaction of the individual elements and a steady increase in production efficiency. The introduction of technical innovations, the optimization of the efficiency of individual elements and the adjustments to customer demands, create interdependencies that have to be taken into account. For this reason, we bundled all of the relevant subjects – like technology and procurement, quality management, environmental protection and safety – into the Integrated Systems Rail Board division.

Technology: the basis for rail's competitive advantages

Thanks to the integrated wheel/rail system, featuring its track-guided wheel and train protection systems, rail transport has a significant safety advantage over other modes of transport. We are continually improving our systems and processes to further advance this high standard of safety. During the year under review we took a major step forward in our quality management efforts as we completed the process-related and organizational consolidation of existing standards established for individual businesses, as well as across the entire DB Group, into a single integrated management system (IMS). The IMS bundles together the elements of quality, environmental protection, safety, occupational health and safety, emergencies/fire prevention and hazardous goods.

Methodology know-how unlocks optimization potentials

Our effective and efficient resource management makes an important contribution towards our business success. During the year under review we developed a uniform life cycle cost (LCC) methodology within the "Value-Oriented Resource Management" project. In the vehicle components sector we developed an evaluation method to evaluate the LCC of individual modules using uniform criteria within the "Modularization of Vehicles and Interface Standardization" project.

Forward-looking modernization of our command and control technology

In conjunction with the implementation of the "Technical Specifications for Interoperability" (TSI) mandated by the EU, we will be introducing the European Train

Control System (ETCS) over the long-term on high-speed lines and European freight traffic corridors. ETCS replaces previous systems like the Continuous Train Control System (LZB) and the Intermittent Train Control System (PZB). We will equip selected routes with both systems as solutions during the required transition periods. At the core of the technical realization is a new interface between the electronic interlockings (ESTW) and the route control centers for LZB and ETCS. Regular ETCS operations already began in the previous year on the Berlin–Leipzig pilot route. As a result of the successful migration of the dual-interface ETCS/LZB system we were able to commence regularly scheduled high-speed (200 km/h) service along the dual-equipped pilot route – for the first time in the world.

The introduction of the lower-priced ESTW marked the successful continuation of our activities to broaden the market and to further modernize our interlockings. During the year under review the first ESTW B950, a newly configured model, began operation on the Mannheim–Rheinau line. Along with the successful realization of the project we also won another internationally experienced supplier in the field of command and control technology.

Additionally, during the year under review we made further progress in our successive introduction of the uniform European standards for mobile communications. Up until now the basic network that was equipped with GSM-R (Global System for Mobile Communication–Rail) covered about 24,000 km. During the year under review additional construction and installation services for about another 4,200 kilometers of new coverage were tendered in a European competition. This step also marked the expansion of our supplier portfolio for this technology.

Vehicle concepts for use in Germany and abroad

Modern, low-cost and flexibly usable rolling stock give us competitive advantages. We developed a platform concept, project “EMUnew” (“ETneu”), to further develop multiple units for local transport. A modular concept lets us respond variably to customer demands in new procurement orders. Advantages can be realized, in particular, because of the greatest possible standardization of the modules and components and because of large-volume offers. Furthermore, the platform concept allows rolling stock to be modified at favorable prices.

During the year under review we began to convert six ICE 3 trains for operations on the French rail network. The first test of a converted train was conducted in December on the new “LGV Est” high-speed line. As part of the conversion measures trains are equipped with the network operator’s prescribed control mechanisms for TVM, the French train control system. We developed a system to automatically switch train control systems at the German-French border. This new system is already certified for use on the German rail network and eliminates the previously required stops near the border.

During the year under review we awarded an order to a manufacturers' consortium to equip 26 freight locomotives of the 189 series with ETCS and ATB, the Dutch train control system, for operations on the Betuwe line between the Netherlands and Germany. This means that we will operate cross-border transport between the Rotterdam seaport and the industrial region within North Rhine-Westphalia without the need to change locomotives. Test runs for the purpose of obtaining certification to operate the 189 series locomotives in the Netherlands began during the year under review and are scheduled to be concluded in the spring of 2007.

Engineering services for intra-Group and non-Group customers
Our engineers at DB Systemtechnik are specialists in finding fast and efficient solutions to problems arising at the interface between rolling stock and the infrastructure during actual operations. During the year under review they made decisive contributions that led to the Federal Railway Authority's (Eisenbahnbundesamt; EBA) decision to reinstate unrestricted approval of diesel multiple units of the 611/612 series for tilting technology operation. During the year under review we conducted test runs on behalf of Siemens on the new Madrid–Barcelona high-speed link for the purpose of obtaining operating approval for the Spanish high-speed train, AVE S103. During test operations it was successfully proven that the new train will operate safely at speeds up to 350 km/h.

Optimized procurement leading to profitability and competitiveness
Within the framework of the "GO4IT Procurement" project we were able to reduce our procurement costs during the year under review, especially by optimizing our procurement processes and using technical and commercial leverage in interdisciplinary staffed teams. The "GO4IT Procurement" project is part of the Group-wide "Qualify" program.

Environment: orientation toward sustainability

[i] Details can also be found at www.db.de/environment

In view of the continuing growth in demand for mobility and transport services, the goal is to reduce the resultant burdens on the environment and the atmosphere generated by the transport sector as much as possible. We are committed to the principles of sustainable, responsible action within our societal environment. An economically, socially and ecologically oriented company policy pays off not only for the environment and society – it is also the key to our own business success. We are meeting this challenge with our sustainability management.

Rail offers significant ecological advantages in comparison to other modes of transport. And it has been proven that this is an important factor for our customers when they select a mobility or transport mode, in addition to technical safety, performance quality and service orientation. That is also why rail plays such an important role in public transport policy considerations with regard to building tomorrow's mobility and logistics structures in Germany and Europe. In view of the growth in traffic and transport flows anticipated in the coming years and decades, the importance of environmentally friendly rail transport in ensuring a sustainable overall transport system will increase further.

Energy consumption further reduced

Selected key figures	2006	2005	Change absolute	Change %
Specific primary energy consumption rail passenger transport in MJ/pkm	1.20	1.23	– 0.03	– 2.4
Specific primary energy consumption rail freight transport in MJ/tkm	0.44	0.45	– 0.01	– 2.2
Specific carbon-dioxide emissions passenger transport in g/pkm	73.7	74.8	– 1.1	– 1.5
Specific carbon-dioxide emissions freight transport in g/tkm	27.3	27.6	– 0.3	– 1.1
Emission of soot particles from diesel vehicles in t	281	312	– 31	– 9.9

Data for 2006 is based on information and estimates available on February 23, 2007.

One of our key business objectives is to optimize our resource consumption. Between 1990 and 2005, we further reduced our specific primary energy consumption in rail transport by 25 %. We successfully continued on this course during the year under review. Compared to the previous year, we reduced our specific energy consumption, i.e. primary energy consumption with reference to transport performance, in both rail passenger and freight transport. The reduction of energy consumption with reference to transport performance was achieved through a variety of methods. For one thing, significant savings were realized through our "Save Energy" ("EnergieSparen") program. Energy consumption indicators and recommendations for energy-saving operation shown on the displays in operator cabs enable our engineers to operate their locomotives and rail cars in an energy-saving manner. The program has also gotten off to a successful start in the rail freight segment. Additionally, many of our rail cars can convert braking energy into electricity and feed this back into the circuit.

We also take into consideration that rail is not an ideal mode of transport for every type of transport. That is why we are working on intelligently linking different modes of transport to create comprehensive transport and logistics chains. In addition to improving our rail-based offerings, in passenger transport we are organizing optimized transfer points and interfaces between transport modes for smooth mobility.

Environmental program ensures ecological advantage of rail

Our 2004 through 2008 environmental program, which consists of a total of 66 individual projects, defines our concrete, long-term environmental goals, such as climate protection and noise abatement, and defines the steps to reach these goals. We continued to successfully pursue this program during the year under review. In December, we enhanced the functionality of the online environmental comparison tool, Mobile Environmental Check (UmweltMobilCheck) at www.bahn.de. This enables our customers to generate a personal, line-specific environmental balance for their journey and directly compare the environmental effects of traveling by rail, car or air. During the year under review we also significantly expanded the functionality of our online EcoTransIT[i] tool for calculation of the environmental effects of freight transport on a Europe-wide basis.

[i] www.ecotransit.org

Climate protection program on track for success

With our Climate Protection Program 2020 ("Klimaschutzprogramm 2020"), we set ourselves the ambitious goal of reducing our specific carbon dioxide (CO_2) emissions, i.e. emission with reference to transport performance, by a further 15 % by 2020 based on 2002 levels. During the year under review, we succeeded in cutting our specific emission of CO_2 further, both in the rail passenger and freight transport. Based on preliminary data, in the first four years of the Climate Protection Program 2020, we reduced the specific CO_2 emissions by 6.7 %.

"Good for the climate, on time for kick-off" – traveling by rail to the 2006 FIFA World Cup™

Under the "Green Goal" banner, the 2006 FIFA World Cup™ in Germany was the first climate-neutral World Cup ever. As a national sponsor of the 2006 FIFA World Cup™, we especially helped to reduce transport-related CO_2 emissions. Around 57 % of all spectators took public transport to and from the stadiums. FIFA's goal of having at least half of all World Cup spectators use public transport to travel to the stadiums was thus clearly exceeded.

Greater efforts to reduce diesel particle emissions

During the year under review, we further reduced the particle emissions of diesel vehicles used in rail transport. Since 1990 we have reduced direct emissions by 84 % through further electrification, deployment of new diesel vehicles, upgrading to modern engine technology and continual reduction of fuel consumption. To further reduce environmental pollution from diesel particles, in the future we will – wherever it is technically feasible and economically sound – purchase diesel vehicles with particle filters for deployment in long-distance and freight transport. Retrofitting of the existing vehicle park is currently also being intensively studied with respect to air-quality, technical and economic aspects. For example, the LOCEX pilot project was initiated in September to test innovative exhaust treatments for rail diesel engines. In this project, conducted jointly with an engine manufacturer, a shunting locomotive of the 294 series, a type used widely across Germany, will be equipped with a combination consisting of an SCR (selective catalytic reduction) catalytic converter and a particle filter. The objective is to reduce both nitrogen-oxide and particle emissions and to gain operating experience in this area. We are also committed on an international basis to a responsible reduction of diesel pollutant emissions. We have assumed the management and coordination tasks for the "Diesel Action Plan" on behalf of the International Union of Railways (Union internationale des chemins de fer; UIC), the international association of railroads, which will test and evaluate all possibilities for reducing pollutants on a Europe-wide basis.

Further advances in noise abatement

We have set ourselves the goal of cutting rail transport noise pollution to half of their 2000 levels by 2020. On existing lines, we have implemented noise abatement measures as part of the Federal Government's voluntary program to eliminate noise. Under this program, 25.9 kilometers of noise protection walls were erected and noise abatement measures were conducted at 4,700 apartments during the year under review. In the interim a total of 412.3 kilometers have been already upgraded.

As part of the Federal Government's budget negotiations, funding for noise abatement programs was raised to € 76 million during the year under review and will be boosted to € 100 million annually from 2007 on.

In freight transport, the focus remained on the broader deployment of brake components made of composite materials (K-inserts), which reduce the perceived noise of passing freight trains by half. Over 3,100 freight cars had been equipped with these by the end of the year under review. To accelerate our noise abatement progress, we are joining with the German railroad industry association (Verband der Bahnindustrie; VDB), in advocating that the Federal Government create a subsidy program for noise-reducing measures on existing vehicles, like fitting them with K-inserts.

Procurement

Total procurement volume during the year under review amounted to € 21.2 billion. Next to the € 9.7 billion spent on transport and forwarding services, the naturally largest category of costs as we are in the logistics business, the main focus was once again on the category of industrial products, with a procurement volume € 4.3 billion, and construction and engineering services, with a procurement volume of € 3.1 billion. Our usage of third-party services declined slightly as procurement volume noted for this category amounted to € 2.1 billion. In contrast, higher energy prices led to an increase in expenses in the area of cable-and-pipe-bound power and fuel. The procurement volume here totaled € 2.0 billion. More than two-thirds of the procurement volume (excluding transport and forwarding services) was allocated to small and mid-sized companies. This once again made us one of the biggest investors in Germany during the year under review as we made a significant contribution towards securing jobs.

Our role as the mobility and logistics provider for the 2006 FIFA World Cup™ generated additional procurement measures. By the time the World Cup began we had equipped about 70 stations with modern customer information LCD technology displays (Liquid Crystal Display), which gave users multi-lingual access to information and individual informational messages for a more flexible presentation of customer information. Important World Cup hubs like Frankfurt/Main Sportfeld and Nuremberg Franken Stadium were equipped with new railway overpasses, platforms, retaining walls and rail embankments, while superstructures and track plans were adjusted as needed.

In line with the focal points of our capital expenditure programs, major orders were placed, in particular, in the infrastructure sector as well as for the further modernization of our rolling stock. Among the largest orders placed during the year under review were:

- The Finne Tunnel (total length 6,886 meters) on the new Erfurt–Leipzig/Halle line consisting of two single-track tunnel tubes. The estimated construction time is five years.
- The Saale-Elster bridge as part of the partial segment Erfurt–Halle/Leipzig of the German Unification Transport Project 8.2 (Verkehrsprojekte Deutsche Einheit; VDE) with a length of 6,465 meters. The estimated construction time is six years.
- In addition, we ordered over € 700 million worth of vehicles and vehicle components. Items ordered included electric rail cars of the 422, 423, 425, 427 series and locomotives of the 146 series for regional transport, as well as various freight cars (including flat bogies, car transporters and bulk goods cars).

▮ Price systems for train-paths and facilities further developed ▮ Amendment to the German Regional Restructuring Act in 2007 ▮ Federal Network Agency starts supervisory activities ▮ Privatization act to privatize DB AG capital being prepared

Train-path and Facility Price Systems further developed

The DB Netz AG introduced the 2007 price systems for train-paths and facilities. The main modification to the unchanged modular price system is the elimination of special factors and surcharges. At the same time an incentive system was established to reduce the number of defects and raise the effectiveness of the network. Similar measures are intended to improve the quality of the train-paths: DB Netz AG customers are entitled to reduced pricing in the event that the contracted level of infrastructure quality is not met, thereby affecting the progress of a train. DB Netz AG defines a scale of entitled reductions and includes an explanation of terms in their conditions for rail network usage. The elimination of many surcharges eases pricing calculations and benefits corresponding routes like special trains. The utilization factor, however, remains, albeit in a modified form: it is intended as an incentive to avoid heavily demanded stretches, thereby optimizing the utilization and the effectiveness of the network.

Amendment to the German Regional Restructuring Act planned for 2007

The German Regional Restructuring Act (Regionalisierungsgesetz) regulates the amounts and allocation of resources for regional funding measures. The federal states primarily tap these resources for ordering and financing local rail passenger transport services. However, the 2006 Accompanying Budget Act (Haushaltsbegleitgesetz) reduced the total originally planned resources for 2006 and 2007 from € 7.2 billion to € 7.1 billion and from € 7.3 billion to € 6.7 billion, respectively.

Negotiations between the Federal Government and the states took place during the year under review and are at a very advanced stage. At the time when this report was being prepared it appeared that an amended version of the Regional Restructuring Act would be submitted in 2007. The amended version would call for annual increases of 1.5 % starting in 2009 based on the initial 2008 figure of € 6.7 billion.

Federal Network Agency starts supervisory activities

Pursuant to amendments made to the third amended version of the General Railways Act (Allgemeines Eisenbahngesetz), as of January 1, 2006 responsibility for regulating access to the rail infrastructure was transferred from the Federal Railways Agency (Eisenbahn-Bundesamt) to the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railroads (Bundesnetzagentur für Elektrizität, Gas, Telekommunikation, Post und Eisenbahnen). Modifications were also made to instruments and authority as part of the shift. As a result of this change we implemented new procedures in the year under review together with the Federal Network Agency.

The Federal Network Agency will submit a report detailing their activities as well as the situation and developments within their area of responsibility to the Federal Government for every timetable period. The Federal Network Agency's first activity report for the timetable period during the year under review is scheduled to be submitted during the first quarter of 2007. In order to accomplish this task the Federal Network Agency initiated a market review of the rail transport sector in May and requested information from the various market participants. The contacted companies within the DB Group responded comprehensively to this request.

The Federal Railways Agency continues in its task of supervising the observance of guidelines to split up infrastructure and transport services.

Decision regarding charges for services rendered by Federal Border Police
In 2002 the Federal Border Police District Headquarters in Koblenz submitted a notice of payment due to DB AG for approximately € 64 million for rail police services rendered by the Federal Border Police (Bundesgrenzschutz; BGS). DB AG contested the notice and sued. DB AG's appeal to the highest court, the Federal Administrative Court (Bundesverwaltungsgericht; BVerwG), was successful. According to the Court's decision, the notice issued on the basis of Article 3 Para. 2 Federal Police Act (Bundespolizeigesetz; BPolG) was illegal and therefore the assessment of charges was illegal. As a result, the Federal Government refunded approximately € 64 million in fees for 2002 that had been charged to DB AG.

Our appeals against the notices of payments for the years 2003 and 2004 were also successful. Approximately € 64 million in previously paid fees were refunded for each of the years 2003 and 2004.

Draft law for privatization of DB AG's capital is being prepared
The passage of a resolution by the German Parliament (Bundestag) on November 24, 2006, which was originally submitted as a motion for resolution (Bundestag printed paper 16/3493) by the CDU/CSU and SPD parliamentary parties, called upon the Federal Government to prepare a draft law for the privatization of DB AG's capital. The purpose of this law, in addition to having private investors acquire interests in DB AG, is to further develop the Federal Network Agency's regulatory instruments, among other goals. It should ensure the existing non-discriminatory access to the network as well as fair competition in the rail sector.

Adjustments to real estate allocations within the DB Group
During the year under review the Federal Ministry of Transport, Building and Urban Affairs and DB AG agreed to adjust the allocation of real estate holdings of individual companies within the DB Group. As a result of the agreement, all of the properties that were still owned by DB AG were allocated to the respective operational subsidiaries. Implementation is planned to begin during the 2007 financial year.

Risk Management

▮ Integrated risk management ensures transparency ▮ Active opportunity and risk management ▮ Risk portfolio free of existence-threatening risks

Our business activities involve opportunities as well as risks. Our business policy is simultaneously directed at seizing opportunities and actively controlling identified risks through our risk management system. The necessary information for this is prepared in our integrated risk management system, which conforms to the legal requirements of the German Act on Corporate Control and Transparency (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich; KonTraG). This system is continuously further developed.

Opportunities arising from internal measures or improved market and business environment

To secure our corporate strategy of profitable growth, we have implemented comprehensive packages of measures as part of Group-wide or business unit-specific programs, which we anticipate will ensure or improve our performance quality, efficiency and cost structures. This includes, in particular, our Group-wide "Qualify" project. Here we also see opportunities for further organic growth, which are likely to be reflected in further improvements in our earnings and significant financial ratios.

Despite the high level of competition in our markets, we also recognize market-related opportunities in being able to actively shape foreseeable market consolidations from leading competitive positions. In doing so, we want to exploit the possibilities offered by the process of consolidation and globalization currently taking place in the logistics industry. Furthermore, we have positioned ourselves to be extremely well prepared for an environment of opening markets in European rail transport, so that we are able to exploit any opportunities that arise. In this context we also refer to statements made in the chapter "Strategy"[i].

[i] See pages 83 ff.

The general conditions of the relevant macroeconomic environment could develop by and large more positively than anticipated. The resulting variations would have a positive impact on the DB Group and its business units. Corresponding estimates for the 2007 financial year are provided in the chapter "Outlook"[i].

[i] See pages 110 ff.

Integrated Risk Management System

The principles of risk policy are set by Group management and implemented at DB AG and its subsidiaries. Within the framework of our early risk detection system, quarterly reports are submitted to DB AG's Management Board and Supervisory Board. Risks that arise suddenly or negative developments must be reported immediately. Planned acquisitions are subject to additional special monitoring.

Within the DB Group's risk management system all risks are shown 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, the analysis also contains approaches to and the costs of countermeasures.

In terms of organization, Group Controlling is the risk management coordination center within the DB Group. In the context of Group financing, which is strictly oriented to our operating business, the Group Treasury bears responsibility for the limitation and monitoring of the resultant credit, market price and liquidity risks. By consolidating the related transactions (money market, securities, foreign exchange or derivative transactions) at DB AG level, the associated risks are centrally controlled and limited. Group Treasury is organized to conform with the "Minimum Requirements for Risk Management" (MaRisk) formulated for financial institutions and, applying the criteria derived from these guidelines, fulfills all requirements of the KonTraG.

Active Risk Management within the DB Group

Our business actions are aligned to active risk management. In particular, the risks for the DB Group include:

Market risks

Market risks include, among other things, the development of the economy and the partially cyclical changes in demand, as well as general market trends.

A key influencer of passenger transport is the overall development of major economic factors, such as private consumption levels and the level of employment. Furthermore, we are engaged in intensive intermodal competition in an overall shrinking market. Motorized private traffic is still the dominant competitor. In terms of transport routes, an unbroken high level of competition still exists that was triggered by the so-called low-cost airlines. In recent years we have been able to positively distance ourselves from the general decline of the overall market. The introduction of extensive measures has played a major role in this: we have further expanded and improved our services. Regarding our customer offers, we were able to offer new high-speed connections and substantially reduce travel times on many routes as we started operations of new rail infrastructure. We have been able to significantly enhance our customers' perception of our prices due to numerous special offers and promotions. The further development of punctuality, which is subject to strict monitoring, continues to be a high priority.

Intensive intramodal competition exists for long-term ordered-service contracts in the regional and urban transport sector. We have observed the increasing importance of the subsidiaries of major international corporations within the structure of market participants. A risk of tender losses exists here, especially because some companies are prepared to pay market entry premiums, or base their bids on ambitious assumptions. However, we can see that ordering organizations are becoming increasingly aware of the negative consequences involved here. In addition, we are continuously optimizing our tender management and cost structures so we can submit attractive proposals at economically sensible conditions. A key influencing factor in the development of this market is the level of regionalization funds provided by the Federal Government over the medium term to states. These funds form the basis for ordering services from transport companies by the individual states. Reductions in this area can have an impact on our activities.

In rail freight transport the most critical factor is freight demand for consumer goods, coal, iron and steel, oil, chemical products and construction materials. These, on the one hand, are subject to cyclical fluctuations. On the other hand, we must consider structural changes in the production structures of our customers, who are frequently involved in global competition. In addition to the increasing intensity of intramodal competition, particularly in the block train sector, there is also considerable intermodal competitive pressure. This situation is being aggravated by the increasing market significance of low-cost truck fleets from the new EU member states. In an isolated analysis for rail freight transport we can see market risks arising from the necessity to adjust to the increasing intensity of intermodal competition. We react to this with intensive measures to further improve our efficiency and reduce costs. Furthermore, we are optimizing our range of rail-related services and integrating rail freight transport into a comprehensive range of logistics services. New challenges also result from the market opening for rail freight transport in Europe that has begun in 2007. We already anticipated the need for increased internationalization at an early stage by building the Railion platform, along with numerous international investments and cooperation deals.

The dynamic consolidation processes within the logistics industry and further increases in customer demands particularly impact our activities in the logistics area. From a position of competitive strength we view the coming consolidation processes as an opportunity to not only defend our market positions, but also to strengthen them. The continued expansion of our networks, for example through the acquisition of BAX and StarTrans, together with the opening of logistics centers, will be the focus of our activities.

Due to the special nature of the business, the Schenker business unit is subject to risks arising from the submission of clearance declarations to airlines, which could lead to serious consequences in individual cases. Over the past few years the rules for granting customs guarantees have been continuously revised and improved. In addition, Schenker attaches great importance to the strict observance of country-specific safety regulations governing the conveyance of air and see freight. Furthermore, country-related practices in the clearance of shipments must also be taken into account.

Across the entire DB Group we combat risks arising from changing customer demand or shifts in traffic flows with intensive market observation and continuous upgrading of our portfolio. In regard to market risks related to changing legal conditions at domestic or international levels, we actively submit our position into preliminary consultations and discussions.

The development of the energy markets particularly impacts on virtually all of our activities. Depending on the state of the markets, cost increases can only be passed on to customers to a limited extent. We counter this risk by employing suitable derivative financial instruments[i].

[i] Details on this subject can be found in the Notes under item (21)

Operating risks

In the rail transport sector the DB Group operates a technologically complex, networked production system. Risks arise for our rail activities due to service interruptions, in particular due to the resulting decline in punctuality. A significant reduction in punctuality in long-distance transport diminishes the perceived quality of the service and can lead to a loss of customers. In addition, we have obligated ourselves to compensate customers if they encounter delays that exceed a certain time. In the future, we could meet tougher conditions in this area due to new pan-European and supplementary national regulations. In regional transport there is a risk of fines by the respective contracting organization in the event of train cancellations or insufficient levels of on-time operation. Here again, there is a possibility in the future of compensatory payments based on legal provisions. In the rail freight transport sector reliable punctuality of shipments is an important criterion for selecting the mode of transport.

We generally counter the risk of service interruptions with systematic maintenance and the use of qualified staff, coupled with continuous quality assurance and the improvement of our processes. The nature of the rail business as an open system, however, means that we have limited influence on certain factors that have a potentially negative impact on our flow of operations. In this case, we strive to limit the possible consequences.

We maintain an intensive quality dialog with the respective suppliers and business partners as the quality of our own efforts greatly depends on the reliability of the means of production employed, services purchased and the performance quality of our 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 the frequently multiyear project terms can result in project risks that have a cross-business unit impact due to the networked production structures.

We take such risks into account by intensively monitoring our projects. This particularly applies to the major projects. In general, new projects are implemented only after a plan approval procedure has been concluded.

Infrastructure financing

A key element of the German Rail Reform is the Federal Government's constitutional obligation to finance the infrastructure. The crucial elements are not only a sufficient amount of resources, but also the predictability of future resources. Overall, we strive for a long-term, sustainable and modern infrastructure partnership with the Federal Government that accommodates both our business interests as the owner and operator of the infrastructure, which is available to third parties on a non-discriminatory basis, and the Federal Government's constitutional obligation to ensure the rail infrastructure. In addition, the implementation processes should be streamlined. To this end, we want to commit ourselves to maintaining a high quality of our existing network infrastructure.

Financial risks

We counter risks associated with interest, foreign exchange and energy prices from operational business with, among other things, original and derivative financial instruments. These instruments are explained in the Notes.

Legal and contractual risks

Legal risks may arise, for instance, in the form of claims for damages and from legal disputes. These frequently arise from construction projects and real estate transactions. Provisions are made for legal and contractual risks after estimating the respective probability of occurrence. The actual utilization of these provisions depends on whether the risks materialize to the extent as set forth in our current estimates.

Personnel risks

Our employees and their skills are of key importance for the future success of the DB Group. Our remuneration system and personnel development programs and measures are aimed at enhancing the loyalty of our employees and motivating them to turn in top performance. Unwanted staff departures in the DB Group are at a consistently low level. This, on the one hand, reflects our efforts to enhance the commitment and identification of employees with the Group. On the other hand, it shows our attractiveness as an employer. Furthermore, we are faced with increasing competition for highly qualified specialists and executives. Among other measures we are taking, we are meeting this challenge by maintaining close contacts to universities and through our recruiting measures. During the processes to integrate newly acquired companies we concentrate our efforts on raising the loyalty of employees in key positions.

IT risks

Insufficient IT management can lead to serious interruptions of operations. We employ a wide range of methods and means to minimize these risks. Ongoing system architecture monitoring and regular renewal of hardware platforms ensure that our information technology always optimally meets changing business demands and conforms to the latest state of technology.

High availability in IT operations is guaranteed by distributed and redundant systems for operations and data backup, by means of a fail-safe network coupling, together with partly outsourced tape backup and separate administrations. This safeguards critical business processes and IT processes, and prevents serious breakdowns. Our wide area network (WAN) is designed redundantly wherever required by security and business continuity.

General environmental risks

Our political, legal and social environment is subject to ongoing change. Sufficient planning safety for our future Group activities requires stable overall conditions. We strive to influence these conditions positively, and eliminate existing disadvantages through open dialog.

Risk portfolio free of existence-threatening risks

During the year under review, as in the previous year, the main emphasis of risk lay in the high project volume in the infrastructure sector, as well as the high level of competition in project- and market-related risks. Regular in-depth analyses are carried out for this purpose. Operational countermeasures included extensive business unit-specific efficiency and rationalization programs, together with our intra-Group “Qualify” program. In addition, we are continuing to systematically develop our offers in the business units.

To hedge against unavoidable risks, we also take out insurance policies to limit the possible financial consequences from damage claims and liability risks for the DB Group.

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

Events After the Balance Sheet Date

▮ Transport and Logistics Group division structure further developed ▮ Additional changes in the Group portfolio

Transport and Logistics Group division structure is further developed

At the beginning of 2007 we adjusted the structure of the Transport and Logistics Group division in accordance with market requirements. The reason behind the change is our strategic goal to stabilize and further expand our position as a worldwide leading provider of transport and logistics services.

Under the new structure production and sales will move closer together within the Rail Freight business unit. Combined rail/road transport will be positioned under the "Intermodal" brand name and will be focused on the seaport hinterland routes and the main transport corridors within continental transport. The integrated market appearance of the Schenker business unit will remain intact, especially within the companies at country level, and regions. This means that customers will have unchanged access to the full range of Schenker's services simply by contacting a single person. Under the Schenker banner we are bundling all of our land transport, air/ocean freight and contract/logistics/SCM activities.

The changes affect the reporting structure in the previous Railion and Stinnes business units. Holdings previously held within the Stinnes Freight Logistics and Stinnes Intermodal segments of the Stinnes business unit will be included for the first time under the new Rail Freight business unit in the January–June 2007 interim report.

Further changes in the Group portfolio

As of January 1, 2007 we sold our stake in DB GesundheitsService GmbH to the Institut für Arbeits- und Sozialhygiene Stiftung (IAS). The IAS previously held 49 % of the shares.

Railion Deutschland AG has acquired Brunner Railway Services GmbH (BRS), a Swiss railway company based in Dietlikon, Switzerland. BRS is active in Switzerland as a train operating company. The acquisition enables Railion to offer their customers a comprehensive spectrum of services in the Swiss transport sector. In the future BRS's main focus will be on cross-border single-car transport between Germany and Switzerland, thereby complementing the successful cooperation in block train transport between Railion and BLS Cargo AG, Bern/Switzerland.

Furthermore, we intend to divest ourselves of our holdings in Nuclear Cargo + Service GmbH (NCS) and the Frachtcontor Junge & Co. GmbH (FCJ). NCS offers logistics and storage services in the nuclear and heavy load categories. It is anticipated that NCS will be bought by Compagnie Daher S.A., France (Daher). Daher is a Marseille-based firm that specializes in the fields of road and sea transport and also provides logistics solutions. FCJ is primarily active as shipbroker and chartering agent. It is expected that FCJ will be sold to a subsidiary of M.M. Warburg & Co. that is also active in these areas. The two agreements have been signed pending approval of the DB AG Supervisory Board and approval pursuant to Article 65 Para. 3 of the Federal Budget Code (Bundeshaushaltsordnung).

Outlook

▮ Economic upswing continues at weaker pace ▮ Revenues and earnings expected to grow further ▮ Unbroken favorable development also anticipated for 2008 financial year

Economic outlook

Based on estimates available from economic research institutes at the time this report was prepared, it is anticipated that overall economic conditions in Germany will continue to be favorable in 2007, although not quite as positive as in the year under review. Forecasts for international business conditions are unchanged more favorable than for the economic development in Germany. The following estimates regarding the development in 2007 are based on the assumption that overall global political developments will remain stable in 2007.

The pace of global economic growth during the current financial year may diminish slightly, although it will still remain strong. It is anticipated that economic growth in the USA will be one percentage point lower than in the previous year. Economic growth in Japan is also expected to slow down. The pace of expansion in China will remain close to its high level and be supported by rapidly rising private consumption coupled with slightly reduced capital expenditures and exports. The pace of development in the remaining East Asian countries will ease due to weaker global economic conditions, especially because of weaker demand in the USA.

Economic expansion will remain strong within the Euro zone, however its pace will decelerate as the effects of expansive monetary policy fade and the global economic boom loses momentum. We estimate that the growth rate of real GDP will decline to about 2 %. Growth of domestic demand will slow down as the effects of monetary policy subside and financial policy has a dampening effect. Capital expenditures will lose some of their momentum. Private consumption, on the other hand, will see relatively robust developments. Disposable real income levels will rise noticeably driven by rising employment and higher wage agreements. We believe that the collective GDP growth in the new EU member states in Eastern and Central Europe will continue to be significantly higher than average growth in the EU, although the pace of growth – due primarily to an economic slowdown in the Euro zone – could slip slightly.

Current estimates call for continued improvement of economic conditions in Germany in 2007, albeit at a slower pace. Average annual growth of GDP will advance modestly by about 1.5 %. The major driver here remains capital expenditures for new plant and equipment. Expectations call for private consumption to only advance more slowly, as real income levels will decline by about one percentage point due to financial policy (increased VAT, cuts in deductions allowed for tax-exempt savings and commuting costs, and the elimination of the home owner allowance). Moreover, purchases brought forward into 2006 will be missing in 2007. Exports will rise at a slightly lower rate as the global economy cools a bit. The more slowly increasing domestic demand will have a dampening effect on the expansion of imports. Despite the increase in the VAT rate, we anticipate that the rate of inflation will only rise modestly. At the beginning of 2007 numerous companies did not pass on the additional VAT to their customers, for the time being.

Anticipated developments in the relevant markets

Overall economic conditions in Germany are expected to weaken slightly in 2007. Momentum is expected to slow down in foreign trade and domestic demand. The German labor market will continue to recover, although real income levels and private consumption will only rise marginally. We anticipate that fuel prices will continue to climb in 2007, albeit at a slower pace than in 2006.

Against this backdrop we anticipate that the transport performance of the German private transport market will stagnate as demand stemming from private motorized transport is unlikely to decline further and will be at about the previous year's level. Inner-German air travel is, however, expected to rise by approximately 2 %. Although the overall economic environment will only have a weak influence on rail transport, we do, however, believe that continued hikes in fuel prices, as well as improved offers and reduced travel times, will lead to a modest improvement in transport performance.

Positive economic effects that have benefited the German freight transport market will fade in 2007. Growth rates in foreign trade will not be as strong as in the previous year. Growth of domestic demand will also weaken. The pace of production increases within the manufacturing industry is likely to once again be significantly stronger than overall economic growth in Germany. Following the surge in gross steel production in 2006, we anticipate that growth in this industrial sector, which is particularly important for the rail transport business, will weaken in 2007. Within this overall economic scenario we anticipate that the volume of freight transport will grow at a weaker pace than it did during the year under review.

The importance of non-Group railways in Germany – both in the rail passenger and freight transport – will continue to grow. For this reason we anticipate correspondingly greater intermodal and intramodal competition on the rails.

The international transportation and logistics markets will also continue to develop favorably in the future. Asian export routes to America and Europe will once again be the primary growth markets. Eastern Europe will retain its position as a further growth driver. The ongoing relocation of industrial production to these countries, as well as growing levels of personal income, will fuel increasing flows of goods between Western and Eastern Europe.

Development of the procurement markets

We do not expect to experience any fundamental bottlenecks in procurement for the current financial year. The further development of energy prices will play a decisive role. In general, we expect to see prices for energy and commodities climb even further. Despite these developments, we do not foresee major price fluctuations over the short-term in our relevant procurement markets. However, significant supplier and service provider industries are undergoing or facing major structural changes. This applies in particular to suppliers of rolling stock, command and control technology, and the construction industry. Structural changes in certain industries could lead to less favorable procurement conditions in the medium term, which would be mainly reflected in prices. We do not yet anticipate that we will experience any significant consequences in 2007 arising from the consolidation trend observed among freight forwarders in the sea and air freight segments.

Development of important business conditions

No significant impact is expected to arise from discussions about, or pending changes in, key business conditions in the 2007 financial year. On January 1, 2007 the complete market opening in the European rail freight transport market took effect. However, considerable uncertainties still exist in neighboring countries regarding operational implementation. Compared to the rest of Europe, Germany has already demonstrably taken a leading position today in regard to liberalization with its open market access to the domestic rail infrastructure that has been in place since 1994. We therefore welcome all progress towards a comprehensive convergence based on standards that have been already achieved nationally. The pan-European liberalization of market access is a major prerequisite for strengthening the position of the rails in intermodal competition for long-range international transport. The harmonization of competitive conditions for the different modes of transport remains a further task for transport policy. We will continue our involvement on behalf of the rail transport sector in all policy debates regarding key transport issues.

Anticipated Business Development

Anticipated development in the 2007 financial year € million	**2006**	**2007**
Revenues	30,053	↗
EBIT	2,477	↘
EBIT before special items	2,143	↗
Gross capital expenditures	6,584	→
ROCE	7.5 %	↗

Once again, our primary business goal for the 2007 financial year is to achieve a further improvement in our key figures: ROCE, redemption coverage and gearing.

- **DB Group:** Based on current estimates, we believe that revenues will rise further by about 3 % during the current financial year.

  The further favorable development of our revenues will also be reflected in the growth of our EBIT figure. Due to the extensive one-time effects noted during the year under review we anticipate that the EBIT figure for the 2007 financial year will not attain the level posted for the 2006 financial year. After adjustments for special items, we anticipate that the improvement in our earnings will not be as strong in the 2007 financial year as it was in the 2006 financial year. We anticipate negative impacts will be caused in particular by higher energy prices, which are likely to lead to a further increase in cost of materials. Our earnings will also be negatively influenced by the planned reduction of regionalization funds. Moreover, during the year under review we already benefited from some of the improvements originally expected to occur in the 2007 financial year, especially in our Railion business unit.

  We will continue our modernization efforts at an unbroken high level of capital expenditures, which will be at similar level as in the year under review.

  In line with our expectations, we will also be able to fully finance our operational financial needs internally in the 2007 financial year.
- **Long-Distance Transport business unit:** The favorable trend noted in the 2005 and 2006 financial years is expected to continue in the Long-Distance Transport business unit. We anticipate that we will again achieve higher transport performance as well as improved revenues and earnings. Further improved offers announced at the time of the timetable change in December 2006, or launched during the 2006 financial year, will have a favorable effect here. In addition we will continue making attractive price offers to our customers.

- **Regional Transport business unit:** Based on transport performance and revenues, we anticipate that the Regional Transport business unit will develop similarly as it did during the year under review. Driven by a further increase in farebox revenues, we anticipate that overall revenues will rise slightly. Declines seen in ordered-services fees received will dampen results. Due to higher costs for infrastructure usage and traction energy we expect that EBIT will contract slightly.
- **Urban Transport business unit:** We anticipate that both the bus and S-Bahn (metro) area within the Urban Transport business unit will see a slight decline in their transport performance. This development will also have an impact on revenues and EBIT.
- **Schenker business unit:** The Schenker business unit will continue its expansionary course into the 2007 financial year. The European land transport, air/ocean freight transport and contract logistics will all contribute to this with further increases in their performance and revenues. This development will also have an impact on EBIT, although we anticipate at a slightly less than proportional level due to further rising costs of materials.
- **Railion business unit:** Following the very strong growth seen during the year under review, we believe that development within the Railion business unit will decelerate. This means that revenues and transport performance, in particular, will continue to grow, albeit at a slower pace. At the same time we expect that EBIT will tend to be lower than in the year under review.
- **Track Infrastructure business unit:** In light of a further significant increase in the usage of our track infrastructure by non-Group railways, external revenues will increase again in the 2007 financial year. Furthermore, we anticipate that the new train-path pricing system will generate favorable effects. Expenditures incurred to ensure availability will have a dampening effect on results.
- **Passenger Stations business unit:** For the current financial year we anticipate that the number of station stops and rental activities will show similar results as those noted during the 2006 financial year, and lead to increased external revenues. We also expect earnings to rise because of additional cost cutting measures.
- **Services business unit:** In conjunction with the further expansion of the non-Group business activities of DB Telematik, as well as those of DB Systems, we expect to see external revenues rise moderately.
- **Energy business unit:** Revenue development trends noted during the year under review are also anticipated to continue in the 2007 financial year, allowing external revenues to surpass the previous year's level.

Expected financial situation

We will also continue our capital expenditures program at a high level in the 2007 financial year. The Track Infrastructure business unit will once again be the focal point of these activities. The volume of capital expenditures made by the Track Infrastructure business unit will stabilize in line with the further development of federal infrastructure funds. In light of the business unit's relative importance, this trend will also influence the development of total capital expenditures. We anticipate that the entire capital expenditures program – taking into full consideration third-party financing of infrastructure needs – will be completely structured on the basis of internal financing in the 2007 financial year. Therefore, business operations are not expected to generate a notable change in the level of debt.

Expectations regarding developments in the 2008 financial year

In accordance with German Accounting Standard (GAS) 15, we are also providing an estimate for the year following the current financial year. However, considerable forecasting uncertainties currently exist with respect to anticipated market, competitive, and business environment conditions. Based on the assumption that significant trends will continue throughout the 2007 financial year, we expect that we will also record further increases in our revenues and EBIT for the 2008 financial year. The ROCE should be higher than the cost of capital for the first time.

These estimates are, as always, subject to the reservations set forth below.

Forward-looking statements
This Management Report contains statements and forecasts pertaining to the future development of the DB Group, its business units and individual companies. These forecasts are estimates we made based on information that was available at the current time. Actual developments and currently expected results may vary in the event that assumptions that form the basis for the forecasts do not take place, or risks – for example, those presented in the Risk Report – actually occur.

Deutsche Bahn Group does not intend or assume any obligation to update the statements made within this Management Report.

236 ICE trains are in operation in long-distance transport, including 59 ICE 1, 44 ICE 2, 63 ICE 3 and 70 ICE T trains.

500,000 kilometers, or twelve times the length of the equator, is the average distance covered by every ICE train over the course of one year.

2 liters of fuel per traveler is how little an ICE train requires per 100 kilometers – based on a 50 percent utilization rate.

41,225 square meters of carpet, or the area of six soccer fields, are replaced as we modernize our ICE 1 trains.

4,800,000 travelers use our regional and urban transport train offers every day on average.

257 busses powered by natural gas are operated by DB and are part of a fleet that makes us the biggest bus operator in Germany.

26,399 DB regional trains are on the rails every day and achieve the highest transport performance in regional transport throughout Europe.

1,128,800 seats are available every day onboard DB regional and S-Bahn (metro) trains and enable our customers to use their travel time productively by reading or working, or just relaxing.

68,000,000 shipments are transported every year by Schenker – making us the leading supplier in European land transport.

2,776 locomotives are operated by Railion in its rail freight business, including increasing numbers of locomotives that can easily cross borders between different European rail networks.

4,780 is the average number of freight trains Railion operates across Europe every day – taking about 100,000 trucks off the European road network and relieving congestion.

155,664 is the total number of freight cars operated by Railion throughout Europe.

1,323

DB Carsharing vehicles are provided to our customers at the 92 ICE stations and in the centers of major German cities.

48,000

vehicles make DB Fuhrpark one of the biggest operators in the German car rental business, including fleet management tasks for customers like the Bundeswehr.

4,500

bicycles are available for our customers as part of our “Call a Bike” rental program that is available in Berlin, Cologne, Frankfurt/Main, Munich and Stuttgart.

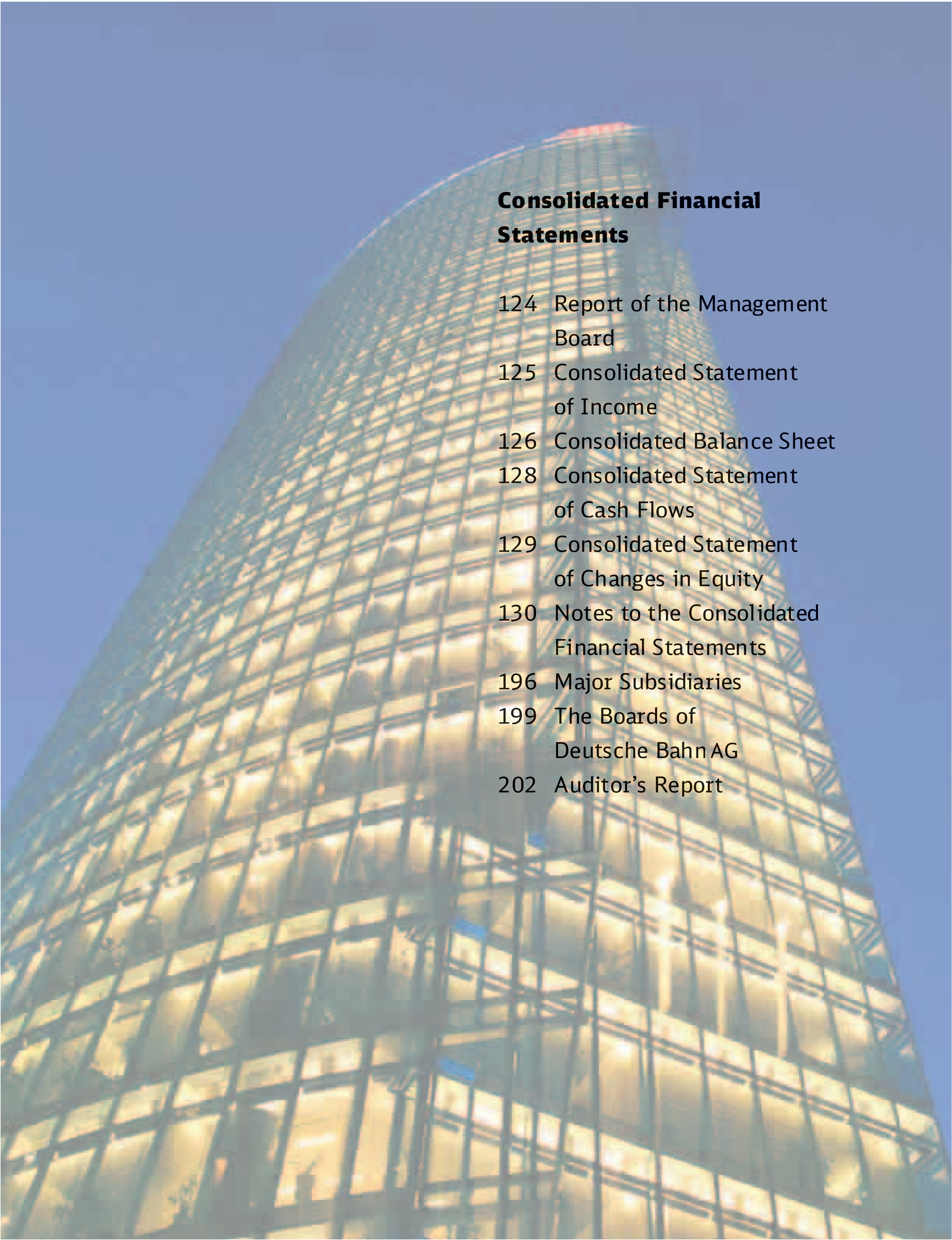
550,000

times customers used one of our bikes in 2006 to cycle through a city or the countryside.

Everything That is Moving

Europe's most modern rail infrastructure forms the backbone of our activities.

Our rail network is over 34,122 kilometers long, and comprises 73,352 switches and crossings, 4,736 interlockings of which 709 are electronically operated, 20,317 train crossings, 798 tunnels and 27,887 railroad bridges. In addition, there are 5,730 passenger stations.



Consolidated Financial Statements

Report of the Management Board

The Management Board of Deutsche Bahn AG is responsible for the preparation, completeness and accuracy of the consolidated financial statements and the Group management report.

The consolidated financial statements for the period ended December 31, 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS). The previous year's figures have been established using the same principles. The Group management report contains an analysis of the net assets, financial position and results of operations of the Group as well as further explanations which have to be provided in accordance with the regulations of the German Commercial Code (Handelsgesetzbuch; HGB).

The internal management and control systems as well as the use of uniform guidelines throughout the Group guarantee the adequacy of the consolidated financial statements and the Group management report. Compliance with statutory regulations, the internal guidelines of the Group as well as the reliability and functionality of the control systems are continuously monitored throughout the Group.

In line with the requirements of the German Control and Transparency Act in the Corporate Sector (Gesetz zur Kontrolle und Transparenz im Unternehmensbereich; KonTraG), the purpose of our risk management system is to ensure that the Management Board is able to identify potential risks at an early stage and initiate countermeasures where appropriate. In accordance with the resolution of the shareholders' meeting, PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft has audited the consolidated financial statements prepared in accordance with IFRS and the Group management report, and has issued an unqualified auditor's report.

The consolidated financial statements, the Group management report and the audit report have been extensively discussed in the Audit Committee and the meeting of the Supervisory Board on the adoption of the Group financial statement in the presence of the auditor. The Report of the Supervisory Board (pages 208 to 211 of this Annual Report) sets out the result of the examination by the Supervisory Board.

The Management Board

Consolidated Statement of Income

January 1 through December 31 € million	Note	2006	2005
Revenues	(1)	30,053	25,055
Inventory changes and internally produced and capitalized assets	(2)	1,890	1,673
Overall performance		31,943	26,728
Other operating income	(3)	2,859	2,366
Cost of materials	(4)	- 16,449	- 12,650
Personnel expenses	(5)	- 9,782	- 9,211
Depreciation	(6)	- 2,950	- 2,801
Other operating expenses	(7)	- 3,144	- 3,080
Operating profit (EBIT)		**2,477**	**1,352**
Result from investments accounted for using the equity method	(8)	18	76
Net interest income	(9)	- 941	- 945
Other financial result	(10)	1	7
Financial result		**- 922**	**- 862**
Profit before taxes on income		**1,555**	**490**
Taxes on income	(11)	125	121
Net profit for the year		**1,680**	**611**
Net result attributable to:			
shareholders of Deutsche Bahn AG		1,665	580
minority interests		15	31
Earnings per share (€ per share)	(12)		
undiluted		3.87	1.35
diluted		3.87	1.35

Consolidated Balance Sheet

Assets

As of December 31 € million	Note	2006	2005
Non-current assets			
Property, plant and equipment	(13)	39,462	39,550
Intangible assets	(14)	1,619	880
Investments accounted for using the equity method	(15)	178	378
Available-for-sale financial assets	(17)	150	142
Receivables and other assets	(19)	128	312
Derivative financial instruments	(21)	23	89
Deferred tax assets	(16)	1,800	1,556
		43,360	**42,907**
Current assets			
Inventories	(18)	710	716
Trade receivables	(19)	3,192	2,625
Receivables and other assets	(19)	643	432
Current tax receivables	(20)	83	73
Derivative financial instruments	(21)	7	23
Cash and cash equivalents	(22)	295	305
Available-for-sale assets	(23)	150	20
		5,080	**4,194**
Total		**48,440**	**47,101**

Equity and Liabilities

As of December 31 € million	Note	2006	2005
Equity			
Subscribed capital	(24)	2,150	2,150
Reserves	(25)	5,265	5,259
Retained earnings	(26)	1,743	84
Equity attributable to shareholders of Deutsche Bahn AG		**9,158**	**7,493**
Minority interests	(27)	56	182
		9,214	**7,675**
Non-current liabilities			
Financial debt	(28)	17,165	18,310
Other liabilities	(29)	437	473
Derivative financial instruments	(21)	207	365
Retirement benefit obligations	(31)	1,514	1,414
Other provisions	(32)	3,993	4,161
Deferred income	(33)	2,931	3,194
Deferred tax liabilities	(16)	72	46
		26,319	**27,963**
Current liabilities			
Financial debt	(28)	2,716	1,664
Trade liabilities	(29)	3,568	3,338
Other liabilities	(29)	3,411	3,682
Current tax liabilities	(30)	80	51
Derivative financial instruments	(21)	258	32
Other provisions	(32)	2,395	2,226
Deferred income	(33)	476	454
Available-for-sale liabilities	(23)	3	16
		12,907	**11,463**
Total		**48,440**	**47,101**

Consolidated Statement of Cash Flows

January 1 through December 31 € million	Note	2006	2005
Profit before taxes on income		1,555	490
Depreciation on property, plant and equipment and intangible assets		2,950	2,801
Write-ups/write-downs on non-current financial assets		0	3
Result on disposal of property, plant and equipment and intangible assets		- 100	- 93
Result on disposal of financial assets		- 51	1
Result on sale of consolidated companies		- 24	- 105
Interest and dividend income		- 341	- 328
Interest expense		1,274	1,264
Foreign currency result (including currency-based derivatives)		4	- 3
Result from investments accounted for using the equity method		- 18	- 76
Other non-cash expenses and income		- 396	- 98
Changes in inventories, receivables and other assets		106	- 269
Changes in liabilities and deferred income		- 227	- 148
Cash generated from operating activities		4,732	3,439
Interest received		60	60
Dividends and capital distribution received		18	80
Interest paid		- 1,032	- 803
Taxes on income paid		- 100	- 124
Cash flow from operating activities		**3,678**	**2,652**
Proceeds from the disposal of property, plant and equipment and intangible assets		549	371
Payments for purchases of property, plant and equipment and intangible assets		- 6,584	- 6,301
Proceeds from investment grants		3,748	4,019
Payments for repaid investment grants		- 234	- 483
Proceeds from the sale of financial assets		70	1
Payments for purchases of financial assets		- 27	- 7
Proceeds from the sale of shares in consolidated companies less net cash and cash equivalents diverted		18	118
Acquisition of shares in consolidated companies less net cash and cash equivalents acquired		- 949	- 84
Proceeds from the disposal of investments accounted for using the equity method		5	0
Payments for additions to investments accounted for using the equity method		0	- 9
Cash flow from investing activities		**- 3,404**	**- 2,375**
Payments for return of capital		- 122	0
Distribution of profits to minority interests		- 12	- 29
Repayment of capital amounts under finance leases		- 64	- 74
Proceeds from issue of bonds		1,703	0
Payments for redemption of bonds		- 418	0
Proceeds from interest-free government loans		98	95
Payments for redemption of interest-free government loans		- 362	- 365
Proceeds from borrowings and commercial paper		454	208
Repayment of borrowings and commercial paper		- 1,555	- 584
Cash flow from financing activities		**- 278**	**- 749**
Net decrease in cash and cash equivalents		**- 4**	**- 472**
Cash and cash equivalents at the beginning of the period	(22)	305	765
Changes in cash and cash equivalents due to changes in the scope of consolidation		1	0
Changes in funds due to changes in exchange rates		- 7	12
Cash and cash equivalents at the end of the period	(22)	**295**	**305**

Consolidated Statement of Changes in Equity

€ million		Reserves									
	Subscribed capital	Capital reserves	Currency translation	Fair value reserve for securities	Fair value reserve for cash flow hedges[1]	Other movements	Total reserves	Retained earnings	Equity attributable to shareholders of Deutsche Bahn AG	Minority interests	Total equity
As of Jan 1, 2006	2,150	5,310	- 17	0	- 35	1	5,259	84	7,493	182	7,675
+ Capital introduced	0	0	0	0	0	0	0	0	0	0	0
– Capital decrease	0	0	0	0	0	0	0	0	0	0	0
– Reduction of capital reserves	0	0	0	0	0	0	0	0	0	0	0
– Dividend payments	0	0	0	0	0	0	0	0	0	- 12	- 12
+/– Currency translation differences	0	0	- 3	0	0	0	- 3	0	- 3	- 2	- 5
+/– Other changes	0	0	0	0	9	0	9	- 6	3	- 127	- 124
+/– Net profit for the year	0	0	0	0	0	0	0	1,665	1,665	15	1,680
As of Dec 31, 2006	2,150	5,310	- 20	0	- 26	1	5,265	1,743	9,158	56	9,214

€ million		Reserves									
	Subscribed capital	Capital reserves	Currency translation	Fair value reserve for securities	Fair value reserve for cash flow hedges[1]	Other movements	Total reserves	Retained earnings	Equity attributable to shareholders of Deutsche Bahn AG	Minority interests	Total equity
As of Jan 1, 2005	2,150	5,310	- 56	- 1	- 26	0	5,227	- 493	6,884	183	7,067
+ Capital introduced	0	0	0	0	0	0	0	0	0	0	0
– Dividend payments	0	0	0	0	0	0	0	0	0	- 29	- 29
+/– Currency translation differences	0	0	39	0	0	0	39	0	39	0	39
+/– Other changes	0	0	0	1	- 9	1	- 7	- 3	- 10	- 3	- 13
+/– Net profit for the year	0	0	0	0	0	0	0	580	580	31	611
As of Dec 31, 2005	2,150	5,310	- 17	0	- 35	1	5,259	84	7,493	182	7,675

[1] Equity capital includes deferred taxes

Segment Reporting

As of December 31 € million	Long-Distance Transport 2006	Long-Distance Transport 2005[4]	Regional Transport 2006	Regional Transport 2005	Urban Transport 2006	Urban Transport 2005[4]	Railion 2006	Railion 2005	Schenker 2006	Schenker 2005[4]
Segment revenues										
External revenues	3,234	3,050	6,480	6,452	1,805	1,726	3,194	2,830	13,232	9,042
Other external segment revenues	121	105	185	135	66	53	131	141	159	107
Internal segment revenues	179	180	143	146	70	108	688	640	19	16
Total segment revenues	3,534	3,335	6,808	6,733	1,941	1,887	4,013	3,611	13,410	9,165
Operating profit before interest (EBIT)	124	50	690	554	154	115	226	12	367	259
Net interest income										
Result from investments accounted for using the equity method	0	0	0	0	0	0	2	5	3	12
Other financial result										
Profit before taxes on income										
Taxes on income										
Net profit for the year										
Segment assets [1], [5]	3,455	3,572	4,702	4,899	1,418	1,506	2,914	2,896	4,708	3,137
Investments accounted for using the equity method [1]	0	0	1	6	1	2	10	11	8	8
Total assets [1], [5]	3,455	3,572	4,703	4,905	1,419	1,508	2,924	2,907	4,716	3,145
thereof Goodwill	(0)	(0)	(1)	(0)	(1)	(2)	(156)	(156)	(866)	(140)
Segment liabilities [1], [5]	937	971	1,461	1,625	466	470	1,225	1,278	2,427	1,870
Segment capital expenditures	262	259	380	362	98	97	153	325	1,207	259
Additions to assets from acquisition of companies	0	0	0	0	0	0	0	81	980	87
Additions to assets from capital expenditures	262	259	380	362	98	97	153	244	227	172
Investment grants received	-1	0	-27	-30	-20	-41	-2	0	0	0
Net capital expenditures	261	259	353	332	78	56	151	244	227	172
Scheduled depreciation [2]	372	346	407	400	149	150	229	219	174	113
Impairment losses recognized/reversed [2]	2	46	83	27	2	1	6	7	1	4
Other non-cash expenditures	2	7	6	1	2	2	4	2	28	15
Other non-cash income [2]	40	13	99	17	7	10	14	9	3	0
Employees [3]	14,641	14,516	25,700	26,842	12,238	12,472	22,635	23,522	54,905	38,585

[1] Segment assets, investments in associated companies and segment liabilities are stated as of Dec 31; the remaining items relate to the reporting period. Investments accounted for using the equity method include shares in Scandlines AG with an amount of € 147 million, that were reclassified as of April 1, 2006.
[2] The non-cash items are included in the segment result shown and are also disclosed separately.

Segment Reporting by Region € million	Germany 2006	Germany 2005
Segment revenues	22,589	20,781
thereof external revenues	19,857	18,534
Segment assets	44,570	44,755
Net capital expenditures	2,726	2,316

	Track Infrastructure		Passenger Stations			Services	Subsidiaries/ Other activities		Other/ Consolidation			DB Group
	2006	2005	2006	2005	2006	2005	2006	2005[4]	2006	2005	2006	2005
	548	511	310	287	94	124	1,156	1,033	0	0	30,053	25,055
	688	617	111	105	226	185	1,172	918	0	0	2,859	2,366
	3,825	3,878	640	645	2,349	2,262	4,272	4,143	– 12,185	– 12,018	0	0
	5,061	5,006	1,061	1,037	2,669	2,571	6,600	6,094	– 12,185	– 12,018	32,912	27,421
	100	17	136	136	31	128	710	122	– 61	– 41	2,477	1,352
											– 941	– 945
	0	0	0	0	1	0	6	59	6	0	18	76
											1	7
											1,555	490
											125	121
											1,680	611
	20,993	20,904	3,401	3,363	1,157	1,153	5,899	6,177	– 531	– 884	48,116	46,723
	0	0	0	0	1	1	303	350	0	0	324	378
	20,993	20,904	3,401	3,363	1,158	1,154	6,202	6,527	– 531	– 884	48,440	47,101
	(0)	(0)	(0)	(0)	(0)	(0)	(11)	(8)	(0)	(0)	(1,035)	(306)
	2,368	2,412	496	450	978	992	7,382	7,520	21,486	21,838	39,226	39,426
	4,419	4,038	643	739	242	226	218	308	– 56	– 66	7,566	6,547
	0	0	0	0	0	0	2	0	0	0	982	168
	4,419	4,038	643	739	242	226	216	308	– 56	– 66	6,584	6,379
	– 3,226	– 3,396	– 393	– 455	– 2	– 2	– 77	– 95	0	0	– 3,748	– 4,019
	1,193	642	250	284	240	224	139	213	– 56	– 66	2,836	2,360
	986	959	132	121	188	189	164	185	– 7	– 44	2,794	2,638
	46	42	2	1	2	4	12	31	0	0	156	163
	12	19	7	0	7	2	22	44	0	5	90	97
	69	24	23	4	25	25	206	93	0	0	486	195
	41,356	42,950	4,557	4,791	26,689	26,868	26,479	25,843	0	0	229,200	216,389

[3] The number of employees represents the average number of employees as at year-end (part-time workforce converted into equivalent full-time workforce and excluding trainees).
[4] Previous years' figures were adjusted (see section "Comparability with previous year").
[5] Profit transfer agreements were not assigned to segment assets or liabilities; previous years' figures were adjusted accordingly.

	Rest of Europe		North America		Asia/Pacific		Rest of world		Reconciliation		DB Group	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	6,062	4,910	1,785	728	2,197	818	279	184	0	0	32,912	27,421
	5,968	4,801	1,769	720	2,180	816	279	184	0	0	30,053	25,055
	2,091	2,177	801	235	1,245	372	121	51	– 712	– 867	48,116	46,723
	119	89	14	8	29	12	4	1	– 56	– 66	2,836	2,360

Basic Principles and Methods

Fundamental information

Deutsche Bahn AG (referred to in the following as "DB AG"), Berlin, and its subsidiaries (together referred to in the following as "DB Group") provide services in the fields of passenger transport, transport and logistics, and operate an extensive rail infrastructure which is also available to non-Group users on a non-discriminatory basis. Whereas passenger transport activities are conducted primarily in the company's domestic market of Germany, transport and logistics activities are conducted on a worldwide basis. In the 2006 financial year, the DB Group acquired all shares in BAX Global Inc. (referred to in the following as "BAX Global"), Delaware/USA. BAX Global operates worldwide logistics operations with particular business focus in the USA and the Asia-Pacific region.

DB AG, Potsdamer Platz 2, 10785 Berlin, is an joint stock corporation (Aktiengesellschaft); its shares are held entirely by the Federal Republic of Germany (also referred to in the following as the "Government"). The company is maintained under the number HRB 50000 in the commercial register of the local court (Amtsgericht) Berlin-Charlottenburg. The DB Group has issued securities in accordance with section 2 (1) sentence 1 of the Securities Trading Act (Wertpapierhandelsgesetz; WpHG); these securities are traded on organized markets in accordance with section 2 (5) WpHG.

These consolidated financial statements have been prepared by the Management Board and will be handed over to the Supervisory Board for the Supervisory Board meeting on March 28, 2007.

Principles of preparing financial statements

The consolidated financial statements are prepared on the basis of section 292a German Commercial Code (Handelsgesetzbuch; HGB) and in accordance with the International Financial Reporting Standards (IFRS) and their interpretation by the International Financial Reporting Interpretations Committee (IFRIC). The accounting standards have been consistently applied throughout the entire reporting period with no changes compared with the previous year.

The financial year of DB AG and its incorporated subsidiaries is the same as the calendar year. The consolidated financial statements are prepared in Euros. Unless otherwise specified, all figures are stated in Euro million (€ million).

a) Standards, revisions of standards and interpretations which are the subject of binding initial adoption for reporting periods starting January 1, 2006 and which have not been the subject of early adoption

In the year under review, the DB consolidated financial statements take account of all new and revised standards and interpretations which are the subject of initial binding adoption starting January 1, 2006, which are also relevant for the DB Group and which have not been the subject of early adoption in previous periods. The changes to the standards have been recognized in accordance with the transitional regulations. Initial adoption of these new regulations has not had any material impact on the consolidated financial statements. They are set out in the following:

- IAS 19: Employee Benefits, Amendment: Actuarial Gains and Losses, Group Plans and Disclosures

The change to IAS 19 (Employee Benefits) has resulted in the introduction of the option for recognizing actuarial profits and losses with no impact on the income statement. The DB Group does not take advantage of this option. IAS 19 has also been extended to include further rules concerning multi-employer plans, for which there is no adequate information available with regard to the creation of provisions, as well as additional information obligations. These adjustments have been taken into account in these financial statements. The changes have to be effected retroactively.

- IAS 21: The Effects of Changes in Foreign Exchange Rates, Amendment: Net Investment in a Foreign Operation

Foreign currency changes affecting a financial asset or a financial liability which is part of the net investment in a foreign operation are recognized with no impact on the income statement until the point of disposal of the net investment. Following the change, this is also applicable for investments of subsidiaries and for currencies which are neither the functional currency of the investor nor of the foreign operation. The changes have to be effective retroactively.

The standards, addenda to standards and interpretations which are currently not relevant for the DB Group and which are subject to initial binding adoption starting January 1, 2006 are set out in the following:

- IAS 39: Financial Instruments: Recognition and Measurement, Amendment: Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39: Financial Instruments: Recognition and Measurement; Amendment: The Fair Value Option
- IFRS 1: First-time Adoption of International Financial Reporting Standards
- IFRS 6: Exploration for and Evaluation of Mineral Resources
- IFRIC 5: Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6: Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

b) Standards, revisions of standards and interpretations which are the subject of binding initial adoption for reporting periods starting January 1, 2006 and which have been the subject of early adoption

The change to IAS 1: Presentation of Financial Statements, regarding the objectives, instruments and processes in capital management, has been the subject of early adoption by the DB Group in these consolidated financial statements. Please refer to the explanations included in the chapter "Capital Management in the DB Group".

The IFRIC 9: Reassessment of Embedded Derivatives has also been the subject of early adoption. IFRIC 9 specifies that, at the point at which the contract is taken out, it is necessary to establish whether there is an embedded derivative which has to be shown separately. A reassessment only has to take place at a later date if changes in the contract conditions result in a major change in cash flows. The interpretation does not have any material impact on the consolidated financial statements.

The changes have been applied retroactively in accordance with the transitional regulations.

c) Standards, revisions of standards and interpretations which have been agreed at the time of the report but which are not yet the subject of mandatory adoption and which have not been the subject of early adoption

- IFRS 7: Financial Instruments: Disclosures (to be adopted for reporting periods starting January 1, 2007)
- IFRS 8: Operating Segments (to be adopted for reporting periods starting January 1, 2009)
- IFRIC 7: Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (to be adopted for reporting periods starting March 1, 2006)
- IFRIC 8: Scope of IFRS 2 (to be adopted for reporting periods starting May 1, 2006)
- IFRIC 10: Interim Financial Reporting and Impairment (to be adopted for reporting periods starting November 1, 2006)
- IFRIC 11: Group and Treasury Share Transactions (to be adopted for reporting periods starting March 1, 2007)
- IFRIC 12: Service Concession Arrangements (to be adopted for reporting periods starting January 1, 2008)

In the reporting period 2007, the new standard IFRS 7 will result in much more comprehensive information in the Notes concerning the financial instruments.

IFRS 8 governs reporting with regard to the operating segments of a company. In our opinion, IFRS 8 will not result in any fundamental adjustments compared with the current segment reporting.

IFRIC 7 provides information regarding the application of IAS 29 in a reporting period in which the functional currency becomes hyperinflationary. As of the balance sheet date, early adoption of IFRIC 7 would not have any material impact on the Group.

IFRIC 8 specifies whether IFRS 2 is also applicable in those cases in which the consideration for issued shares cannot be clearly established or is lower than the value of issued shares. As of the balance sheet date, the early adoption of IFRIC 8 would not have any material impact on the Group.

According to IFRIC 10, it is not permitted for impairments which have been recognized in relation to goodwill in an interim reporting period to be reversed at a later balance sheet date in relation to investments in equity instruments and financial assets which have been valued at cost of purchase. As of the balance sheet date, early adoption of this clarification would not have any impact on the Group.

IFRIC 11 deals with questions of treating stock-based remuneration agreements in which treasury shares or shares of other Group companies have been granted. We are not assuming any major impact for the DB Group.

IFRIC 12 deals with the accounting treatment of service concession arrangements between the public sector (the licensor) and a private company (the operator). This is applicable for arrangements if the client controls or regulates what services the operator provides with the infrastructure, to whom the operator provides the services and also the price at which the operator provides the services. At the end of the contract term, the infrastructure has to be transferred to the licensor. The regulations cover infrastructure which has been set up by the operator or acquired from an external party, and also existing infrastructure to which the licensor provides access. The impact of IFRIC 12 on the DB consolidated financial statements is currently being assessed, particularly in the context of the initial public offering which will take place according to the resolution of Government without legal ownership of the infrastructure. This will be based on the privatization act which has been announced as a draft by the Government for the end of March 2007.

Structure of the balance sheet and the income statement

Assets and liabilities are stated in the balance sheet either as current or non-current items. Assets and liabilities are classified as current if they are realized or due within twelve months after the end of the reporting period. The structure of the balance sheet takes account of the requirements of the ordinance relating to the structure of the financial statements of transport companies. The income statement uses the structure of the cost summary method.

Major differences compared with German accounting law in accordance with section 292a HGB

The aim of IFRS accounting is to provide information which is relevant for the decisions of equity and debt investors. Accordingly, under IFRS, a strict distinction is made between accounting for trade law purposes and tax law purposes, different definitions are used in certain cases for the time at which revenue is realized, accounting options are limited, and much more stringent requirements are specified for explanations and notes to financial statements.

These consolidated financial statements contain accounting principles which differ significantly from German commercial law:

- Development costs for intangible assets created in-house are recognized in fixed assets if they satisfy the recognition criteria (IAS 38 [Intangible Assets]).
- Goodwill resulting from the acquisition of shares in subsidiaries is not depreciated; instead, it is subject to an annual impairment test (IFRS 3 [Business Combinations]).
- Foreign currency receivables and liabilities are converted using the rate applicable on the reference date. Exchange rate profits are realized in a way which differs from that permitted under HGB (IAS 21 [The Effects of Changes in Foreign Exchange Rates]).

- All financial instruments, including derivatives, are recognized and stated at amortized cost or market value depending on classification in one of the categories under IAS 39.
- Criteria of IAS 17 (Leases) are used for classifying leases as operating leases and finance leases. “Embedded” leases in service agreements are to be classified under the criteria specified in IAS 17.
- Deferred tax assets have to be recognized in relation to temporary differences which will be allowable in future as well as tax losses carried forward if it is likely that such losses will be realized in future.
- Non-current liabilities and provisions are recognized with their present value.
- Pension provisions are recognized using the projected-unit-credit method, with due consideration being given to future salary and pension increases.
- Provisions are created only for obligations due to external parties and also only if their probability of occurrence exceeds 50 %.
- Obligations which are only uncertain to a limited extent (accruals) are not recognized under provisions; instead, they are recognized under liabilities.
- The interest advantages attributable to public grants in the form of interest-free loans are stated under liabilities.
- The scope of consolidation is defined using the control concept.

Principles Underlying the Consolidated Financial Statements

Comparability with the previous year

After due consideration is given to the following issues, the financial information presented for the 2006 financial year is comparable with the financial information for the previous year period:

- **Changes in the scope of consolidation**
  For the 2006 financial year, changes in the scope of consolidation, and in particular the acquisition of BAX Global, have resulted in financial information in the balance sheet, the income statement, the cash flow statement as well as segment reporting which is not directly comparable with that of the previous period. Detailed information relating to the BAX Global acquisition as well as explanations concerning the other transactions are set out in the section “Changes in the Group”.
- **Changes in segment allocation**
  With effect from January 1, 2006, individual companies have no longer been allocated to the segments Passenger Transport or holdings/other activities, unlike the situation in the previous year; instead, they have been allocated to the segments Urban Transport and Schenker. This has been due to organizational streamlining of the segment structures. The previous year’s figures have been adjusted accordingly. The amounts of the adjustments were of minor significance.

Consolidation methods

a) Consolidation principles

DB AG and all companies (subsidiaries) whose financial and business policy can be determined by DB AG are fully consolidated in the consolidated financial statements of DB AG. A company is incorporated in the consolidated financial statements at the point at which DB AG acquires the possibility of control. At most subsidiaries, “control” is defined as a situation in which DB AG directly or indirectly holds a majority of voting rights. The reference date for determining the point at which a company is taken out of the group of fully consolidated companies is established on the basis of the time at which the possibility of control terminates.

For the purpose of uniform accounting, the affiliated companies have adopted the accounting guidelines of the parent company.

Minority interests in the shareholders' equity of subsidiaries are shown separately from the shareholders' equity of the Group shareholders. The extent of the minority interests is calculated as the minority interests applicable at the point at which the subsidiary was acquired and also that proportion of the change in the shareholders' equity of the subsidiary since the acquisition attributable to the third party. Pro-rata losses attributable to the minority interests which exceed the minority interests in the shareholders' equity are ascribed to the shareholders' equity of the Group shareholders, unless the external shareholders have a binding obligation to absorb such losses and are economically and financially in a position to do so.

Internal liabilities within the Group as well as expenses and income and intercompany results between fully consolidated companies are completely eliminated.

b) Business combinations

All subsidiaries acquired after December 31, 2002 have been consolidated using the acquisition method under IFRS 3. Accordingly, the acquirer shall measure the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed plus any costs directly attributable to the business combination. The acquired identifiable assets, liabilities and contingent obligations are valued under IFRS 3 with their fair value at the date of acquisition, irrespective of any minority interests. Alternatively, acquired long-term assets or groups of assets which are classified as available-for-sale in accordance with IFRS 5 are shown with their fair value less costs to sell.

Any difference between the purchase costs of the business combination and the acquired assets valued at fair value is shown as goodwill. If the purchase price is lower than the fair value of the acquired assets, the difference is shown immediately in the income statement.

Minority interests are calculated on a pro-rata basis from the assets, liabilities and contingent obligations valued with their fair value.

If additional minority interests are acquired in companies which are already fully consolidated, the difference between the pro-rata carrying amount of the net assets attributable to the minorities and the purchase price is shown in the DB Group as goodwill. Minority sales correspondingly result in a reduction in goodwill and a profit or loss in the income statement.

c) Joint ventures and associated companies

Joint ventures are defined as companies which are managed by DB AG jointly with another party either directly or indirectly.

Associated companies are defined as equity participations for which the DB Group is able to exercise a major influence on the financial and business policy. Major influence is normally defined as a situation in which DB AG directly or indirectly holds 20 % to 50 % of the voting rights in these companies and the related assumption of association is not refuted.

Joint ventures and associated companies are accounted for using the equity method. Alternatively, they are valued in accordance with IFRS 5 if the shares are classified as available-for-sale.

As part of the process of accounting for participations using the equity method, shares in associated companies and joint ventures are shown at cost of purchase in the consolidated financial statements, adjusted for the related changes in the net assets of the associated company and joint venture and any impairments resulting from the impairment test. Any pro-rata losses attributable to the DB Group which exceed the total investment in the associated company or joint venture, consisting of the amortized equity figure as well as other long-term receivables, are not recognized, unless the DB Group has taken on corresponding obligations or made payments.

Any positive difference between the cost of the purchased shares and the pro-rata assets acquired at the point of purchase and valued at fair value constitutes goodwill, which is contained in the amortized equity figure and is thus also subject to the impairment test. If the purchase price is lower than the fair value following the pro-rata assets which have been acquired, the difference is taken immediately to the income statement.

Intercompany results attributable to transactions with associated companies or joint ventures are eliminated on a pro-rata basis.

Changes in the Group

a) Subsidiaries

The group of fully consolidated companies of DB AG comprises the companies set out in the following overview:

Number	German 2006	Foreign 2006	Total 2006	Total 2005
Fully consolidated subsidiaries				
As of Jan 1	165	164	329	354
Additions	2	75	77	3
Disposals[1]	8	4	12	33
Addition due to change in type of incorporation	3	3	6	5
Disposal due to change in type of incorporation	3	0	3	0
As of Dec 31	**159**	**238**	**397**	**329**

[1] Including disposals from intra-Group mergers

Activities in connection with the production of installations from track infrastructure are to some extent carried out in the form of companies constituted under civil law (Gesellschaften bürgerlichen Rechts), so-called “Arbeitsgemeinschaften” (consortia). These consortia are terminated when the particular project is completed. They carry out their business activities mainly over a period of between one and five years. Because the consortia are assessed mainly as jointly conducted activities, they are not included in the scope of consolidation.

In addition, 98 (previous year: 84) subsidiaries have also not been consolidated, as they are of minor significance for the presentation of the net assets, financial position and results of operations of the DB Group. They are stated with purchase costs of € 17 million (previous year: € 10 million) in the consolidated financial statements.

Acquisitions of companies and parts of companies

Overall, expenses of € 1,144 million were incurred in the 2006 financial year (previous year: € 86 million) for purchasing companies and for purchasing shares in already consolidated subsidiaries. The main transactions are detailed in the following:

- With the agreement of November 15, 2005, the DB Group acquired 100 % of shares in BAX Global Inc., Delaware/USA. BAX Global is a US company registered in the State of Delaware, headquartered in Irvine (California). The company's range of products comprises services in the fields of air and sea freight, supply chain management as well as surface transport. The worldwide activities of BAX Global have been included in the scope of consolidation of DB AG since January 1, 2006. Operations in segment reporting are shown in the Schenker segment. In connection with the refinancing of the acquisition of BAX Global, a new bond of USD 800 million (€ 678.1 million) was issued in December 2005 by DB Finance B.V., Amsterdam/Netherlands. The issue proceeds were received in January 2006.
- 80 % of the shares in Star Global Services Ltd. (referred to in the following as "StarTrans"), Hong Kong/China, were acquired as of May 1, 2006 (purchase date). The transaction was approved by the Supervisory Board with the resolution of December 7, 2005. The company operates as an international air freight forwarder. The final still outstanding installment is due for payment in March 2008. The StarTrans activities are shown in the Schenker segment.
- As a result of the additional acquisition of 51 % of shares, the shareholding in Aurelis Real Estate GmbH & Co. KG (referred to in the following as "Aurelis"), Frankfurt/Main, has been topped up to 100 %. Because Aurelis had previously been included in the group of fully consolidated companies as a special purpose entity as defined by SIC-12, the asset position of the DB Group was not significantly affected.

The goodwill is calculated as follows:

€ million	Dec 31, 2006	thereof BAX Global	thereof StarTrans	thereof Aurelis	thereof other
Purchase price					
Payments	1,101	944	29	122	6
+ Outstanding payments	16	0	16	0	0
+ Directly attributable costs	27	26	1	0	0
= Total purchase price	**1,144**	**970**	**46**	**122**	**6**
– Fair value of net assets acquired	385	234	9	140	2
= Difference	**759**	**736**	**37**	**-18**	**4**
thereof negative goodwill recognized in the income statement from the acquisition of shares in Aurelis	(-18)	(0)	(0)	(-18)	(0)

The goodwill is to a large extent substantiated by the synergy effects expected for the period after acquisition. In addition, a substantial amount is attributable to assets which cannot be recognized under IFRS 3, and in particular the work force. The negative goodwill which has been recognized in the income statement is shown under other operating income.

Purchase price allocation BAX Global

The acquired net assets including the adjustments to assets and liabilities in accordance with IFRS 3 are shown as follows:

€ million	Carrying amount	Adjustment	Fair value
Property, plant and equipment	90	9	99
Intangible assets	13	72	85
Receivables and other assets	478	0	478
Cash and cash equivalents	56	0	56
Deferred tax assets	31	0	31
Assets	**668**	**81**	**749**
Financial debt	6	0	6
Other liabilities	377	0	377
Retirement benefit obligations	6	16	22
Other provisions	74	0	74
Deferred tax liabilities	12	24	36
Liabilities	**475**	**40**	**515**
thereof recognized contingent liabilities in accordance with IFRS 3	(0)	(0)	(0)
Share of third parties	0	0	0
Net assets	**193**	**41**	**234**
Share of DB Group in net assets before acquisition	0	0	0
Net assets acquired	**193**	**41**	**234**
Purchase price paid by cash and cash equivalents	970	0	970
Cash and cash equivalents acquired with acquisitions	56	0	56
Outflow of cash and cash equivalents through acquisitions	**914**	**0**	**914**

The purchase price allocation has resulted in the following adjustments in relation to assets and liabilities:

€ million	Adjustment
Properties	9
Customer base	58
Trade name	12
Software	2
Retirement benefit obligations	- 16
Deferred taxes (net)	- 24
Total	**41**

An economic service life of seven years has been assumed for the customer base.

Purchase price allocation StarTrans

The acquired net assets including the adjustments to assets and liabilities in accordance with IFRS 3 are shown as follows:

€ million	Carrying amount	Adjustment	Fair value
Intangible assets	0	13	13
Assets	**0**	**13**	**13**
Deferred tax liabilities	0	2	2
Liabilities	**0**	**2**	**2**
thereof recognized contingent liabilities in accordance with IFRS 3	(0)	(0)	(0)
Share of third parties	0	2	2
Net assets	**0**	**9**	**9**
Share of DB Group in net assets before acquisition	0	0	0
Net assets acquired	**0**	**9**	**9**
Purchase price paid by cash and cash equivalents	30	0	30
Cash and cash equivalents acquired with acquisitions	0	0	0
Outflow of cash and cash equivalents through acquisitions	**30**	**0**	**30**

The acquired assets of the StarTrans Group each have a value of less than € 1 million.

The purchase price allocation has resulted in the following adjustments relating to assets and liabilities:

€ million	Adjustment
Properties	0
Customer base	10
Trade name	3
Software	0
Retirement benefit obligations	0
Deferred taxes (net)	– 2
Total	**11**

An economic service life of seven years has been assumed for the customer base.

Since being initially incorporated as of May 1, 2006, the StarTrans Group has contributed revenues of € 80 million as well as net profit of € 0.2 million to the overall Group by the end of the reporting period.

If the StarTrans Group had been incorporated in the DB consolidated financial statements as of January 1, 2006, the DB Group would have shown additional revenues of € 34 million and an additional net profit of € 1 million.

Purchase price allocation Aurelis

Aurelis has in the past been included in the consolidated financial statements of DB AG in accordance with SIC-12. For this reason, it was not necessary to take account of any adjustments in relation to the assets, liabilities or contingent obligations as part of the process of valuing the acquired minority interests in the shareholders' equity of the company.

Disposals

The companies which are no longer included in the group of fully consolidated companies have had the following cumulative impact on the net assets, financial position and results of operations of the DB Group:

€ million	2006
Sale price	
Received payments	34
Directly attributable costs	0
Total sale price	**34**
Cash and cash equivalents sold with companies	16
Inflow of cash and cash equivalents through divestitures	**18**

The detailed amounts relate to STINNES-data-SERVICE (see also Note [23]). The revenue and net profit figures of STINNES-data-SERVICE included in the DB consolidated financial statements up to the point of deconsolidation are as follows:

€ million	2006	2005
Revenues	0	22
Net profit for the year	0	3

Overview of the effects on the DB consolidated financial statements

Following the activities of BAX Global and StarTrans acquired in 2006, Linjegods AS, Oslo/Norway (now: Schenker Linjegods AS, Oslo/Norway), which was acquired in the 2005 financial year, as well as the acquired activities of RAG Bahn und Hafen GmbH (RBH), Gladbeck (now: RBH Logistics GmbH, Gladbeck), which were recognized in the consolidated financial statements for 2005 only with their balance sheet values, have for the first time been included in the income statement of the Group in these consolidated financial statements. As a result of the disposal of all shares in Deutsche Eisenbahn-Reklame GmbH with effect from November 30, 2005 as well as all shares in STINNES-data-SERVICE GmbH, Mülheim/Ruhr, as of January 1, 2006, no comparable figures of these companies have been included in the consolidated income statement in the period under review.

The following overview shows the main effects of the changes in the scope of consolidation on the consolidated income statement:

€ million	DB Group Jan 1 to Dec 31, 2006	thereof due to changes in the scope of consolidation	thereof BAX Global
Revenues	30,053	3,174	2,629
Inventory changes and internally produced and capitalized assets	1,890	0	0
Overall performance	31,943	3,174	2,629
Other operating income	2,859	23	15
Cost of materials	- 16,449	- 2,214	- 1,905
Personnel expenses	- 9,782	- 511	- 391
Depreciation	- 2,950	- 64	- 47
Other operating expenses	- 3,144	- 369	- 274
Operating profit (EBIT)	**2,477**	**39**	**27**
Result from investments accounted for using the equity method	18	0	0
Net interest income	- 941	2	3
Other financial result	1	- 10	0
Financial result	- 922	- 8	3
Profit before taxes on income	**1,555**	**31**	**30**
thereof result on disposal of discontinuing operations	(0)	(0)	(0)
Taxes on income	125	- 17	- 13
Net profit for the year	**1,680**	**14**	**17**

The effect of the BAX Global acquisition on the DB consolidated balance sheet is illustrated using the following BAX Global sub-group financial statements for the period ended December 31, 2006 ("stand alone"):

Assets € million	**Dec 31, 2006**
Non-current assets	
Property, plant and equipment	96
Intangible assets	743
Available-for-sale financial assets	7
Receivables and other assets	5
Deferred tax assets	23
	874
Current assets	
Inventories	1
Trade receivables	379
Receivables and other assets	116
Current tax receivables	12
Cash and cash equivalents	68
	576
Total assets	**1,450**

Equity and Liabilities € million	**Dec 31, 2006**
Equity	
Equity capital attributable to BAX Global shareholders	62
	62
Non-current liabilities	
Financial debt	388
Other liabilities	8
Retirement benefit obligations	21
Other provisions	14
Deferred tax liabilities	16
	447
Current liabilities	
Financial debt	584
Trade liabilities	185
Other liabilities	122
Current tax liabilities	31
Other provisions	18
Deferred income	1
	941
Total assets	**1,450**

b) Joint ventures and associated companies

Number	German 2006	Foreign 2006	Total 2006	Total 2005
Joint ventures accounted for using the equity method				
As of Jan 1	7	0	7	6
Additions	0	0	0	0
Disposals	1	0	1	0
Addition due to change in type of incorporation	1	0	1	1
Disposal due to change in type of incorporation	0	0	0	0
As of Dec 31	**7**	**0**	**7**	**7**
Associated companies accounted for using the equity method				
As of Jan 1	47	11	58	63
Additions	0	0	0	0
Disposals	3	0	3	4
Addition due to change in type of incorporation	0	1	1	1
Disposal due to change in type of incorporation	4	1	5	2
As of Dec 31	**40**	**11**	**51**	**58**

The most significant joint venture for the DB Group is Scandlines AG, Rostock. The DB Group has announced that it is interested in selling the shares in Scandlines AG, and commenced the active process at the end of March 2006. This means that the criteria for reclassifying the shares as "available-for-sale" were satisfied as of April 1, 2006. Up to that time, the shares were accounted for using the equity method.

Joint ventures and associated companies which overall are of minor significance for the presentation of the net assets, financial position and results of operations of the Group have not been accounted for using the equity method. They are reported on a cumulative basis in the consolidated financial statements with purchase costs of € 35 million (previous year: € 34 million), and are detailed as follows:

Number	German 2006	Foreign 2006	Total 2006	Total 2005
Joint ventures	4	3	7	6
Associated companies	24	12	36	33

The following selected financial data are provided for the major associated companies and joint ventures; this information has been taken from the consolidated financial statements or the annual financial statements of the relevant companies for the period ended December 31, 2006.

Aggregate financial information € million	**Equity holding**	**Assets**		**Equity**		**Liabilities**		**Revenues**		**Net profit for the year**	
	2006	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
Joint ventures											
Scandlines AG, Rostock[1]	50.0%	–	548	–	386	–	162	–	503	–	65
Express Air Systems GmbH (EASY), Kriftel	50.0%	7	4	2	1	6	3	34	28	1	0
TFG Transfracht Internationale Gesellschaft für kombinierten Güterverkehr mbH & Co. KG, Frankfurt/Main	50.0%	45	38	7	1	38	37	230	202	4	3
Associated companies											
ALSTOM Lokomotiven Service GmbH, Stendal[2]	49.0%	21	20	13	14	8	6	26	32	1	3
Bw FuhrparkService GmbH, Troisdorf[2, 3]	24.9%	77	96	27	5	50	91	151	124	2	3
CTS Container-Terminal GmbH, Rhein-See-Land-Service, Cologne[2]	22.5%	5	6	1	1	4	5	26	25	1	1
DCH Düsseldorfer Container-Hafen GmbH, Düsseldorf[2]	51.0%	4	2	1	0	3	2	14	11	1	0
EUROFIMA Europäische Gesellschaft für die Finanzierung von Eisenbahnmaterial, Basle/Switzerland[2, 4]	23.6%	21,373	21,543	634	639	20,739	20,904	0	0	29	31
EuroShuttle A/S, Copenhagen/Denmark[2, 3]	26.5%	28	24	2	2	26	22	64	46	0	0
Fertrans AG, Buchs SG/Switzerland	75.9%	14	10	3	2	11	8	68	60	1	0
Güterverkehrszentrum Entwicklungs-gesellschaft Dresden mbH, Dresden[3]	24.5%	24	14	1	1	23	13	0	0	0	1
INTERCONTAINER–INTERFRIGO SA, Basle/Switzerland[2, 3]	26.9%	87	111	13	18	75	93	177	261	– 6	– 9
MASPED-RAILOG Vasúti Szállitmányozási Kft., Budapest/Hungary	25.1%	15	5	1	1	14	4	52	20	1	1
Kahlgrund-Verkehrs-Gesellschaft mit beschränkter Haftung, Schöllkrippen[2, 3]	28.0%	13	11	8	7	6	5	9	9	1	0
Kombiverkehr Deutsche Gesellschaft für kombinierten Güterverkehr mbH & Co. Kommanditgesellschaft, Frankfurt/Main[2, 3]	50.4%	46	42	15	14	31	28	326	304	2	1
LogCap-IR Grundverwertungsgesellschaft mbH, Vienna/Austria	49.0%	24	27	4	4	20	23	1	1	0	0
Lokomotion Gesellschaft für Schienen-traktion mbH, Munich[2, 3]	29.4%	10	8	4	3	6	5	18	14	1	0
MASPED-SCHENKER Air & Sea Forwarding Ltd., Budapest/Hungary	49.9%	5	5	1	1	4	4	23	20	1	1
METRANS a.s., Prague/Czech Republic[2, 5]	33.4%	60	52	39	32	21	20	116	105	13	15
POLZUG Intermodal GmbH, Hamburg[2, 5]	33.3%	10	7	4	3	6	4	41	26	2	0
Rail Traction Company S.p.A., Bozen/Italy[2, 3]	29.5%	12	11	6	6	6	5	25	19	0	0
SSG – Saar-Service-Gesellschaft mit beschränkter Haftung Gesellschaft für Reinigung, Pflege und Sicherheit von Gebäuden, Saarbrücken[2, 3]	25.5%	3	3	1	1	3	2	12	13	0	0

[1] Reclassified as "available-for-sale" as of April 1, 2006
[2] Figures according to local GAAP
[3] Figures for previous financial year
[4] Relates exclusively to financing transactions
[5] Based on preliminary figures

Currency translation

a) Functional currency and reporting currency

Currency translation uses the concept of the functional currency. The functional currency of all subsidiaries included in the consolidated financial statements of DB AG is the relevant local currency.

The consolidated financial statements are prepared in Euros (reporting currency).

b) Transactions and balances

Transactions which are not carried out in the functional currency of a company included in the scope of consolidation (foreign currency transactions) are translated into the functional currency of the corresponding entity using the rate applicable at the time of the transaction. Exchange rate gains and losses resulting from processing such transactions and valuing monetary assets and liabilities at the rate applicable on the reporting date in the financial statements are recognized in the income statement.

c) Subsidiaries

Subsidiaries whose functional currency is not the Euro translate their financial statements which are prepared in local currency into the reporting currency (Euro) for the purpose of being incorporated in the consolidated financial statements of DB AG as follows: Assets and liabilities are translated using the exchange rate applicable on the reporting date, income and expenditure are translated using the average rate. Differences resulting from currency translation are shown separately under shareholders' equity.

The shareholders' equity which has to be initially consolidated as part of an acquisition of foreign subsidiaries is translated as of the relevant balance sheet date using the historical rate applicable at the time of the acquisition. Any differences resulting from the currency translation are shown separately under shareholders' equity.

As long as the subsidiary is included in the scope of consolidation, the translation differences continue to be shown under consolidated shareholders' equity. If subsidiaries are no longer included in the scope of consolidation, the corresponding translation differences are eliminated and recognized in the income statement.

Goodwill and adjustments to the fair values of assets and liabilities due to acquisitions of foreign subsidiaries are treated as assets and liabilities of the foreign companies and are translated using the exchange rate applicable on the reporting date.

Annual financial statements of subsidiaries which have their registered offices in a high-inflation country are translated in accordance with IAS 29. No major subsidiary had its registered offices in a high-inflation country in the reporting period and the comparison period.

Currency translation differences resulting from the translation of shares in a foreign subsidiary and also resulting from loans which are part of the net investment in such foreign subsidiaries are shown under shareholders' equity. When the foreign subsidiary is no longer included in the scope of consolidation, the currency translation differences are eliminated via the income statement.

The following exchange rates are some of the rates used for currency translation purposes:

in €	Closing rates		Average rates	
	2006	2005	2006	2005
1 US-Dollar (USD)	0.75930	0.84767	0.79635	0.80368
1 Pound Sterling (GBP)	1.48920	1.45921	1.46678	1.46225
1 Swiss Franc (CHF)	0.62232	0.64305	0.63569	0.64585
1 Hong Kong Dollar (HKD)	0.09765	0.10932	0.10251	0.10332
1 Australian Dollar (AUD)	0.59913	0.62077	0.59993	0.61263
1 Yuan Renminbi (CNY)	0.09728	0.10466	0.09990	0.09809

Recognition of income and expenditures

The revenues generated in the DB Group relate to the provision of mobility services and transport and logistics services, the provision of rail infrastructure, the sale of goods and other services related particularly to rail operations, less turnover tax, discounts and any concessions. They are recognized with their fair value.

The services provided by the DB Group are normally completed within a few hours/days. Revenues resulting from the provision of services are therefore recognized as soon as the service has been provided, the extent of the revenues and the costs is reliably measurable and the economic benefit will probably accrue to the DB Group.

Dividend income is recognized at the point at which the right to receive the payment arises. Interest income is recognized in the income statement using the effective interest method in the period in which the income arises.

All expense and income items are normally recognized without being netted, unless the accounting principles under IFRS permit or require netting.

Expenses are recognized in the income statement at the point at which the service is used or at the point at which the expenses are incurred.

Accounting and valuation methods

a) Property, plant and equipment

Property, plant and equipment is recognized at cost of purchase and cost of production less cumulative depreciation and also with due consideration being given to impairments and reversals of prior impairments. Costs of purchase comprise the purchase price plus ancillary purchase costs less purchase price reductions. If closure or restoration obligations exist, they are recognized as assets under the cost of purchase and cost of production of the property, plant and equipment, and are also shown as a provision under liabilities. Cost of production comprises individual costs as well as overheads which are directly allocatable.

Interest on debt capital is not included, and instead is expensed immediately. Turnover tax incurred in connection with the purchase or production of property, plant and equipment is only capitalized if input tax is not permitted to be deducted.

Subsequent costs are capitalized if the expenses enhance the economic benefit of the property, plant and equipment and if the costs can be reliably measured. On the other hand, all other repairs or maintenance are expensed.

Depreciation is taken to the income statement on a straight-line basis over the expected service life of the asset. The underlying service lives for the main groups of property, plant and equipment are shown in the following:

	Years
Permanent way structures, tunnels, bridges	75
Track infrastructure	20 – 25
Buildings and other constructions	10 – 50
Land improvements	8 – 20
Signaling equipment	20
Telecommunications equipment	5 – 20
Rolling stock	15 – 30
Technical equipment, machinery and vehicles	3 – 25
Factory and office equipment	2 – 20

The adequacy of the chosen depreciation method and the service lives are subject to an annual review. Our expectations regarding the residual value are also updated annually.

Investment grants are deducted directly from the cost of purchase or cost of production of the assets for which the subsidies have been granted.

b) Finance lease assets

Rented and leased assets where the underlying leases are classified as finance leases under IAS 17 are capitalized with the lower of fair value or the present value of minimum lease payments at the start of the lease, and are written down using straight-line depreciation over the financial service life of the asset or the shorter duration of the lease.

c) Intangible assets and goodwill

Intangible assets acquired for a monetary consideration are recognized at cost of purchase. Intangible assets manufactured in-house are recognized with their cost of production, and consist exclusively of software. The costs of the development phase are capitalized if a future economic benefit accrues to the DB Group and if the other capitalization criteria are satisfied. The costs of production comprise all costs which can be directly allocated and those costs which are incurred in order to prepare the asset for its envisaged use.

Costs of production comprise mainly costs for material and services, wage and salary costs as well as relevant overheads.

Interest on borrowed funds is not capitalized. Turnover tax incurred in connection with the purchase and production of intangible assets is only capitalized if input tax is not deductible.

Intangible assets (excl. goodwill) are subsequently valued at cost of purchase or cost of production less depreciation and impairments plus any reversals of prior impairments. Depreciation is calculated using the straight-line method. The adequacy of the depreciation method and the service lives are subject to an annual review.

The following probable service lives are used as the basis for depreciation on intangible assets:

	Years
Franchises, rights, etc.	Duration of contract
Trademarks	Service life
Brand name	Service life
Customer base	Service life
Purchased software	3 – 5
Software produced in-house	3

Goodwill arises as a positive difference between the costs of purchasing the shares and the fair values of the individually acquired assets, absorbed liabilities and contingent liabilities. They are not depreciated; instead they are subject to an annual impairment test. Impairment losses relating to goodwill are not reversed subsequently.

d) Impairments of assets

IAS 36 governs the impairment test for tangible and intangible assets with a certain economic life, which is carried out using a so-called indicator-based asset impairment test. Such an asset impairment test has to be carried out when indicators (so-called triggering events) indicate a loss of value. Goodwill as well as intangible assets with an undetermined service life also have to be subject at least once a year to a so-called goodwill impairment test.

Definition of cash-generating units

Goodwill impairment tests have to be carried out at the level of individual assets as part of the asset impairment test. If it is not possible for future cash flows which are to a large extent independent to be established for individual assets, so-called cash-generating units (CGUs) have to be formed. The criteria for defining the CGUs are based on the structure of the operating business. In the DB Group, the CGUs to a large extent correspond to the operating segment, whereby further differentiation has taken place within the Services segment as a result of different contents. Due to the congruence between management structure and legal structure, a cash-generating unit always consists of at least one legal unit. This means that the data necessary for the asset impairment test can be derived from annual financial statements and planning data.

The goodwill impairment test is carried out at the level of a CGU or a group of CGUs to which this goodwill is attributable. Significant items of goodwill currently exist only in the CGUs Schenker and Railion. The new goodwill items which arose in financial 2006 out of the acquisitions of BAX Global and StarTrans can be completely and uniquely allocated to the CGU Schenker.

Method

In the impairment test in accordance with IAS 36, the carrying amount of an asset, a CGU or (for the goodwill impairment test) on the basis of a group of CGUs has to be compared with the corresponding recoverable amount. If the carrying amount is no longer covered by the recoverable amount, this results in a corresponding impairment.

The carrying amount of a CGU is established by adding the carrying amounts of the assets less the liabilities which are related to the relevant assets. In addition, for the purpose of establishing the carrying amount of a CGU, pro-rata consideration also has to be given to corporate assets and corporate liabilities jointly used by several CGUs. All data for establishing the carrying amount are derived from the annual financial statements of the companies attributable to a CGU.

The recoverable amount is defined as the higher of the fair value less costs to sell and the value in use. In the impairment tests carried out in the DB Group, the recoverable amount is represented by the value in use. The value in use is established as the present value of the free cash flows before interest and before tax attributable to the continuation of a CGU or a group of CGUs. The cash flow forecasts are based on assumptions which represent the best assessment of management with regard to economic conditions. These cash flow forecasts are based on the medium term planning which is submitted to the Supervisory Board of DB AG and which covers a planning horizon of five years. If cash flow forecasts are necessary beyond the five-year planning horizon, a sustainable free cash flow is derived from the planning and is extrapolated on the basis of a growth rate related to the specific market development. In general, a growth rate of 1% p.a. (previous year: 1% p.a.) is assumed.

A weighted average cost of capital (WACC) is used for discounting the free cash flows; this reflects the expectation of return on the capital market for providing debt capital and shareholders' equity to the DB Group. In order to maintain consistency with the process of establishing the free cash flows before company taxes, a WACC before corporate taxes is used. Risks of the free cash flows are recognized by a mark-up in the discount rate. The weighted average cost of capital before taxes is 8.8% (previous year: 8.8%). Because risks and resources are to a large extent networked within the DB Group, this WACC is used uniformly for all CGUs throughout the Group.

Asset impairment test

Processes which comply with the specific requirements of IAS 36 have been implemented in order to carry out the asset impairment test. The service lives of the individual CGUs used for the asset impairment test are based on the service life of the asset or a group of homogenous assets which is (are) most significant for the particular CGU and which thus provide(s) the CGU with its characteristic nature. In addition, the process of establishing the service life disregards future cash flows which result from major structural changes, disinvestment measures or extension investments. Resultant changes to the original planning relate primarily to the major new and extension investments planned for infrastructure.

The cash flow forecasts take account of internal transfer prices within the Group on the basis of arm's length assessments of the companies involved. The published infrastructure prices are applicable for products and services exchanged between transport and infrastructure segments; price increases in the period covered by the forecasts have also been taken into consideration.

After the medium-term budget has been adopted by the Supervisory Board of DB AG, a regular check is carried out to establish whether there are any impairments affecting the CGUs. In addition to this annual cycle, a test is also performed if current issues arising from the development in business or changes in assumptions indicate that there has been a major deterioration in the value in use.

Because in the period under review, there were no internal or external indicators pointing to a possible impairment, it was not necessary for an asset impairment test to be carried out for any of the CGUs. The voluntary asset impairment test carried out after the medium-term planning was adopted also did not identify any impairment requirement for the CGUs.

Goodwill impairment test

A goodwill impairment test must be carried out annually for all CGUs or groups of CGUs to which goodwill can be allocated. Because the goodwill which arises in the DB Group as a result of acquisitions can always be clearly allocated to a CGU, this goodwill impairment test is an integral part of the asset impairment test which is always carried out annually on a voluntary basis for all CGUs.

The goodwill impairment test carried out for the CGUs Schenker and Railion did not identify any impairment requirement. The recoverable amount is represented by the value in use of the CGU, which in turn has been derived from the medium-term planning of the two segments. The method details set out above are applicable in a completely analogous manner. At Schenker, it also has to be borne in mind that separate assumptions relating to the development of the economy, market and competition as well as currency relations have been made for the relevant international markets. These assumptions have been based on the external and internal expert assessments available at the time of the planning. Despite the continuing growth on the international transport and logistics markets, a growth rate of only 1% p.a. has been assumed as the sustainable growth rate after the five-year planning period (previous year: 1%).

e) Shares in companies accounted for using the equity method

Shares in associates and joint ventures are normally accounted for using the equity method in accordance with IAS 28 (Investments in Associates) or in accordance with the option defined in IAS 31 (Interests in Joint Ventures). Based on the Group costs of purchase at the time of the purchase, the figure for the change in shareholders' equity at the company accounted for using the equity method attributable to the shares of the DB Group is extrapolated.

f) Financial assets

Arms'-length purchases or sales of financial assets are recognized or eliminated on the settlement date.

Available-for-sale financial assets

Available-for-sale financial assets are normally recognized with their fair value. If the fair value of equity instruments is not reliably measurable, the available-for-sale financial assets are recognized at cost of purchase less any impairment.

Shares in non-consolidated subsidiaries and other holdings are also considered to be available-for-sale financial assets. In view of their minor significance, they are normally recognized at amortized cost of purchase, as the market value of these shares cannot be reliably determined.

Available-for-sale long- or short-term securities are recognized with their market values as of the reporting date – where such values exist. Changes in fair value are recognized with no impact on the income statement in the reserve attributable to the marking-to-market of securities.

Receivables and other financial assets

Receivables and other financial assets are initially recognized at cost of purchase, whereby the cost of purchase corresponds to the fair value of the rendered service. Long-term interest-free or low-interest receivables (receivables due after more than one year) are discounted to the present value of future cash flows. Discounted receivables are adjusted for cumulative interest in subsequent periods with the effective interest fixed for initial valuation.

Receivables for which there are substantial objective indications of an impairment are adjusted appropriately. Portfolio-based allowances are also recognized in relation to groups of assets; in particular, historical default rates are taken into consideration.

Cash and cash equivalents

This item comprises cash in hand and checks, deposits at banks which are due on sight, as well as cash equivalents. Balances at banks comprise overnight money as well as time deposits due within three months.

Cash and cash equivalents are recognized with their nominal value.

g) Inventories

All costs which are directly related to the procurement process are capitalized as the costs of purchase of the inventories. The average method is used as the basis for establishing the cost of purchase of fungible and homogeneous raw materials and supplies. Costs of production comprise individual costs as well as the directly allocatable overheads.

At the balance sheet date, inventories are stated with the lower of cost or net realizable value.

h) Available-for-sale non-current assets

Under IFRS 5, non-current assets are classified as available-for-sale non-current assets if their carrying amount is to be realized by way of sale and not by way of continued use. This can be an individual asset, a disposal group or part of a company. Non-current available-for-sale assets are stated with the lower of carrying amount or market value less costs which are incurred.

i) Deferred taxes

Deferred taxes are calculated in accordance with IAS 12 (Income Taxes).

The domestic Group tax rate used as the basis for calculating deferred taxes is unchanged at 40.0 %, and comprises the corporation tax rate plus the solidarity surcharge as well as an average trade tax rate. Foreign subsidiaries use their relevant local tax rates for calculating deferred taxes.

A deferred tax asset is recognized in accordance with IAS 12.24 or IAS 12.34 if, after corresponding deferred tax liabilities have been deducted, it is likely that adequate taxable income is available. The medium-term planning with additional estimates is used as the basis of this process. Deferred tax assets relating to income which can only be generated after the medium-term period are not recognized, on the grounds that they cannot be reliably determined.

Deferred taxes are established on the basis of the tax rates which can be expected for the period in which the deferred tax is realized on the basis of existing laws or laws which have in essence been adopted.

j) Financial debt and liabilities

Current liabilities are normally recognized with their nominal amount, which corresponds to the fair value at the point at which the liability is initially recognized and the amortized costs of purchase up to the date at which the liability is settled. Financial debt and other non-current liabilities, when initially recognized, are stated with the amount which corresponds to the fair value of the received assets, where appropriate less transaction costs. Subsequently, they are stated using amortized costs of purchase using the effective interest method. The differences between the amount paid out less transaction costs and the amount repaid are recognized in the income statement over the life of the liability.

Interest-free government loans which are related to infrastructure capital expenditures are recognized with the present value of the amounts to be repaid and are adjusted to their nominal repayment amount over their life. The difference between the nominal amount of the loan and the present value is recognized as an interest benefit under accruals. Interest income attributable to the pro-rata reversal of these accruals compensates for the interest expense relating to the loans.

Liabilities arising from leases which are classified as finance leases in accordance with the allocation criteria of IAS 17 are recognized with the present value of minimum leasing payments at the beginning of the lease, and are subsequently stated under financial debt in the amount of amortized cost of purchase. The leasing installments are broken down into an interest component and a repayment component. The interest component of the leasing installment is recognized in the income statement.

k) Employee benefits

Pension obligations and similar commitments

In the DB Group, there are defined benefit as well defined contribution retirement pension systems.

The provision for defined benefit retirement pension systems stated in the balance sheet corresponds to the present value of the pension obligations (Defined Benefit Obligation; DBO) less any plan assets on the balance sheet date, adjusted by cumulative actuarial profits and losses which are not reflected in the income statement and subsequently applicable service time which has not been recognized. The pension obligation is calculated annually by independent actuarial experts using the projected unit credit method. Actuarial profits and losses are not recognized if they do not exceed 10 % of the higher of the obligation or the present value of plan assets (10 % corridor rule). The amount which exceeds the corridor is recognized over the expected average remaining service time of the employees covered by the plan.

Subsequently applicable service time is immediately recognized in the income statement, unless the changes in the pension plan (retirement pension system) depend on the employee remaining in the company for a defined period (the period up to the point at which the rights become vested). In this case, the subsequently applicable service time is recognized in the income statement on a straight-line basis over the period up to the point at which the rights become vested.

The expense arising from applying interest to the pension obligations and the expected income from the plan assets is recognized in financial result.

In the case of defined contribution retirement pension systems, the DB Group pays contributions to public-sector or private retirement pension schemes either voluntarily or as a result of a contractual or statutory obligation. The DB Group does not have any additional payment obligations beyond having to pay the contributions. The contributions are recognized in personnel expenses when they are due. Advance payments of contributions are recognized as assets to the extent that there is a right for a repayment or reduction of future payment.

Payments on the occasion of termination of employment contracts (severance packages)

Severance packages become payable if an employee is released from his duties before normal pensionable age or if an employee voluntarily terminates his employment contract in return for a severance package. Severance payments are recognized if there is a demonstrable obligation either to terminate the employment agreements of current employees in accordance with a detailed formal plan which cannot be reversed, or to pay severance payments if the employment contract is voluntarily terminated by employees within the framework of employment contract termination agreements.

Severance package obligations for agreements agreed as of the balance sheet date are recognized as other liabilities and – if they are not yet included in individual agreements and if they are part of a restructuring obligation in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) – are stated as other provisions.

Semi-retirement agreements are based on the so-called block model. The top-up amounts paid in addition to salary by the DB Group during the semi-retirement period as well as additional contributions to the statutory pension insurance scheme constitute benefits arising upon termination of the employment contract. They are shown with their present value at the point at which the obligation originated. The compensation backlog (plus the employer's contributions to social insurance) for the additional work performed during the employment phase is also shown with the present value. The expenses attributable to cumulative interest on the obligations are shown under personnel expenses.

Other benefits due in the long term

Employees who are covered by the Long-Term Account Wage Agreement (Langzeitkonten-Tarifvertrag; Lzk-TV) are given the opportunity of converting their overtime into a credit which is maintained in the form of a cash equivalent. The DB Group has agreed to pay the compensation for the additional overtime plus the related employer's contributions to social insurance into the "Fonds zur Sicherung von Wertguthaben e.V." (credit fund) every month at the point at which the salary payment becomes due. The credit fund has been established in the legal form of a registered association as a joint institution of the wage-bargaining parties in accordance with the Wage Bargaining Act (Tarifvertragsgesetz). The wage-bargaining parties, in their capacities as members of the association, are responsible for managing and administering the credits.

The compensation paid to the employees starting with the beginning of the phase during which the employees are exempted from their duties is financed out of the credit fund. The length of the phase during which the employees are exempted from their duties is determined by the size of the credit which has accumulated.

With regard to the credits, no further financial risks are retained in the DB Group when the funds are paid out.

The plan is treated as a defined contribution scheme.

l) Other provisions

Other provisions are set aside if there is a legal or actual obligation resulting from a past event which is more than 50 % likely to result in an outflow of resources and if the extent of the obligation can be reliably estimated. If it is likely that a provision will be refunded, for instance as a result of an insurance policy, the refund is recognized as a separate asset only if it is as good as certain. The income from refunds is not netted with the expenses.

Non-current provisions are discounted using market interest rates. Environmental protection provisions for the rehabilitation of existing ecological damage are discounted on the basis of real interest rates, which are adjusted to reflect the risk and the period until fulfillment. The difference between the nominal value of the expected outflows and the present value recognized for the environmental protection provisions is stated under deferred income, and represents the interest benefit resulting from the longer-term release of the provision. The cumulative interest expense attributable to other provisions is recognized in financial result.

m) Deferred income

Deferred public-sector grants

The DB Group receives various public-sector grants, which are provided in relation to specific assets or on the basis of a specific performance. The grants are recognized as soon as it is certain that the grant will indeed be provided and that the criteria necessary for the grant to be received are satisfied. The grants relating to specific assets, and in particular investment grants, are netted directly with the subsidized assets. The interest benefit (difference between nominal value and present value) of interest-free loans is deferred on the basis of the contractual grant conditions.

Deferred profits from sale-and-lease-back agreements

If capital gains have been realized in conjunction with sale-and-lease-back agreements and if the subsequent lease has to be classified as a finance lease, these gains are deferred and released with an impact on the income statement over the life of the relevant agreements.

n) Derivative financial instruments

Management of financial and energy risks

The DB Group is exposed to financial risks as a result of changes in interest rates and exchange rates. In addition, there are also energy price risks on the procurement side as a result of fluctuations in the prices of diesel fuel and electricity. One of the aspects of corporate policy is to actively manage and thus limit these risks by means of the use of derivative financial instruments.

DB AG with its central Group Treasury is responsible for all financing and hedging transactions of the DB Group. It cooperates with the subsidiaries to identify, evaluate and hedge financial and energy risks.

The Management Board of DB AG has defined principles for risk management. The Group financing guidelines and the internal control system guidelines regulate the use of derivative financial instruments for managing interest rate, currency and energy price risks as well as associated counterparty default risks. In the structure and procedure organization, there is a clear functional and organization distinction between scheduling and trading on the one hand (front office) as well as settlement and monitoring on the other (back office). Group Treasury operates on the global financial markets using the Minimum Requirements Applicable for Risk Management (Mindestanforderungen an das Risikomanagement; MaRisk) of the banks prepared by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht; BaFin), and is subject to regular internal and external control.

Derivative financial instruments are used exclusively for hedging interest, currency and energy price risks. All individual transactions correspond to on-balance-sheet or anticipated underlyings (for instance bonds, commercial paper, purchases of diesel fuel and electricity). Speculation is not permitted. Ongoing market and risk assessment takes place as part of risk management.

Interest rate risks

In line with the length of time that assets are tied up, the financial requirement is covered mainly by issuing long-term and fixed-interest bonds. Interest rate management comprises a reasonable amount of variable interest for optimizing interest costs. Interest rate risks are primarily hedged by means of interest swaps.

Foreign currency risks

Group financing issues foreign currency bonds which are converted into Euro liabilities by means of interest-currency swaps in order to avoid interest and exchange rate risks.

We have international operations with our activities in the Transport and Logistics Group division, and are thus exposed to operational exchange rate risks. In order to minimize those risks, the subsidiaries enter into internal currency transactions with Group Treasury. Group Treasury in turn hedges its open foreign currency positions by way of opposite transactions on the financial markets.

The DB Group has numerous holdings in foreign subsidiaries, whose net assets are exposed to a currency translation risk. This risk is not hedged.

Energy price risks

The DB Group is one of the largest consumers of electricity in Germany. In addition, the Group also requires considerable volumes of diesel fuel. The high energy procurement volume and the volatility of electricity and mineral oil markets result in substantial earnings risks.

Hedging strategies for controlling and minimizing these risks are implemented as part of active energy price risk management. Financial and energy derivatives are used for these purposes. Swaps on the raw materials underlying the price formulae are used as hedges for risks of price changes for purchasing electricity. Diesel price risks are for instance limited by taking out diesel swaps and zero-cost collars (hybrid hedges of diesel price and currency risks and individual hedges of currency risks).

Counterparty default risk of interest, currency and energy derivatives

Counterparty default risk is defined as possible losses due to the default of counterparties ("worst-case scenario"). It represents the replacement costs (at market values) of the derivative financial instruments for which the DB Group has claims against contract partners. The counterparty default risk is monitored and actively managed by way of strict requirements relating to the creditworthiness of the counterparty at the point at which the transactions are concluded and also throughout the entire life of the transactions, and also by way of defining risk limits.

Liquidity risk

Liquidity management involves maintaining adequate cash and cash equivalents, constantly checking the commercial paper market for ensuring adequate market liquidity and depth, and the constant availability of financial resources via guaranteed credit facilities of banks.

Recognition of derivative financial instruments

At the point at which the contract is concluded, derivative financial instruments are recognized as a financial asset or a financial liability in the balance sheet. They are initially recognized at cost of purchase. Derivative financial instruments are normally subsequently recognized with their fair value. The treatment of changes in the fair value depends on the type of the hedged underlying transaction. At the point at which the contract is taken out, derivative financial instruments are generally classified as a hedging instrument (a) for hedging the fair value of certain assets or liabilities recognized in the balance sheet (fair value hedge) or (b) for hedging the cash flows arising from a contractual obligation or an expected transaction (cash flow hedge).

Fair-value hedges

The purpose of fair value hedges is to provide protection against changes in the value of balance sheet items. In these cases, the hedge as well as the hedged risk content of the underlying transaction are recognized with their present value. Changes in value are recognized in the income statement.

The DB Group currently does not have any fair value hedges.

Cash flow hedges

Cash flow hedges are used to provide protection against fluctuations in the cash flows of financial assets or liabilities. When future cash flows are hedged, the hedging instruments are also recognized with their fair value. Changes in value however are initially recognized in shareholders' equity with no impact on the income statement, and are only recognized in the income statement at the point at which the corresponding losses or profits from the underlying transaction have an impact on the income statement or the transactions expire.

Derivative financial instruments which do not satisfy the requirements for recognizing hedges in accordance with IAS 39

If hedges which in economic terms are used for interest, currency or price hedging do not satisfy the restrictive requirements of IAS 39 for being recognized as a hedge, the changes in value are immediately recognized in the income statement.

Calculation of the fair value

The fair value of financial instruments which are traded in an active market is derived from the market price applicable on the balance sheet date. Current valuation methods are used for establishing the fair value of financial instruments which are not traded in an active market, and assumptions which were appropriate on the basis of the market conditions applicable on the balance sheet dates are made. Option price or present value models are used for assessing the value of other derivative financial instruments.

Capital management in the DB Group (in accordance with IAS 1)

The purpose of financial management in the DB Group is to achieve sustainable growth in the enterprise value and also to comply with a capital structure which is adequate for maintaining an excellent rating.

The capital structure is managed on the basis of the gearing figure. Gearing is defined as the ratio between net financial debt (financial debt less cash and cash equivalents) and shareholders' equity. The main instruments for managing the capital structure are: repayment of financial debt as well as strengthening of the capital base by way of retained earnings or a capital increase.

The medium-term target is gearing of 100 %; i.e. identical percentages of net financial debt and shareholders' equity. This objective is unchanged compared with the previous year. Gearing has developed as follows:

€ million	2006	2005
Financial debt	19,881	19,974
– Cash and cash equivalents	– 295	– 305
= Net financial debt	**19,586**	**19,669**
÷ Carrying amount equity	9,214	7,675
= Gearing	**213 %**	**256 %**

Gearing has improved compared with the previous year particularly as a result of the positive development in profits, which were used completely for strengthening the capital base, as well as the slight reduction in net financial debt.

Critical assessments and appraisals

The consolidated financial statements are based on assessments and assumptions relating to the future. Assessments and appraisals established on this basis are continuously reviewed, and are based on historical experience and other factors, including expectations of future events which appear to be reasonable in the given circumstances. Of course, the assessments will not always correspond to subsequent actual circumstances.

The assessments and assumptions which may involve a significant risk in the form of a major adjustment of the carrying amounts of assets and liabilities during the next financial year are discussed in the following.

a) Impairment of cash generating units

Depending on specific events or circumstances, the DB Group regularly assesses whether there is any need for impairment of a cash generating unit. The fundamental aspects and assumptions of the impairment method used in the DB Group in accordance with IAS 36 (Impairment of Assets) are detailed in this section under the heading "Impairment of assets". We have provided the following explanations concerning individual assumptions which have an impact on the value of a CGU:

EBITDA margin

If at the end of the planning period the actual EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) margin is 10 % lower than the current budget assumption, and if this effect would also have an impact on the cash flows forecast after this period, the carrying amounts of the property, plant and equipment and the intangible assets have to be impaired by approximately € 70 million (previous year: € 0 million). The goodwill shown for the CGUs Schenker and Railion would even then be still positive.

Average real growth rate of cash flows

If the growth rate of operating cash flows assumed after the planning period were to be 10 % lower than the current assumption – i.e. 0.9 % p.a. instead of the currently assumed 1.0 % p.a. – there would be no need for impairment for the property, plant and equipment and the intangible assets (as was the case in the previous year).

Weighted average cost of capital

If the capitalization rate before taxes which was used for calculating the value in use were to be 10 % higher than the current assumption – i.e. 9.7 % instead of the currently assumed 8.8 % (previous year: 9.7 % instead of the assumed 8.8 %) – the carrying amount of the property, plant and equipment and the intangible assets would not have to be impaired.

Service life and residual value

If the residual value of the cash generating units were to be 10 % lower at the end of their service lives, the carrying amount of the property, plant and equipment and the intangible assets would not decline, as was the case in the previous year.

b) Deferred taxes

The calculation of deferred tax assets is generally based on the medium-term planning. If the sum of net profits planned for the medium-term planning period were to decline by 10 % in conjunction with otherwise unchanged tax parameters, deferred tax assets would have to be adjusted by € 203 million (previous year: € 183 million).

c) Environmental protection provisions

The environmental protection provisions relate primarily to the obligation of DB AG to remedy the ecological contamination which arose before January 1, 1994 on the land of the former Deutsche Bundesbahn and the former Deutsche Reichsbahn. The ecological contamination comprises mainly contamination of soil and ground water as a result of using the properties. The obligation to rehabilitate the property is derived from the Federal Soil Protection Act (Bundesbodenschutzgesetz; BBodSchG), the Water Management Act (Wasserhaushaltsgesetz; WHG), the Landfill Site Ordinance (Deponieverordnung; DepV) as well as other additional acts and ordinances.

The provisions have been calculated on the basis of a discounting method using the present value, where rehabilitation measures are probable, the rehabilitation costs can be reliably estimated and no future benefit is expected to be derived from these measures.

The estimation of future rehabilitation costs is subject to various uncertainties. In addition to technical developments in the rehabilitation field and the intensity of innovation, changes in the legal background can also have a substantial impact on rehabilitation costs. For establishing the amount of the provision stated in the balance sheet, the rehabilitation obligations which are currently physically known or identifiable have been used as the basis for estimating the expected costs in relation to the current price level.

The environmental protection provisions are stated on the basis of expected cash-effective outflows and the application of a risk-adjusted real interest rate in a range between 0.06 % and 1.37 %.

If major legal conditions or official covenants result in implementation times of rehabilitation measures which differ considerably from the estimated time corridor, this might result in a changed time horizon for the expected cash outflows, and also to a changed provision. In addition, price increases may also result in a higher provision.

Notes to the Income Statement

(1) Revenues

€ million	2006	2005
Revenues from services	29,725	24,822
thereof orderd-service fees for rail transport	(4,551)	(4,537)
Revenues from sale of goods	328	233
Total	**30,053**	**25,055**
thereof BAX Global	(2,629)	-

Revenues have increased to € 30,053 million (+19.9 %). Adjusted by the major effects of changes in the scope of consolidation, and in particular the contributions to revenues made by the BAX Global Group, the increase is 7.7 % (previous year: 4.9 %). Ordered-service fees relate to fees generated by performance-based transport contracts with the federal states.

Movements in revenues broken down according to business segments and regions are set out in segment reporting.

(2) Inventory changes and internally produced and capitalized assets

€ million	2006	2005
Inventory changes	- 51	- 29
Internally produced and capitalized assets	1,941	1,702
Total	**1,890**	**1,673**
thereof BAX Global	(0)	-

Own investments relate mainly to construction and project business in rail infrastructure and also the modernization of rolling stock as well as the processing of appropriate spare parts. The increase compared with the previous year is attributable mainly to a higher volume of component processing in heavy-vehicle maintenance. This includes in particular bogies for passenger and freight stock.

(3) Other operating income

€ million	2006	2005
Services for third parties and sales of materials	599	549
Income from federal grants	347	283
Income from the release of provisions	325	163
Income from the disposal of property, plant and equipment and intangible assets	293	246
Leasing and rental income	234	200
Income from claims for damages and compensation	84	143
Income from the disposal of non-current financial instruments	75	105
Income from the reversal of negative differences	18	0
Other income	884	677
Total	**2,859**	**2,366**
thereof BAX Global	(15)	-

The decision of the Federal Administrative Court (Bundesverwaltungsgericht) with regard to the question which has to be resolved between the Federal Republic of Germany and DB AG as to whether the payment notice for 2002 for railway police services issued to DB AG is proper had a major influence on the extent of other operating income in the period under review. With its verdict of May 17, 2006, the Federal Administrative Court in the final instance decided in favor of DB AG that the payment notice issued for the assessment period 2002 has to be cancelled. In addition, the legal ordinance underlying the payment notice was declared to be ineffective. After the decision of the Federal Administrative Court, the amounts paid for the assessment periods 2002, 2003 and 2004 were reimbursed to DB AG. The provision which had been created in the consolidated financial statements 2005 for the assessment period 2005 was reversed to the income statement. With regard to the entire reporting period for 2006, a figure of € 256 million will accordingly be shown as sundry items under operating income.

The income from state grants comprises mainly compensation payments of public-sector bodies in connection with the Railway Crossing Act (Eisenbahnkreuzungsgesetz; EKrG) and the Municipal Transport Financing Act (Gemeindeverkehrsfinanzierungsgesetz; GVFG) as well as compensation payments for equal-height crossings in accordance with an EU ordinance. The grants are received mainly by rail infrastructure companies. The increase compared with the previous year is primarily attributable to higher grants in the Track Infrastructure segment. This also reflects the impact of the reversal in the income statement of a grant for lost planning costs received in previous years. The corresponding previous year figures have been adjusted.

The increase in income from the reversal of provisions is attributable to numerous exceptional issues. Provisions have been reversed in connection with repayments of rolling stock subsidies, revaluation of early retirement obligations, ecological problems as well as tax risks of previous investment sales.

The income shown in 2006 from the reversal of negative differences is attributable to the acquisition of the outstanding shares in Aurelis Real Estate GmbH & Co. KG.

(4) Cost of materials

€ million	2006	2005
Costs of raw materials, consumables and supplies	2,090	1,697
Costs of purchased services	11,289	8,315
Maintenance expenses	3,070	2,638
Total	**16,449**	**12,650**
thereof BAX Global	(1,905)	-

The adjustments to inventories recorded under cost of materials amount to € 5 million (previous year: € 8 million).

Beside the additional inclusion of BAX Global, increases compared with the previous year were reported mainly for energy costs and the business expansion in the Schenker segment with correspondingly higher input payments. Higher maintenance services were also reported for the rolling stock as well as infrastructure installations.

(5) Personnel expenses and employees

€ million	2006	2005
Wages and salaries		
Employees	6,649	5,986
Civil servants assigned	1,326	1,425
	7,975	**7,411**
Social security costs		
Employees	1,281	1,256
Civil servants assigned	289	294
Costs of adjusting staffing levels	120	157
Retirement benefit expenses	117	93
	1,807	**1,800**
Total	**9,782**	**9,211**
thereof BAX Global	(391)	-

The figure stated for personnel expenses includes expense of € 621 million for defined-contribution plans (previous year: € 638 million).

The amount for personnel adjustment comprises mainly expenses arising from severance payment agreements, early retirement agreements, agreements relating to part-time working in the run-up to retirement as well as restructuring measures.

The retirement benefit expenses relate to active persons as well as persons who are no longer employed in the DB Group or their surviving dependants. They are attributable mainly to additions to pension provisions, employer's contributions to the company pension scheme as well as the retirement benefit contributions of employees which are paid by the DB Group. The interest expense relating to the compounding of pension obligations and the expected income from the plan assets is stated under financial result. For detailed explanations regarding the development of pension obligations, please refer to the Notes under (31).

The activities of civil servants in the DB Group are based on statutory secondment within the framework of the section 2 (12) Rail Restructuring Act (Eisenbahnneuordnungsgesetz; ENeuOG). For the work of the seconded civil servants, DB AG refunds to the Federal Railway Fund (Bundeseisenbahnvermögen; BEV) those costs which would be incurred if a person subject to collective bargaining agreements were to be employed as an employee instead of the seconded civil servant (pro-forma settlement).

The higher personnel expenses are due to the increase in the number of employees – particularly as a result of the acquisition of BAX Global and StarTrans. The development in the number of employees in the DB Group, converted to full-time employees in each case, is shown in the following:

FTE	At year end		Average for the year	
	2006	2005	2006	2005
Employees	189,331	175,522	188,475	177,937
Civil servants	39,869	40,867	40,515	42,406
Subtotal	**229,200**	**216,389**	**228,990**	**220,343**
Trainees	8,099	8,235	7,144	7,280
Total	**237,299**	**224,624**	**236,134**	**227,623**

The development in the number of employees, based on the number of natural persons, is shown in the following:

	At year end 2006	At year end 2005
Employees	199,353	185,223
Civil servants	41,913	42,990
Subtotal	**241,266**	**228,213**
Trainees	8,099	8,235
Total	**249,365**	**236,448**
thereof BAX Global	(11,945)	–

In the event of changes in the scope of consolidation, the employees are included on a pro-rata basis up to the time of deconsolidation or after the date of initial consolidation.

(6) Depreciation

Depreciation relates mainly to the property, plant and equipment used as rail infrastructure as well as the rolling stock. In the income statement, depreciation is shown less any reversals of prior impairments in the period under review.

For further explanations, please refer to the details concerning the development in property, plant and equipment or intangible assets under Notes (13) and (14).

(7) Other operating expenses

€ million	2006	2005
Rental and leasing expenses	866	757
Other purchased services	394	331
Travel and entertaining expenses	201	166
Loss from disposal of property, plant and equipment and intangible assets	193	153
Legal, consultancy and audit fees	175	160
Insurance expenses	173	163
Contributions and fees	152	152
Other personnel-related expenses	106	72
Sales promotion and advertising expenses	96	78
Cost of printing and office supplies	88	72
Damages payable	79	131
Other taxes	74	63
Research and not capitalized development costs	9	16
Impairments in receivables and other assets	4	89
Other	534	677
Total	**3,144**	**3,080**
thereof BAX Global	(274)	–

Adjusted by the addition of BAX Global to the scope of consolidation, other operating expenses have declined compared with the previous year's figure.

Legal, consultancy and audit fees comprise fees of € 18.8 million for the auditor of the consolidated financial statements (previous year: € 15.2 million); of this figure, audits of financial statements accounted for € 10.3 million (previous year: € 9.5 million), attestation services accounted for € 4.4 million (previous year: € 2.5 million), tax consultancy accounted for € 0.5 million (previous year: € 0.1 million) and other services accounted for € 3.6 million (previous year: € 3.1 million).

Claims for damages in the previous year included expenses for recourse claims of customers in the transport segments which were not repeated to the same extent in the year under review.

The previous year's figure for other expenses includes the provision created for the payment notice for 2005 of the Federal Police (€ 64 million). Comparable expenses were not incurred in the year under review.

(8) Results of companies accounted for using the equity method

The following contributions to earnings are recognized in the income statement as a result of shares in companies over which significant influence can be exercised or which are managed as joint ventures.

€ million	2006	2005
Joint ventures		
Scandlines AG	3	42
Other	2	2
	5	**44**
Associated companies		
EUROFIMA	6	8
Other	7	24
	13	**32**
Total	**18**	**76**

The results for 2006 of Scandlines AG relate to the months January to March 2006 before the shares were reclassified as "available-for-sale".

The decline in other income from participations accounted for using the equity method is attributable to the fact that Schenker Linjegods AS, Oslo/Norway, is now included in the group of fully consolidated companies.

(9) Net interest income

€ million	2006	2005
Interest income		
Other interest and similar income	75	59
Interest income from the release of deferred income	258	260
	333	**319**
Interest expenses		
Other interest and similar expenses	- 886	- 828
Interest accrued on non-current provisions and liabilities	- 235	- 284
Interest element of finance lease payments	- 81	- 85
Interest cost of retirement benefit obligations	- 72	- 67
	- 1,274	**- 1,264**
Total	**- 941**	**- 945**
thereof BAX Global	(3)	-

The increase in other interest expenses is primarily attributable to the fact that capital market debt on average for the year was higher than in the previous year. The new bond issue of USD 800 million issued in December 2005 by DB Finance B.V., Amsterdam/Netherlands, for partially refinancing the acquisition of BAX Global Inc., Delaware/USA, had an impact on interest in 2006. In addition, the considerable increase in the level of short-term rates resulted in higher interest expenses for variable-rate liabilities.

(10) Other financial result

€ million	2006	2005
Result from equity investments	8	9
Result from currency exchange gains	187	- 125
Result from foreign exchange-based derivative contracts	- 191	128
Result from other derivative financial instruments	- 2	- 2
Result from disposal of financial instruments	1	0
Impairments on financial instruments	- 2	- 3
Total	**1**	**7**
thereof BAX Global	(0)	-

The result of exchange rate effects is attributable to the conversion of foreign currency liabilities or receivables with an impact on the income statement using the spot rate applicable on the reference date (IAS 21). It was considerably higher compared with the previous year's figure, particularly as a result of the weaker US-Dollar and Japanese Yen (JPY) against the Euro and the associated decrease in USD and JPY liabilities. The result of currency-based derivatives comprises the reclassification of currency-related changes in the market value of cash flow hedges recognized under shareholders' equity with no impact on the income statement. The result from other derivatives relates to the development in the market value of derivatives which are not classified as effective hedges in accordance with IAS 39. The result of exchange rate effects has to be netted theoretically with the result of currency-related derivatives.

(11) Taxes on income

€ million	2006	2005
Effective taxes payable	- 122	- 101
Income due to lapsing of tax obligations	3	11
Effective taxes on income expenses	**- 119**	**- 90**
Deferred tax income	244	211
Total	**125**	**121**
thereof BAX Global	(- 13)	-

Actual taxes on income have been incurred primarily at foreign subsidiaries.

In the year under review, deferred tax income resulted from additional future possibilities of using temporary differences and losses carried forward, particularly within Germany.

Starting with the net income of the DB Group before taxes on income and the theoretical taxes on income calculated using a Group tax rate of 40.0 %, the following reconciles the calculated taxes with the actual taxes on income:

€ million	2006	2005
Profit before taxes on income	1,555	490
Tax rate for the Group	40 %	40 %
Expected tax expense	**- 622**	**- 196**
Additional and used existing temporary differences (previous year: additional existing temporary differences)	592	116
Tax effects related to IAS 12.33	154	154
Other effects	- 44	- 61
Income not subject to tax	33	99
Differences in tax rates of foreign companies	29	24
Expenses not deductible for tax purposes	- 16	- 15
Effect of changes in tax legislation	- 1	0
Taxes on income as reported	**125**	**121**
Effective tax rate	- 8.0 %	- 24.7 %

The reconciliation amount as detailed in IAS 12.33 relates exclusively to additional tax write-downs resulting from the fact that tax-free grants in the IFRS financial statements have been deducted directly from the costs of purchasing the assets. It is not permissible for deferred taxes to be created in relation to these temporary differences.

The other effects in the year under review comprise in particular effects attributable to the fact that domestic taxes on income differ from predicted taxes on income as a result of different assessment bases used for the individual types of taxes on income.

(12) Earnings per share

Under IAS 33 (Earnings per Share), undiluted earnings per share are calculated by dividing the net profit of the DB Group attributable to the shareholders of DB AG by the weighted average number of shares in issue during the financial year. Undiluted earnings per share correspond to diluted earnings per share.

€ million	2006	2005
Net profit for the year	1,680	611
thereof attributable to minority interests	15	31
thereof attributable to shareholders of Deutsche Bahn AG	1,665	580
Number of issued shares	430,000,000	430,000,000
Earnings per share (€/share), undiluted	3.87	1.35
Earnings per share (€/share), diluted	3.87	1.35
thereof from discontinuing operations	(0.00)	(0.00)

Notes to the Balance Sheet

(13) Property, plant and equipment

Property, plant and equipment as of December 31, 2006 € million	Land	Commercial, office and other buildings	Permanent way structures	Track infrastructure, signaling and control equipment	Rolling stock for passenger and freight transport	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under construction	Total
Cost of purchase and manufacturing costs									
As of Jan 1, 2006	5,124	5,003	10,672	13,191	18,104	1,124	3,508	4,578	**61,304**
Changes in the scope of consolidation	2	64	0	0	0	4	153	0	**223**
Additions	59	302	441	1,355	570	85	451	3,262	**6,525**
Investment grants	- 3	- 86	- 294	- 943	- 45	- 18	- 38	- 2,321	**- 3,748**
Transfers	- 22	278	1,222	589	410	55	97	- 2,636	**- 7**
Transfers related to assets held for sale	0	0	0	0	0	0	- 2	0	**- 2**
Disposals	- 88	- 71	- 12	- 100	- 288	- 26	- 449	140	**- 894**
Currency translation differences	- 1	2	0	0	- 4	- 1	- 14	0	**- 18**
As of Dec 31, 2006	**5,071**	**5,492**	**12,029**	**14,092**	**18,747**	**1,223**	**3,706**	**3,023**	**63,383**
Depreciation									
As of Jan 1, 2006	- 303	- 1,465	- 2,141	- 6,381	- 7,535	- 664	- 2,061	- 1,204	**- 21,754**
Changes in the scope of consolidation	0	- 12	0	0	0	- 3	- 107	0	**- 122**
Scheduled depreciation	- 15	- 182	- 178	- 718	- 1,071	- 76	- 416	0	**- 2,656**
Impairments	- 8	- 2	- 14	- 58	- 94	- 2	- 8	- 4	**- 190**
Reversal of impairment losses	0	0	0	35	0	0	0	0	**35**
Transfers	6	- 14	- 760	16	9	- 8	10	743	**2**
Transfers related to assets held for sale	0	0	0	0	0	0	2	0	**2**
Disposals	12	46	5	77	222	20	364	- 1	**745**
Currency translation differences	0	2	0	0	2	0	13	0	**17**
As of Dec 31, 2006	**- 308**	**- 1,627**	**- 3,088**	**- 7,029**	**- 8,467**	**- 733**	**- 2,203**	**- 466**	**- 23,921**
Net book value Dec 31, 2006	**4,763**	**3,865**	**8,941**	**7,063**	**10,280**	**490**	**1,503**	**2,557**	**39,462**
Net book value Dec 31, 2005	**4,821**	**3,538**	**8,531**	**6,810**	**10,569**	**460**	**1,447**	**3,374**	**39,550**

Property, plant and equipment as of December 31, 2005 € million	Land	Commer-cial, office and other buildings	Permanent way structures	Track infra-structure, signaling and control equipment	Rolling stock for passenger and freight transport	Technical equipment and machinery	Other equipment, operating and office equipment	Advance payments and assets under con-struction	Total
Cost of purchase and manufacturing costs									
As of Jan 1, 2005	5,090	4,707	10,300	12,314	17,372	1,117	3,033	5,331	**59,264**
Changes in the scope of consolidation	10	55	0	0	48	- 5	21	0	**129**
Additions	128	233	370	1,014	603	68	372	3,516	**6,304**
Investment grants	- 1	- 50	- 285	- 813	- 45	- 13	- 41	- 2,771	**- 4,019**
Transfers	- 11	102	309	756	305	- 12	447	- 1,896	**0**
Transfers related to assets held for sale	0	0	0	0	0	0	0	0	**0**
Disposals	- 92	- 39	- 22	- 80	- 178	- 32	- 328	398	**- 373**
Currency translation differences	0	- 5	0	0	- 1	1	4	0	**- 1**
As of Dec 31, 2005	**5,124**	**5,003**	**10,672**	**13,191**	**18,104**	**1,124**	**3,508**	**4,578**	**61,304**
Depreciation									
As of Jan 1, 2005	- 289	- 1,260	- 1,977	- 5,725	- 6,678	- 647	- 1,800	- 883	**- 19,259**
Changes in the scope of consolidation	- 2	- 37	0	0	- 6	2	- 14	0	**- 57**
Scheduled depreciation	0	- 168	- 166	- 695	- 1,026	- 73	- 384	0	**- 2,512**
Impairments	- 24	- 16	- 3	- 35	- 73	- 2	- 6	- 325	**- 484**
Reversal of impairment losses	0	0	0	18	0	0	0	0	**18**
Transfers	6	- 5	0	- 2	92	28	- 119	0	**0**
Transfers related to assets held for sale	0	0	0	0	0	0	0	0	**0**
Disposals	6	20	5	58	155	28	266	4	**542**
Currency translation differences	0	1	0	0	1	0	- 4	0	**- 2**
As of Dec 31, 2005	**- 303**	**- 1,465**	**- 2,141**	**- 6,381**	**- 7,535**	**- 664**	**- 2,061**	**- 1,204**	**- 21,754**
Net book value Dec 31, 2005	**4,821**	**3,538**	**8,531**	**6,810**	**10,569**	**460**	**1,447**	**3,374**	**39,550**
Net book value Dec 31, 2004	**4,801**	**3,447**	**8,323**	**6,589**	**10,694**	**470**	**1,233**	**4,448**	**40,005**

Impairments of € 190 million (previous year: € 309 million) mainly relate to rolling stock of DB Regio AG and track of DB Netz AG.

Reversals of impairments relating to track of DB Netz AG amounted to € 35 million (previous year: € 18 million).

The positive disposals of € 140 million (previous year: € 398 million) relating to the purchase and production costs for assets under construction are attributable to the repayment of investment grants received and netted against assets in previous years.

Financial debt was backed by tangible assets with carrying amounts of € 241 million (previous year: € 280 million). This relates primarily to rolling stock which is used for securing loans of EUROFIMA AG (Europäische Gesellschaft für die Finanzierung von Eisenbahnmaterial), Basle/Switzerland, and which are used at the operating companies of the Long-Distance Transport, Regional Transport and Railion segments.

Property, plant and equipment includes rented assets which are shown separately in the following overview. The rented property, plant and equipment comprises assets which are substantially but not legally owned by the DB Group, so that the underlying lease agreements have to be classified as finance leases.

Leased assets € million	**Land**	**Commer-cial, office and other buildings**	**Permanent way structures**	**Track infra-structure, signaling and control equipment**	**Rolling stock for passenger and freight transport**	**Technical equipment and machinery**	**Other equipment, operating and office equipment**	**Total**
Assets leased from third parties under finance leases								
Cost of purchase and manufacturing costs	3	730	19	0	1,103	0	52	**1,907**
Accumulated depreciation	0	-120	-1	0	-605	0	-31	**-757**
Carrying amount Dec 31, 2006	**3**	**610**	**18**	**0**	**498**	**0**	**21**	**1,150**
Cost of purchase and manufacturing costs	5	725	19	0	1,102	1	55	**1,907**
Accumulated depreciation	-1	-101	-1	0	-536	-1	-28	**-668**
Carrying amount Dec 31, 2005	**4**	**624**	**18**	**0**	**566**	**0**	**27**	**1,239**

The figure stated for commercial, office and offer buildings under rented assets of property, plant and equipment relates mainly to concourse buildings of DB Station & Service AG. The figure stated under passenger and freight transport stock relates mainly to the rolling stock used by the transport companies of the DB Group (engines, multiple units, freight cars).

The assets which are established retroactively and also on the basis of our own surveys, and which are leased by way of an operating lease (mainly land and buildings), have a residual carrying amount of € 1,749 million as of December 31, 2006 (previous year: € 2,057 million). Rental and leasing payments resulting from the rental and leasing of these assets are expected to be received in future years as detailed in the following:

Expected rental and leasing income € million								**Residual maturity**
	Less than 1 year	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**More than 5 years**	**Total more than 1 year**	**Total**
Dec 31, 2006								
Minimum lease payments	416	192	168	141	118	716	1,335	1,751
Dec 31, 2005								
Minimum lease payments	222	175	160	141	131	627	1,234	1,456

The previous year figures for the expected rent and leasing payments have been adjusted mainly due to the rental income from Deutsche Eisenbahn-Reklame GmbH, Kassel, which had previously not been recognized and which was sold as of November 30, 2005.

(14) Intangible assets

Intangible assets as of December 31, 2006 € million	Capitalized development costs – products currently in use	Capitalized development costs – products under development	Purchased intangible assets	Goodwill	Payments made on account	Total
Cost of purchase and manufacturing costs						
As of Jan 1, 2006	110	8	992	317	0	**1,427**
Changes in the scope of consolidation	10	0	142	777	0	**929**
Additions	0	2	44	3	10	**59**
Investment grants	0	0	0	0	0	**0**
Transfers	0	- 1	9	0	- 1	**7**
Transfers related to assets held for sale	0	0	0	0	0	**0**
Disposals	- 12	- 1	- 87	0	1	**- 99**
Currency translation differences	0	0	- 6	- 48	0	**- 54**
As of Dec 31, 2006	**108**	**8**	**1,094**	**1,049**	**10**	**2,269**
Depreciation						
As of Jan 1, 2006	- 77	0	- 459	- 11	0	**- 547**
Changes in the scope of consolidation	- 8	0	- 42	- 1	0	**- 51**
Scheduled depreciation	- 24	0	- 114	0	0	**- 138**
Disposals	0	0	0	- 2	0	**- 2**
Reversal of impairment losses	0	0	0	0	0	**0**
Transfers	0	0	- 3	0	0	**- 3**
Transfers related to assets held for sale	0	0	0	0	0	**0**
Disposals	13	0	73	0	0	**86**
Currency translation differences	0	0	5	0	0	**5**
As of Dec 31, 2006	**- 96**	**0**	**- 540**	**- 14**	**0**	**- 650**
Carrying amount Dec 31, 2006	**12**	**8**	**554**	**1,035**	**10**	**1,619**
Carrying amount Dec 31, 2005	**33**	**8**	**533**	**306**	**0**	**880**

Intangible assets as of December 31, 2005 € million	**Capitalized development costs – products currently in use**	**Capitalized development costs – products under development**	**Purchased intangible assets**	**Goodwill**	**Payments made on account**	**Total**
Cost of purchase and manufacturing costs						
As of Jan 1, 2005	125	15	967	246	3	**1,356**
Changes in the scope of consolidation	0	0	2	– 3	0	**– 1**
Additions	3	4	62	74	3	**146**
Investment grants	0	0	0	0	0	**0**
Transfers	9	– 10	2	0	– 2	**– 1**
Transfers related to assets held for sale	0	0	0	0	0	**0**
Disposals	– 27	– 1	– 43	0	– 4	**– 75**
Currency translation differences	0	0	2	0	0	**2**
As of Dec 31, 2005	**110**	**8**	**992**	**317**	**0**	**1,427**
Depreciation						
As of Jan 1, 2005	– 80	0	– 410	– 10	0	**– 500**
Changes in the scope of consolidation	0	0	– 1	0	0	**– 1**
Scheduled depreciation	– 25	0	– 89	0	0	**– 114**
Impairments	0	0	0	0	0	**0**
Reversal of impairment losses	0	0	0	0	0	**0**
Transfers	0	0	0	0	0	**0**
Transfers related to assets held for sale	0	0	0	0	0	**0**
Disposals	28	0	43	0	0	**71**
Currency translation differences	0	0	– 2	– 1	0	**– 3**
As of Dec 31, 2005	**– 77**	**0**	**– 459**	**– 11**	**0**	**– 547**
Carrying amount Dec 31, 2005	**33**	**8**	**533**	**306**	**0**	**880**
Carrying amount Dec 31, 2004	**45**	**15**	**557**	**236**	**3**	**856**

Segment reporting shows the allocation of reported goodwill to the various segments.

(15) Shares in companies accounted for using the equity method

in Mio. €	2006	2005
As of Jan 1	378	418
Additions	0	4
Disposals through sale	- 5	- 7
Group share of profit	18	76
Capital increase	0	5
Other equity movements	0	- 9
Dividends received	- 10	- 71
Transfers	- 198	- 28
Currency translation differences	- 5	- 10
As of Dec 31	**178**	**378**

Of the figure relating to transfers (€ 198 million), € 197 million relates to the fact that shares in the joint venture Scandlines AG, Rostock, were reclassified as "available-for-sale" on April 1, 2006 in accordance with IFRS 5.

The remaining figure shown in the balance sheet as of December 31, 2006 is attributable mainly to the shares held in the associated company EUROFIMA, Basle/Switzerland. The shares are not fully negotiable.

(16) Deferred taxes

€ million	2006	2005
Deferred tax assets in respect of temporary differences	1,729	1,475
Deferred tax assets in respect of tax losses carried forward	71	81
Total	**1,800**	**1,556**

No deferred tax assets have been created in relation to the following losses carried forward and temporary differences:

€ million	2006	2005
Tax loss carry-forwards for which no deferred tax asset has been recognized	18,106	17,886
Temporary differences for which no deferred tax asset has been recognized	3,087	4,690
Temporary differences for which IAS 12 paragraph 33 prohibits recognition of a deferred tax asset	5,858	6,242
Total	**27,051**	**28,818**

The losses carried forward have resulted primarily from the tax treatment of payments made in previous years by the Federal Government to DB AG in accordance with section 21 (5) and section 22 (1) Deutsche Bahn Foundation Act (Deutsche Bahn Gründungsgesetz; DBGrG) in the form of a contribution.

According to current legislation, domestic losses carried forward are not forfeitable.

The temporary differences which are subject to the recognition prohibition set out in IAS 12.24b in conjunction with IAS 12.33 relate exclusively to additional tax costs resulting from tax-free investment grants received previously.

The following deferred tax assets and deferred tax liabilities shown in the balance sheet are applicable in relation to statement and valuation differences for the individual balance sheet items and tax losses carried forward:

€ million	Deferred tax assets		Deferred tax liabilities	
	2006	**2005**	**2006**	**2005**
Non-current assets				
Property, plant and equipment	200	254	248	43
Intangible assets	24	19	16	1
Derivative financial instruments	0	0	12	48
Other financial instruments	2	6	1	0
Current assets				
Inventories	1	0	7	5
Trade receivables	44	7	2	48
Current tax receivables	4	4	0	0
Derivative financial instruments	0	0	8	8
Other financial instruments	16	44	3	2
Available for sale	0	0	1	0
Non-current liabilities				
Financial debt	349	465	0	2
Other liabilities	0	0	61	69
Derivative financial instruments	88	162	0	0
Retirement benefit obligations	183	176	4	3
Other provisions	1,425	1,478	5	5
Deferred income	101	89	2	0
Current liabilities				
Financial debt	25	37	7	0
Trade liabilities	68	60	2	0
Other liabilities	253	294	3	2
Income tax liabilities	12	0	1	0
Derivative financial instruments	100	4	0	0
Other provisions	361	437	2	2
Deferred income	21	7	0	0
Tax loss carry-forwards	71	81	0	0
Subtotal	**3,348**	**3,624**	**385**	**238**
Valuation allowance	-1,235	-1,876	0	0
Offsetting [1]	-313	-192	-313	-192
Amount stated in the balance sheet	**1,800**	**1,556**	**72**	**46**

[1] To the extent permitted by IAS 12 (Income Taxes)

Tax assets and liabilities are netted if they exist in relation to the same tax authority, if they are of identical maturity and if they relate to the same tax subject.

The figure shown in the balance sheet for deferred taxes includes an amount of € 17 million (previous year: € 32 million) for deferred tax assets arising from off-balance-sheet provision.

No deferred tax liabilities have been created in relation to temporary differences in connection with shares in subsidiaries of € 782 million (previous year: € 567 million), because there are no indications that corresponding profits will be realized in the near future. If deferred taxes were to be recognized for these timing differences, the relevant withholding tax rate, where appropriate using German taxation of 5 % for distributed dividends and capital gains which are generated, would have to be used for calculation purposes.

(17) Available-for-sale financial assets

€ million	Investments in subsidiaries		Other shareholdings		Securities		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
As of Jan 1	10	11	122	122	10	7	**142**	**140**
Currency translation differences	0	0	0	0	0	0	**0**	**0**
Changes in the scope of consolidation	0	0	0	- 1	0	0	**0**	**- 1**
Additions	8	0	12	5	7	3	**27**	**8**
Disposals through sale	- 1	0	- 17	- 1	- 1	0	**- 19**	**- 1**
Other disposals	0	- 1	0	0	0	0	**0**	**- 1**
Fair value changes	0	0	0	0	0	0	**0**	**0**
Reclassifications	0	0	0	0	0	0	**0**	**0**
Impairment losses	0	0	0	- 3	0	0	**0**	**- 3**
Other	0	0	0	0	0	0	**0**	**0**
As of Dec 31	**17**	**10**	**117**	**122**	**16**	**10**	**150**	**142**
Non-current amount	17	10	117	122	16	10	**150**	**142**
Current amount	0	0	0	0	0	0	**0**	**0**

(18) Inventories

€ million	2006	2005
Raw materials, consumables and supplies	742	718
Unfinished products, work in progress	201	246
Finished products and goods	39	34
Advance payments	13	12
Value adjustments	- 285	- 294
Total	**710**	**716**

(19) Receivables and other assets

€ million	Trade receivables	Receivables from financing	Advance payments	Other assets	Total
As of Dec 31, 2006					
Gross value	3,520	33	152	603	**4,308**
Value adjustments	- 280	0	0	- 65	**- 345**
Net value	**3,240**	**33**	**152**	**538**	**3,963**
thereof due from related parties	(42)	(17)	(0)	(225)	**(284)**
As of Dec 31, 2005					
Gross value	2,983	26	82	667	**3,758**
Value adjustments	- 320	- 2	0	- 67	**- 389**
Net value	**2,663**	**24**	**82**	**600**	**3,369**
thereof due from related parties	(42)	(20)	(0)	(300)	**(362)**

The following overview details the maturity structure of the receivables:

€ million							Residual maturity	
	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total more than 1 year	Total
As of Dec 31, 2006								
Trade receivables	3,192	9	6	10	9	14	48	**3,240**
Receivables from financing	15	1	1	5	1	10	18	**33**
Advance payments	127	25	0	0	0	0	25	**152**
Other assets	501	5	0	0	0	32	37	**538**
Total	**3,835**	**40**	**7**	**15**	**10**	**56**	**128**	**3,963**
As of Dec 31, 2005								
Trade receivables	2,625	8	3	5	9	13	38	**2,663**
Receivables from financing	4	2	1	3	1	13	20	**24**
Advance payments	57	25	0	0	0	0	25	**82**
Other assets	371	207	0	0	0	22	229	**600**
Total	**3,057**	**242**	**4**	**8**	**10**	**48**	**312**	**3,369**

The increase in trade accounts receivable is attributable primarily to the acquisition of BAX Global as well as the associated expansion of operations in the Schenker segment.

As a result of the large number of customers in the various operating segments, there is no evidence of any concentration of credit risks with trade accounts receivable.

The fair values of the receivables and other assets are to a large extent equivalent to the carrying amounts.

(20) Receivables attributable to taxes on income

The receivables attributable to taxes on income relate primarily to allowable withholding taxes, e. g. allowable German tax on unearned income (Kapitalertragssteuer).

(21) Derivative financial instruments

The volume of hedges which have been taken out is shown in the following overview of nominal values:

€ million	2006	2005
Interest rate-based contracts		
Interest rate swaps	4,139	5,624
	4,139	**5,624**
Currency-based contracts		
Currency swaps	259	618
Currency forward/future contracts	233	94
Other currency derivatives	0	31
Interest rate/currency swaps	3,178	2,972
	3,670	**3,715**

	2006	2005
Other contracts		
Diesel derivatives in 1,000 metric tons	547	221
Electricity forward contracts in GWh	–	1,477
HSL in 1,000 metric tons	240	–
Hard coal in 1,000 metric tons of a coal equivalent (“MTCE”)	504	–

The volume of interest rate swaps declined appreciably in the year under review. This was attributable to the termination of the swaps which were taken out in connection with Aurelis financing and which were reversed with an impact on the income statement when the company was refinanced. Moreover, some transactions expired, whereas no new business was conducted in this segment. With the interest rate/currency swaps, the new contracts taken out more than compensated for the expiry of old transactions as a result of bond issues, resulting in an increase in the nominal volume in this category.

The nominal value of currency swaps declined. A lower value of short-term foreign currency refinancing compared with the end of 2005 resulted in a reduction in the hedging requirement in this category. On the other hand, the volume of currency forwards increased, due to growth in international operating business.

The volume of diesel derivatives expanded strongly after the hedging horizon was considerably expanded in the period under review. Electricity price hedging expired this year, and was replaced by hedges for the relevant raw materials (coal and gas).

All derivative financial instruments are marked to market on the reporting date. The following overview shows the structure of the item stated in the balance sheet depending on the type of underlying hedge:

€ million	Assets		Liabilities	
	2006	**2005**	**2006**	**2005**
Interest rate-based contracts				
Interest rate swaps	23	85	30	121
	23	**85**	**30**	**121**
Currency-based contracts				
Currency swaps	1	6	2	1
Currency forward/ future contracts	2	1	2	0
Interest/currency swaps	4	12	393	269
	7	**19**	**397**	**270**
Other contracts				
Energy price derivatives	0	8	38	6
	0	**8**	**38**	**6**
Total	**30**	**112**	**465**	**397**
Interest rate-based contracts	19	77	24	113
Currency-based contracts	4	12	183	252
Non-current portion	**23**	**89**	**207**	**365**
Current portion	7	23	258	32

In order to minimize the interest and exchange rate risk, virtually all variable interest financial liabilities have been converted into fixed-income liabilities, and the foreign currency issues have been transformed into Euro.

The figure shown for interest derivatives on the assets and liabilities side of the balance sheet declined. Following the non-recurrence of Aurelis transactions and the expiry of business, the increase in the level of interest rates in the Euro zone and the shorter remaining term also contributed to this factor.

The strengthening of the Euro against all major currencies resulted in a considerable increase in the liabilities arising from interest rate/currency swaps. On the other hand, the other currency-related transactions virtually cancelled each other out in terms of value.

As prices have been declining since energy price hedging was taken out, the transactions conducted this year reported a negative development in value at the end of the year.

The market values of the cash flow hedges are shown as follows under assets and liabilities:

€ million	Assets		Liabilities	
	2006	**2005**	**2006**	**2005**
Interest rate-based contracts				
Interest rate swaps	0	0	0	26
	0	**0**	**0**	**26**
Currency-based contracts				
Currency swaps	1	6	2	1
Interest/currency swaps	4	12	393	269
	5	**18**	**395**	**270**
Other contracts				
Energy price derivatives	0	2	38	1
	0	**2**	**38**	**1**
Total	**5**	**20**	**433**	**297**
Interest rate-based contracts	0	0	0	26
Currency-based contracts	4	12	183	252
Non-current portion	**4**	**12**	**183**	**278**
Current portion	1	8	250	19

As part of Group financing arrangements, interest risks for future financing arrangements have been hedged using interest derivatives (forward-start interest swaps). Opposite hedges were taken out when the corresponding underlyings were transacted. In addition, early fixed-interest financing arrangements have been converted temporarily to a variable interest arrangement in certain cases in order to avoid cost-of-carry effects. Forward-start interest swaps in conjunction with fixed-income bond issues and the temporary exchange of fixed interest for variable interest do not satisfy the requirements for recognition of hedges in accordance with IAS 39, and have to be shown as “non-hedge transactions”. The market values of the transactions are shown under assets and liabilities as follows:

€ million	Assets		Liabilities	
	2006	2005	2006	2005
Interest rate-based contracts				
Interest rate swaps	23	85	30	95
	23	**85**	**30**	**95**
Currency-based contracts				
Currency forward/ future contracts	2	1	2	0
	2	**1**	**2**	**0**
Other contracts				
Energy price derivatives	0	6	0	5
	0	**6**	**0**	**5**
Total	**25**	**92**	**32**	**100**
Interest rate-based contracts	19	77	24	87
Non-current portion	**19**	**77**	**24**	**87**
Current portion	6	15	8	13

The maximum counterparty default risk resulting from the derivative financial instruments as of the balance sheet date is € 30 million (previous year: € 112 million).

The decline in counterparty default risks compared with the previous year was attributable mainly to the development in the value of the derivatives portfolio, particularly due to the reduction of the positive figure stated for interest swaps. The maximum single risk – default risk in relation to individual counterparties – is € 12 million, and relates to a bank with a Moody's rating of Aa3. For transactions with terms of more than one year, all banks with which there is a counterparty default risk have a Moody's rating of at least A1.

(22) Cash and cash equivalents

€ million	2006	2005
Cash at banks and in hand	291	292
Cash equivalents	4	13
Total	**295**	**305**

	2006	2005
Effective interest rate on short-term bank deposits in %	3.22	2.23
Average term of short-term bank deposits in months	0.1	0.1

The interest rates for current bank deposits were in a range of between 2.3 % and 3.7 % (previous year: 1.9 % to 2.4 %).

(23) Available-for-sale assets and liabilities

€ million	Dec 31, 2005	Disposal	Addition	Dec 31, 2006
Shares in companies accounted for using the equity method	0	0	147	147
Receivables and other assets	4	- 4	1	1
Cash and cash equivalents	16	- 16	2	2
Assets	**20**	**- 20**	**150**	**150**
Other liabilities	4	- 4	2	2
Retirement benefit obligations	9	- 9	1	1
Other provisions	3	- 3	0	0
Liabilities	**16**	**- 16**	**3**	**3**

The disposals comprise the assets and liabilities of STINNES-data-SERVICE GmbH, which were available-for-sale as of December 31, 2005 and the shares of which were sold with effect from January 1, 2006.

The additions of € 147 million are attributable to the carrying amount of the shares in Scandlines AG, Rostock (€ 197 million), which were reclassified as of April 1, 2006 less the pro-rata dividend of € 50 million received after the time of the reclassification.

The other items relate to DB GesundheitsService GmbH, the shares of which were transferred to the purchaser in January 2007. The activities of the company were included in the holdings/other activities segment.

(24) Subscribed capital

The share capital of Deutsche Bahn AG is € 2,150 million, consisting of 430,000,000 no-par value bearer shares. All shares are held by the Federal Republic of Germany.

(25) Reserves

a) Capital reserve

The capital reserve comprises reserves which have not been part of earnings since January 1, 1994.

b) Reserve resulting from valuation with no impact on profit or loss

Reserve for currency translation differences

The currency translation differences resulting from the method of functional currency (IAS 21) are shown separately as part of consolidated shareholders' equity.

Reserve for fair value valuation of securities

The reserve includes the market changes of financial instruments which have been classified as "available-for-sale financial assets" and which have to be recognized with no impact on profit or loss. The reserve has to be reversed to the income statement or eliminated when a financial instrument is sold or in the event of a permanent reduction in the fair value of a financial instrument.

Reserve attributable to the market valuation of cash flow hedges

This item shows the interest- and currency-related changes in the fair value of cash flow hedges applicable for effective hedges.

The development in the reserve is shown in the following:

€ million	2006	2005
As of Jan 1	-35	-26
Changes in fair value	-175	124
Reclassifications		
Financial result	192	-127
Other	-1	-12
Changes in deferred taxes	-7	6
As of Dec 31	**-26**	**-35**

(26) Generated results

Generated shareholders' equity contains all net profits generated since January 1, 1994 less goodwill netted under HGB up to December 31, 2002.

This item also shows the impact on shareholders' equity attributable to the first-time adoption of IFRS if it is not included in the reserves attributable to valuation with no impact on the income statement.

(27) Minority interests

Minorities comprise the share of third parties in the net assets of consolidated subsidiaries.

(28) Financial debt

This item shows all interest-bearing liabilities including the interest-free government loans stated with their present values. The maturity structure of debt is as follows:

€ million								Residual maturity
	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total more than 1 year	Total
As of Dec 31, 2006								
Government loans	308	248	583	439	208	1,814	3,292	**3,600**
Bonds	1,450	1,124	1,357	990	1,310	5,002	9,783	**11,233**
Commercial paper	357	0	0	0	0	0	0	**357**
Bank borrowings	506	208	53	2	1	801	1,065	**1,571**
EUROFIMA loans	0	0	656	0	0	953	1,609	**1,609**
Finance lease liabilities	70	128	109	169	65	945	1,416	**1,486**
Other finance liabilities	25	0	0	0	0	0	0	**25**
Total	**2,716**	**1,708**	**2,758**	**1,600**	**1,584**	**9,515**	**17,165**	**19,881**
thereof due to related companies	(327)	(248)	(1,239)	(439)	(208)	(2,767)	(4,901)	**(5,228)**
As of Dec 31, 2005								
Government loans	344	281	225	547	410	1,833	3,296	**3,640**
Bonds	430	1,516	1,134	1,346	994	4,695	9,685	**10,115**
Commercial paper	0	0	0	0	0	0	0	**0**
Bank borrowings	421	66	267	113	62	1,722	2,230	**2,651**
EUROFIMA loans	256	0	0	656	0	953	1,609	**1,865**
Finance lease liabilities	66	71	127	109	168	1,008	1,483	**1,549**
Other finance liabilities	147	0	0	0	3	4	7	**154**
Total	**1,664**	**1,934**	**1,753**	**2,771**	**1,637**	**10,215**	**18,310**	**19,974**
thereof due to related companies	(706)	(281)	(225)	(1,203)	(410)	(2,786)	(4,905)	**(5,611)**

The following fair values are summarized compared with the carrying amounts:

€ million	Carrying amount 2006	Fair value 2006	Carrying amount 2005	Fair value 2005
Government loans	3,600	3,728	3,640	4,034
Bonds	11,233	11,520	10,115	10,812
Commercial paper	357	357	0	0
Bank borrowings	1,571	1,576	2,651	2,662
EUROFIMA loans	1,609	1,685	1,865	2,019
Finance lease liabilities	1,486	1,542	1,549	1,672
Other finance liabilities	25	25	154	154
Total	**19,881**	**20,433**	**19,974**	**21,353**

The differences between the carrying amounts and the fair values of the financial debt are due to the usually lower market interest rates for debt with a comparable risk profile. Commercial paper and other financial liabilities do not show any material differences between the carrying amounts and the fair values as a result of short maturities and accordingly interest rates which are close to market interest rates.

Government loans are attributable almost exclusively to financing provided by the Federal Republic of Germany for capital expenditures in expanding and replacing track. This is based on the responsibility for the transport needs of the public (section 87e [4] GG) which is anchored in the Basic Law (Grundgesetz) and specified in the Federal Track Expansion Act (Bundesschienenwegeausbaugesetz; BSchwAG). The loans have been extended as interest-free loans.

The interest-free loans have developed as follows:

€ million	2006	2005
As of Jan 1	3,640	3,619
Addition	61	58
Repayment	- 359	- 365
Reclassification	80	138
Cumulative interest	178	190
As of Dec 31	**3,600**	**3,640**

The arrangements for repaying the loans are detailed in individual and collective financing agreements. In general, the loans are repaid in equal annual installments, which are based on the corresponding annual depreciation applicable for the financed assets.

The issued bonds consist of the following transactions:

€ million	Volume of issue	Issue currency	Residual maturity in years	Effective interest rate in %	Carrying amount 2006	Fair value 2006	Carrying amount 2005	Fair value 2005
Unlisted bonds:								
Total DB AG	67	JPY, USD	4.7 - 5.5	–	47	47	53	54
Total DB Finance B.V.	189	HKD, JPY, CHF	5.5 - 7.5	–	159	163	175	179
Total					**206**	**210**	**228**	**233**
Listed bonds of DB Finance B.V.:								
Bond 1997-2007	511	DEM	0.8	5.850	511	518	510	535
Bond 1998-2008	767	DEM	1.4	5.150	765	776	764	800
Bond 1999-2009	1,350	EUR	2.5	5.600	1,341	1,373	1,338	1,425
Bond 2000-2010	1,000	EUR	3.5	6.150	995	1,059	994	1,117
Bond 2001-2006	31	DEM	–	4.800	–	–	31	31
Bond 2001-2006	263	CHF	–	3.300	–	–	257	261
Bond 2001-2008	53	DKK	1.8	5.250	54	54	53	56
Bond 2001-2008	42	SEK	1.8	5.500	44	45	42	45
Bond 2001-2008	50	NOK	1.8	7.000	49	50	50	54
Bond 2001-2013	750	EUR	6.9	5.250	744	791	744	832
Bond 2002-2007	512	CHF	0.4	3.350	467	469	482	493
Bond 2002-2007	604	USD	0.6	4.700	455	453	507	507
Bond 2002-2008	170	CHF	2.0	3.200	155	157	160	166
Bond 2002-2012	500	EUR	5.6	5.500	498	531	497	560
Bond 2002-2008	76	USD	1.0	FRN	57	57	64	64
Bond 2002-2006	51	USD	–	FRN	–	–	42	42
Bond 2002-2006	100	EUR	–	FRN	–	–	100	100
Bond 2003-2018	1,000	EUR	11.2	5.000	986	1,034	984	1,095
Bond 2003-2015	700	EUR	8.5	4.600	688	703	687	738
Bond 2004-2011	209	USD	4.5	5.090	189	189	211	213
Bond 2004-2018	300	EUR	11.2	4.850	297	310	297	329
Bond 2004-2007	17	EUR	0.8	3.000	17	17	17	17
Bond 2004-2009	17	EUR	2.8	3.500	17	17	17	17
Bond 2004-2016	500	EUR	9.9	4.300	498	499	498	527
Bond 2004-2014	366	JPY	7.9	1.700	317	317	358	363
Bond 2004-2011	197	CHF	5.0	2.300	185	183	191	192
Bond 2006-2011	678	USD	4.0	5.200	606	607	0	0
Bond 2006-2011	316	USD	4.0	5.820	296	304	0	0
Bond 2006-2018	300	EUR	11.2	4.510	306	310	0	0
Bond 2006-2017	500	EUR	10.0	4.116	495	487	0	0
Total					**11,032**	**11,310**	**9,895**	**10,579**
Adjustments from derivatives					- 5		- 8	
Total					**11,233**	**11,520**	**10,115**	**10,812**

In December 2005, a new bond was issued by DB Finance B.V., Amsterdam/Netherlands, for USD 800 million for funding the acquisition of BAX Global Inc., Delaware/USA. This bond was increased further by USD 400 million in June 2006. In July 2006, a bond for € 1,300 million due to mature in 2018 was topped up by € 300 million. In November 2006, DB Finance B.V., Amsterdam/Netherlands, issued a new benchmark bond for € 500 million due to mature in 2017. The purpose of the new issue as well as the two increases was to partially refinance bonds and loans which became due.

In 2006, four maturing bonds of DB Finance B.V., Amsterdam/Netherlands, for CHF 400 million, USD 50 million, € 100 million and DEM 60 million, were repaid in total.

Bonds issued in foreign currency were swapped into Euro, and there is accordingly no currency risk attached to these original financial instruments. One exception in this respect is the USD 800 million issue, which was used partially for direct payment of USD payment obligations.

As part of short-term liquidity management, 111 commercial paper issues with terms of between seven and 273 days were transacted in the 2006 financial year. The average amount outstanding was € 559 million (previous year: € 432 million). Commercial paper in the amount of € 357 million was outstanding as of the balance sheet date (previous year: € 0 million).

Bank debt is detailed in the following table:

Bank borrowings € million	**Currency**	**Residual maturity in years**	**Effective interest rate in %**	**Carrying amount 2006**	**Fair value 2006**	**Carrying amount 2005**	**Fair value 2005**
Loan 1998-2008	DEM	1.8	4.770	51	52	51	53
Loan 1998-2008	DEM	1.9	4.720	51	52	51	53
Loan 1999-2008	DEM	1.8	4.580	51	52	51	53
Loan 1999-2009	DEM	2.2	4.850	51	52	51	53
Loan 2002-2016	EUR	9.7	FRN	200	200	200	200
Loan 2002-2022	EUR	15.7	FRN	200	200	200	200
Loan 2003-2016	EUR	9.7	FRN	200	200	200	200
Loan 2003-2022	EUR	15.7	FRN	200	200	200	200
Aurelis Loans	EUR	–	FRN	–	–	1,217	1,217
Note loan 1998-2008	DEM	1.3	5.310	51	52	51	53
Note loan 2001-2006	EUR	–	5.300	–	–	75	76
Note loan 2005-2006	USD	–	4.550	–	–	212	212
Overdrafts	EUR			400	400	–	–
Other				116	116	92	92
Total				**1,571**	**1,576**	**2,651**	**2,662**

The "Bank loans Aurelis" were prematurely repaid. Related derivatives were reversed accordingly.

As part of the liquidity management process, short-dated loans were regularly taken out with banks; as of the balance sheet date, the utilization of overdraft facilities amounted to a total of € 400 million (previous year: € 0 million). Overall, bank borrowings declined by € 1,080 million compared with the previous year.

Of the figure stated for bank borrowings, € 8 million was secured (previous year: € 11 million).

As of December 31, 2006, guaranteed loan facilities with a total volume of € 2,859 million (previous year: € 2,889 million) were available to the DB Group. Of this figure, € 2,075 million was applicable to back-up lines for the € 2.0 billion commercial paper program of Deutsche Bahn AG and DB Finance B.V. None of these back-up lines had been drawn down as of December 31, 2006. Global credit facilities for a total of € 784 million are used for financing the subsidiaries with worldwide operations, primarily in the Schenker segment.

The liabilities due to EUROFIMA, Basle/Switzerland, are detailed in the following:

Liabilities due to EUROFIMA € million	**Currency**	**Residual maturity in years**	**Effective interest rate in %**	**Carrying amount 2006**	**Fair value 2006**	**Carrying amount 2005**	**Fair value 2005**
Loan 1996-2006	DEM	–	6.000	–	–	256	263
Loan 1997-2009	DEM	3.0	5.625	256	266	256	279
Loan 1999-2009	EUR	2.8	5.750	400	417	400	437
Loan 2000-2014	EUR	7.8	5.970	219	244	219	261
Loan 2001-2014	EUR	7.7	5.410	300	324	300	345
Loan 2002-2012	EUR	5.6	FRN	34	34	34	34
Loan 2002-2012	EUR	5.6	FRN	400	400	400	400
Total				**1,609**	**1,685**	**1,865**	**2,019**

As was the case last year, no new EUROFIMA loans were taken out in the year under review. A loan of € 256 million became due and was repaid. The liabilities due to EUROFIMA are secured by way of transfer of ownership of rail material (rolling stock) in view of the statutes of EUROFIMA.

Of the figure stated for liabilities attributable to finance leases, € 468 million (previous year: € 481 million) related to real estate leasing agreements for various concourse buildings of DB Station & Service AG and a logistic center of Schenker Deutschland AG, and € 818 million (previous year: € 854 million) related to leasing agreements for various rolling stock (multiple units, engines, freight cars). These agreements have generally been concluded as sale-and-leaseback transactions for achieving advantageous financing conditions with German lessors. The following table provides information concerning the main finance leases:

€ million	Nominal amount	Currency	Residual maturity in years	Effective interest rate in %	Carrying amount 2006	Fair value 2006	Carrying amount 2005	Fair value 2005
Finance leases – assets other than real estate								
ICE 1 multiple units (1994)	119	DEM	1.5	5.75	69	70	74	78
Double-deck coaches (1994)	174	DEM	6.0	5.87	122	130	128	143
ICE 2 multiple units (1997)	184	DEM	4.0	4.50	126	127	134	140
Locomotives/ freight cars (1999)	182	NLG	2.0 – 6.3	5.69 – 5.83	115	120	122	132
Freight locomotives (2000)	101	DEM	8.5	5.35	84	91	87	99
Freight locomotives (2000)	154	EUR	10.0	5.40	140	150	143	162
Locomotives (2001)	178	EUR	8.5 – 10.0	4.87	162	168	166	181
					818	**856**	**854**	**935**
Finance leases – real estate								
Logistics center (1986)	24	DEM	9.0	8.50	10	12	12	14
Concourse buildings (1998)	497	DEM	6.3 – 15.0	4.00 – 5.95	458	474	469	509
					468	**486**	**481**	**523**
Other					200	200	214	214
Total					**1,486**	**1,542**	**1,549**	**1,672**

The above finance leases for engines and multiple units cannot be terminated during a fixed basic lease, and have a maximum remaining term of ten years. Most of the contracts contain a clause enabling the lessee to purchase the assets for the residual value or the higher market value after the end of the lease, whereby the difference between the residual value and the market value at the end of the lease is shared between the lessor (25 %) and the lessee (75 %).

The finance leases for concourse buildings of DB Station & Service AG have a maximum remaining term of 15 years, and cannot be terminated during the fixed lease. At the end of the lease, the lessee is able to buy the assets for a fixed price. If this option is not exercised, the lease is extended for a second period, at the end of which the lessor has a put option for the real estate with regard to the lessee.

The item “Other” also includes the carrying amount of a power procurement agreement of DB Energie GmbH worth € 150 million (previous year: € 158 million). The agreement relates to the exploitation of the energy generated by the six hydro-electric power stations of the Rhine-Main-Danube chain, and is classified as an embedded financial lease in view of the fact that most of the power is purchased by DB Energie GmbH and also in view of the underlying duration of the agreement in accordance with IFRIC 4 (Determining whether an Arrangement contains a Lease) in conjunction with IAS 17. Legal ownership of the allocated and recognized assets is retained by the power station operator for the remaining residual term of 44 years, and is not transferred to DB Energie GmbH at the end of the agreement.

In the subsequent years, the following payments have to be made in connection with finance leases:

€ million	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total more than 1 year	Total
								Residual maturity
As of Dec 31, 2006								
Minimum lease payments (nominal value)	147	199	173	229	117	1,120	1,838	**1,985**
– Future finance charges	77	71	64	60	52	175	422	**499**
Finance lease liabilities	**70**	**128**	**109**	**169**	**65**	**945**	**1,416**	**1,486**
As of Dec 31, 2005								
Minimum lease payments (nominal value)	146	147	198	173	228	1,228	1,974	**2,120**
– Future finance charges	80	76	71	64	60	220	491	**571**
Finance lease liabilities	**66**	**71**	**127**	**109**	**168**	**1,008**	**1,483**	**1,549**

(29) Other liabilities

€ million	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total more than 1 year	Total
								Residual maturity
As of Dec 31, 2006								
Trade liabilities	3,568	24	24	23	24	233	328	**3,896**
Other liabilities	3,411	34	14	8	8	45	109	**3,520**
Total	**6,979**	**58**	**38**	**31**	**32**	**278**	**437**	**7,416**
thereof due to related parties	(433)	(0)	(0)	(0)	(0)	(0)	(0)	**(433)**
As of Dec 31, 2005								
Trade liabilities	3,338	28	22	21	23	238	332	**3,670**
Other liabilities	3,682	70	19	12	19	21	141	**3,823**
Total	**7,020**	**98**	**41**	**33**	**42**	**259**	**473**	**7,493**
thereof due to related parties	(370)	(51)	(0)	(0)	(0)	(0)	(51)	**(421)**

The other liabilities comprise the following:

€ million	2006	2005
Personnel-related liabilities		
Unused holiday entitlements	237	224
Outstanding overtime	228	239
Social security	52	158
Severance payments	24	25
Holiday pay	13	8
Christmas bonuses	12	10
Other obligations	382	293
Other taxes		
Value-added tax	0	7
Payroll and church taxes, solidarity surcharge	67	63
Other taxes	152	139
Interest payable	290	222
Deferred construction grants	153	331
Sales discounts	99	273
Liabilities due to Railway Crossings Act	10	12
Reconveyance obligations	2	1
Other	1,799	1,818
Total	**3,520**	**3,823**

The other liabilities were unsecured (previous year: € 17 million secured).

(30) Income tax liabilities

The income tax liabilities as of December 31, 2006 comprise in particular obligations with regard to the fiscal authorities in Germany, Austria, the USA, Norway and Singapore.

(31) Retirement benefit obligations

In the DB Group, a distinction is made between pensions for employees and pensions for civil servants:

Pensions for civil servants

After they retire, civil servants assigned to the companies of the DB Group receive pensions from the Federal Railway Fund (Bundeseisenbahnvermögen; BEV) under the Civil Servants Benefits Act (Beamtenversorgungsgesetz) as a result of their status as civil servants.

Only while the assigned civil servants are actively working for the DB Group are payments made to the BEV as part of a pro-forma settlement in the same way as for newly recruited employees (section 21 (1) DBGrG). These payments also include notational contributions to the statutory pension insurance scheme as well as notational expenses in accordance with the supplementary benefits wage agreement (Tarifvertrag über die betriebliche Zusatzversorgung der Arbeitnehmer der DB AG; ZVersTV). The payments made to the BEV for retirement pensions and supplementary benefits of civil servants are defined-contribution retirement schemes.

Pensions for employees

The retirement benefit obligations with regard to employees relate mainly to employees of German companies.

a) Employees who were employed by the Deutsche Bundesbahn before the company was privatized (January 1, 1994) enjoy supplementary benefits in view of their former membership of the public sector. The employees have a claim against "Section B" of the German Pension Insurance Fund Miners-Rail-Sea (Deutsche Rentenversicherung Knappschaft-Bahn-See; KBS), formerly Railways Insurance Corporation (Bahnversicherungsanstalt; BVA). As a public authority, the KBS has not only assumed responsibility for managing and paying the statutory pension of employees of Deutsche Bahn ("Section A"); it is also responsible for "Section B" for the transferred employees who still have entitlements.

The BEV bears the costs of these additional benefits, less the contribution made by the employees themselves (section 14 (2) DBGrG). Accordingly, DB AG does not set aside any provisions for these public-sector benefits.

b) Employees of the former Deutsche Reichsbahn and the employees who have been recruited since January 1, 1994 receive a company pension from DB AG under the ZVersTV. This supplementary company pension is a defined-benefit scheme.

c) The direct commitments made to senior executives and the commitments arising from other pension obligations are also defined-benefit schemes.

d) In addition, there are also direct insurance policies which are exclusively employee-funded with DEVK Deutsche Eisenbahn Versicherung, Lebensversicherungsverein a. G., as well as a purely employee-funded pension fund with DEVK Pensionsfonds-AG which is governed by the terms of a collective bargaining agreement. These external forms of company pension schemes are not relevant for the purpose of setting aside provisions.

The figures stated for pension provisions in the balance sheet are detailed in the following:

€ million	2006	2005
Funded obligations	208	141
Unfunded obligations	1,556	1,490
Total obligation as of Dec 31	**1,764**	**1,631**
Fair value of plan assets as of Dec 31	- 168	- 118
Unrecognized actuarial gains	- 82	- 99
Net liability recognized in the balance sheet	**1,514**	**1,414**

The total retirement benefit obligations have developed as follows:

€ million	2006	2005
Obligations as of Jan 1	1,631	1,368
Service cost, excluding employee contributions	64	52
Employee contributions	3	2
Interest cost	72	67
Pensions paid	- 51	- 47
Outstanding past service cost	- 3	- 1
Result on transfer/compensation of retirement benefit obligations	- 4	- 2
Transfers	7	3
Effect of changes in the scope of consolidation	57	45
Actuarial gains (-)/losses	- 12	143
Currency effects	0	1
Obligations as of Dec 31	**1,764**	**1,631**

The development of the plan assets is detailed in the following:

€ million	2006	2005
Fair value of plan assets as of Jan 1	118	72
Employer contributions	6	4
Employee contributions	2	1
Expected return on plan assets	8	4
Pensions paid	- 6	- 5
Result on transfer of retirement benefit obligations	- 2	0
Transfers	5	11
Effect of changes in the scope of consolidation	35	26
Actuarial losses	4	2
Currency effects	- 2	3
Fair value of plan assets as of Dec 31	**168**	**118**

The reported plan assets comprise shares and other securities of € 59 million (previous year: € 27 million), interest-bearing securities of € 31 million (previous year: € 26 million), property or other assets used by the company itself of € 4 million as well as reinsurance of € 74 million (previous year: € 65 million).

The actual income from plan assets amounted to € 12 million (previous year: € 6 million).

Changes in the net pension provisions are detailed in the following:

€ million	2006	2005
Provision as of Jan 1	1,414	1,341
Pension expenses	127	115
Employer contributions	- 6	- 4
Pensions paid	- 45	- 43
Transfers	0	- 9
Effect of changes in the scope of consolidation	22	15
Currency effects	2	- 1
Provision as of Dec 31	**1,514**	**1,414**

The expenses to be stated in the income statement are detailed in the following:

€ million	2006	2005
Amortization of unrealized profits/losses	2	- 1
Service cost, excluding employee contributions	64	52
Employee contributions	2	2
Interest cost	72	67
Outstanding past service cost	- 3	- 1
Expected return on plan assets	- 8	- 4
Result on transfer of retirement benefit obligations	- 2	- 1
Asset ceiling	0	1
Pension costs	**127**	**115**

The interest cost and expected income from the plan assets are recorded under financial result. All other items are recognized under personnel expenses.

The actuarial parameters used for assessing the value of most of the pension provision are set out in the following:

%	2006	2005
Discount rate	4.50	4.25
Expected rate of salary increases	2.50	2.50
Expected medical cost trend rate	0.00	0.00
Expected rate of pension increases (dependent on staff group)	2.00	2.00
Expected average staff turnover	2.58	2.58
Expected return on plan assets	2.5 - 6.7	3.25 - 7.0

The 2005 G tables of Professor Dr. Klaus Heubeck have been used for measuring the pension obligations of the German companies in the Group.

The expected income from plan assets has been derived on the basis of the income actually generated in the past. Pension payments of € 50 million are expected for 2007 (previous year: € 48 million).

€ million	2006	2005
Present value of pension obligation as of Dec 31	1,764	1,631
Fair value of plan assets as of Dec 31	- 168	- 118
Deficit	**1,596**	**1,513**
Experience-based adjustment of pension provisions	64	-
Experience-based adjustment of plan assets	4	-

(32) Other provisions

€ million	Environmental protection		Construction and project risks		Staff-related provisions		Decommissioning costs		Other	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
As of Jan 1	2,291	2,342	146	474	1,552	1,668	379	351	2,019	1,895
Currency translation differences	- 2	2	0	0	0	2	0	0	- 1	3
Changes in the scope of consolidation	0	0	0	0	16	- 1	0	0	51	14
Amounts used	- 46	- 54	- 10	- 326	- 442	- 417	- 11	- 3	- 377	- 255
Unused amounts reversed	- 27	0	- 10	- 15	- 65	- 38	- 31	- 12	- 267	- 137
Reclassifications	0	7	- 8	- 3	0	- 16	0	- 1	152	- 3
Additional amounts provided	36	3	4	18	390	308	6	25	614	497
Compounding/ discounting	1	- 9	- 1	- 2	9	46	15	19	5	5
As of Dec 31	**2,253**	**2,291**	**121**	**146**	**1,460**	**1,552**	**358**	**379**	**2,196**	**2,019**

The following table breaks down the other provisions into current and non-current amounts, and also details their estimated residual maturity:

€ million	Residual maturity							
	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total more than 1 year	Total
As of Dec 31, 2006								
Environmental protection	80	159	150	155	169	1,540	2,173	**2,253**
Construction and project risks	71	5	23	4	6	12	50	**121**
Staff-related provisions	487	337	231	157	121	127	973	**1,460**
Decommissioning costs	31	0	0	0	0	327	327	**358**
Other	1,726	311	28	29	11	91	470	**2,196**
Total	**2,395**	**812**	**432**	**345**	**307**	**2,097**	**3,993**	**6,388**
As of Dec 31, 2005								
Environmental protection	87	151	159	151	157	1,586	2,204	**2,291**
Construction and project risks	78	10	6	17	3	32	68	**146**
Staff-related provisions	511	328	247	176	116	174	1,041	**1,552**
Decommissioning costs	33	0	0	0	0	346	346	**379**
Other	1,517	346	30	23	17	86	502	**2,019**
Total	**2,226**	**835**	**442**	**367**	**293**	**2,224**	**4,161**	**6,387**

Provisions for environmental protection

Of the figure stated for environmental protection provisions, € 2,196 million relates to remedial action obligations of DB AG. DB AG has set up the following programs in order to enable it to meet its remedial action obligations covered by the provisions for environmental protection:

- 4-stage soil decontamination program
- 3-stage sewerage network program
- 2-stage landfill shut-down program

These measures will ensure that the work on investigating and carrying out remedial action will be systematic, cost-efficient and consistent with the legal situation.

In the 4-stage soil decontamination program, the contamination in the soil and/or groundwater is localized using the following stages: historical investigation, rough examination and detailed analysis. The program involves a feasibility study, implementation and approval planning as well as remedial action, and due consideration is given to technical and legal requirements for the remedial action which aims to ensure appropriate utilization.

The 3-stage sewerage network program aims to remedy any contamination of soil and/or groundwater resulting from leaks. The program also involves a plan to optimize the existing sewerage network to ensure that it is capable of meeting future requirements and to ensure that the need to take remedial action can be limited to this future network. The network which is not utilized will be decommissioned.

The 2-stage landfill program will guarantee that landfill sites on rail property are identified and measured in a standard manner, and that these landfill sites will be decommissioned in accordance with the Landfill Regulation (Deponieverordnung; DepV) / Technical Instructions for Residential Area Waste (Technische Anleitung Siedlungsabfall; TASi) and the German Federal Soil Protection Act (Bundesbodenschutzgesetz; BBodSchG).

Staff-related provisions

€ million	2006	2005
Obligations under employment contracts	889	884
Costs of early retirement/part-time working in the run-up to retirement	359	466
Service anniversary provisions	96	99
Other	116	103
Total	**1,460**	**1,552**

The staff-related provisions also include obligations which are connected with the employment contracts taken on at the point at which DB AG was founded as of January 1, 1994 and which relate to wage elements attributable to the company's previous existence as a public-sector authority. These obligations comprise charges which can be measured independently and which do not involve any benefits in return and for which offers for compensation have already been made. The provisions also cover obligations which result from the status of many employees under labor law and the willingness of DB AG not to terminate employment contracts for operational reasons before the end of 2010. In such cases, the DB Group will incur losses in the form of personnel expenses which will have to be borne until the employment contract is terminated or the employee is placed with another company; no reciprocal benefit will be provided in return for these costs. DB AG has set up a separate subsidiary, namely DB JobService GmbH, in order to absorb employees who have been made redundant.

The provisions set aside to cover early retirement obligations and part-time working in the run-up to retirement cover the obligations arising from collective bargaining agreements, and have been calculated on the basis of actuarial reports.

Decommissioning provisions

The decommissioning provisions refer mainly to the company's pro-rata decommissioning obligation in relation to a joint power generation plant. The provision has been calculated using a discount rate of 5.0 % (previous year: 5.0 %).

Other provisions

Other provisions comprise provisions for outstanding billings for transport services, return obligations, litigation risks, guarantees and warranties as well as other property risks and numerous additional issues which, in individual cases, are of minor significance.

Of the figure stated for reclassifications, € 145 million relates to the reclassification of outstanding billings of transport services (formerly stated under other liabilities).

(33) Deferred income

€ million	2006	2005
Deferred government grants	2,883	3,136
Deferred revenues	321	260
Deferred profits on sale-and-leaseback transactions	112	131
Other	91	121
Total	**3,407**	**3,648**
Non-current	2,931	3,194
Current	476	454

The deferred government grants comprise mainly the interest benefit (difference between the nominal value and present value) attributable to the interest-free loans; this has developed as follows during the period under review:

€ million	2006	2005
As of Jan 1	2,823	3,199
Additions	36	37
Reclassifications	- 57	- 136
Amounts released	- 266	- 277
As of Dec 31	**2,536**	**2,823**

Of the figure stated for the release in the year under review, most (€ 178 million) is attributable to compensation for the compounding of the present value of interest-free government loans. The remainder is attributable to the release of amortized deferrals relating to premature one-off repayments at the present value in 1999 and in 2004.

Deferred revenues constitute that part of compensation which is attributable to the period after the balance sheet date.

The deferred profits on sale-and-leaseback transactions relate to concourse buildings of various stations with the related retail premises as well as rolling stock.

Notes to the Consolidated Statement of Cash Flows

The cash flow statement is set out on page 128.

It shows the changes in cash and cash equivalents in the year under review and has been prepared in accordance with IAS 7 (Cash Flow Statements). The cash flows are broken down into operating activities, investing activities and financing activities. The indirect method has been used for showing cash flow from operating activities.

Interest income and interest payments, dividend income as well as tax payments are stated under operating activities.

Cash and cash equivalents include the cash and cash equivalents stated in the balance sheet with a residual maturity of less than three months (cash in hand, cash deposited with the Bundesbank, cash at banks and checks as well as securities).

Cash flow from operating activities

The cash flow from operating activities is calculated by adjusting the net profit for the period before taxes by items which are not cash-effective and by adding the change in non-current assets and liabilities. The cash flow from operating activities is then established after due consideration is given to interest and tax payments.

The increase in cash flow from operating activities is attributable primarily to profit before taxes on income which has improved appreciably compared with the previous period.

Cash flow from investing activities

The cash flow from investing activities is calculated as the inflow of funds attributable to the disposal of property, plant and equipment and intangible assets as well as investment grants, and the outflow of funds for capital expenditures in property, plant and equipment and intangible assets as well as non-current financial assets.

Inflow of funds attributable to investment grants is shown under investing activities, because there is a close relationship between investment grants which are received and the outflows of funds for capital spending in property, plant and equipment.

The increase in the outflow of cash from investing activities is attributable to the payments for the acquisition of BAX Global and the StarTrans Group as well as increased levels of investment in property, plant and equipment.

When changes take place in the scope of consolidation as a result of the acquisition or sale of companies, the acquisition price which is paid (excl. any liabilities which are transferred) less the acquired or sold financial resources is stated as cash flow from investing activities. The other effects of the acquisition or sale on the balance sheet are eliminated in the corresponding items of the three categories.

Cash flow from financing activities

The cash flow from financing activities is calculated as the balance of the proceeds from issued bonds, bank borrowings and loans which have been taken out as well as proceeds from taking out interest-free loans and payments for redeeming interest-free loans.

The decline in the outflow of cash from financing activities is mainly attributable to the net increase in inflows from the raising of debt finance. The balance of payments from the redemption and repayment of interest-free loans is virtually unchanged compared with the previous year.

Notes to Segment Reporting

Segment reporting has been prepared in accordance with IAS 14 (Segment Reporting). Our organization and reporting structure has been used as the basis for breaking down selected data in the consolidated financial statements over business segments and regions. The operations of the Group divisions are covered in the primary reporting format in line with the corporate organization structure of the DB Group. The main regions covered by the DB Group are detailed in the segment information based on regions.

With effect from 2006 financial year, individual companies have been allocated to segments which are different to those which were applicable in the previous period. The changes relate to the segments Passenger Transport and holdings/other activities as the transferring segments as well as the segments Urban Transport and Schenker as the absorbing segments. The previous year figures have been adjusted.

The Group's operations are conducted in the following segments:

- **Long-Distance Transport:** This segment comprises all Group operations for long-distance passenger transport and other services. Most transport services are provided in Germany.
- **Regional Transport:** This segment comprises the activities for regional passenger transport and other services. Most of these transport services are provided in Germany.
- **Urban Transport:** The Urban Transport segment comprises the S-Bahn (metro) systems in Berlin and Hamburg as well as urban bus activities. Most of these services are provided in Germany.
- **Railion:** This segment pools the activities for rail freight transport services. The segment operates primarily in Germany, Denmark, the Netherlands and Italy.
- **Schenker:** Schenker has established a global presence as a logistics service provider with activities for freight transport, forwarding and other services.
- **Track Infrastructure:** This segment is responsible for installing, maintaining and operating the complete track-related rail infrastructure in Germany.

- **Passenger Stations:** This segment comprises the operation, development and marketing of passenger stations and retail facilities in stations in Germany.
- **Services:** The Services segment comprises, among others, the activities of DB FuhrparkService (fleet management), DB Services, DB Systems and DB Telematik. These companies provide their services mainly to the other segments of the Group.
- **Holdings/other activities:** This segment comprises DB AG, with its numerous management, financing and service functions in its capacity as the management holding company for the DB Group, as well as DB Energie GmbH, Stinnes AG, DB Projektbau GmbH and other investments and remaining activities.
- **Other/consolidation:** The data concerning the segments are shown after intra-segment relations have been eliminated. The transactions between the segments (inter-segment relations) are eliminated in the column "Other/consolidation". This column also includes reconciliation amounts relating to figures shown in the consolidated financial statements.

Notes to primary segment reporting

The segment revenues comprise external revenues, other external revenues as well as internal segment revenues attributable to the operations of the segment. Inventory changes and internally produced and capitalized assets are not included in segment revenues; their effect is to reduce segment expenses.

The external segment revenues consist exclusively of revenues generated by the segments with parties outside the Group. The internal segment revenues comprise revenues with other segments (inter-segment revenues). Market prices are used for establishing the transfer prices for intra-Group transactions. The segment expenses include cost of materials and personnel expenses, depreciation, impairments and reversals of impairments as well as other operating expenses attributable to the operations of the segment.

Segment result is defined as the difference between segment revenues and segment expenses, and is operating profit before financial result (consisting of earnings from investments accounted for using the equity method, net interest income and other financial result) and taxes on income.

Segment assets comprise property, plant and equipment, intangible assets, receivables and other assets (excluding receivables from financing and taxes on income), inventories, derivative financial instruments related to operations as well as cash and cash equivalents. The amortized goodwill resulting from the acquisition of the relevant companies is shown separately. The figures are reconciled with the figures stated in the consolidated financial statements by including the receivables from financing and receivables related to taxes on income in the column "Other/consolidation".

Segment liabilities comprise the provisions and operating liabilities (excl. liabilities from financing and taxes on income) as well as the derivative financial instruments (liabilities) relating to operations and available-for-sale liabilities. The figures are reconciled with the figures stated in the consolidated financial statements by including the liabilities from financing and liabilities related to taxes on income in the column "Other/consolidation".

Segment capital expenditures comprise gross capital expenditures related to intangible assets (including acquired goodwill) as well as to property, plant and equipment, and, with the additions to assets attributable to company acquisitions and gross capital expenditures, cover all additions to the scope of consolidation as of the balance sheet date before the investment grants which have been received are taken into consideration.

Additions to assets from company acquisitions are shown as part of segment capital expenditures, and comprise exclusively the capital expenditures in property, plant and equipment and intangible assets, including the goodwill acquired as part of company acquisitions.

The additions to assets attributable to gross capital expenditures comprise the property, plant and equipment and intangible assets acquired in the financial year by the companies in the group of fully consolidated companies, before the additions to assets attributable to company acquisitions are taken into consideration.

The net capital expenditures are based on the allocation of the assets to the legal entities, and comprise the additions to assets resulting from gross capital expenditures in property, plant and equipment as well as the intangible assets less the deducted investment grants.

Depreciation refers to the property, plant and equipment attributable to the various segments as well as the intangible assets.

Impairments which are recognized constitute the amount of the impairment relating to the property, plant and equipment and the intangible assets including any goodwill included in the segment assets.

Reversals of prior impairments which are recognized comprise the amount of the reversal in relation to the property, plant and equipment or the intangible assets included in segment assets.

Other non-cash expenditures and income also comprise allocations to or reversals of provisions, impairments and reversals of impairments in relation to current assets and the income from reversing deferred items if they are stated in relation to segments.

Notes to secondary segment reporting

Items are stated under segment income generated with third parties on the basis of the registered offices of the Group company providing the service. Only external income items are stated. This logic is used for showing external revenues.

Segment assets are allocated on the basis of the location of the assets. The break-down of contents is equivalent to that used in the primary reporting format.

Net capital expenditures are also based on the location of the assets and comprise capital spending on property, plant and equipment as well as intangible assets less the relevant investment grants.

Other Information

(34) Contingent receivables and liabilities and guarantee obligations

Contingent receivables as of December 31, 2006 amounted to € 144 million (previous year: € 50 million), and mainly comprised receivables arising from pending processes which had not been completed as of the balance sheet date.

The contingent liabilities and guarantee obligations are broken down as follows:

€ million	2006	2005
Contingent liabilities from		
Guarantees	142	158
Provision of collateral for third-party liabilities	1	0
Provision of warranties	1	2
Other liabilities	249	210
Total	**393**	**370**

The guarantees as of December 31, 2006 consisted mainly of customs guarantees provided for international Schenker companies.

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

(35) Other financial obligations

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

€ million	2006	2005
Committed capital expenditures		
Property, plant and equipment	3,980	3,199
Intangible assets	1	2
Outstanding capital contributions	305	318
Total	**4,286**	**3,519**

The outstanding contributions relate to outstanding contributions to EUROFIMA (€ 305 million; previous year:

€ 317 million). The change in relation to the figure stated for the previous year is attributable to exchange rate effects.

The increase in the order commitment in property, plant and equipment is attributable primarily to an increased volume of capital expenditures, and relates specifically to construction services, security services and the procurement of new rolling stock.

Various companies in the DB Group have leased assets, e.g. property, buildings, technical equipment, plant and machinery as well as operational and business equipment, within the framework of operating lease agreements. If assets relating to the core business of the DB Group have been leased, they are generally leased to cover a temporary requirement up to the point at which the ordered material has been made available for delivery and actually supplied.

The terms of the future minimum payments arising from operating lease agreements are set out in the following table:

€ million	2006	2005
Less than 1 year	699	560
1–2 years	532	396
2–3 years	425	339
3–4 years	321	293
4–5 years	247	244
More than 5 years	1,265	1,184
Total	**3,489**	**3,016**

The increase compared with the previous year is also attributable to the acquisition of BAX Global (€ 179 million) as well as new contracts which have been taken out.

(36) Infrastructure and transport contracts

The following notes and information refer to the requirements of SIC-29 (Disclosure – Service Concession Arrangements).

Infrastructure contracts

In accordance with section 6 of the General Railways Act (Allgemeines Eisenbahngesetz; AEG), the infrastructure companies which belong to the DB Group, and in particular DB Netz AG, DB Station & Service AG and DB Energie GmbH, have been granted temporary authorization as rail infrastructure companies as detailed in section 2 (3) AEG to operate and develop the rail network in Germany. This comprises in detail the authorization to operate the rail network, the related power network and the station premises related to operations.

The approvals of the Federal Railway Authority (Eisenbahnbundesamt; EBA) for DB Netz AG and DB Station & Service AG have been provided until December 31, 2048, and the approvals for DB Energie GmbH have been provided until June 30, 2051.

The right of the rail infrastructure companies to operate the rail infrastructure is connected to various obligations. In particular, the infrastructure companies are obliged to ensure that the rail infrastructure is constructed in a safe manner, that it is maintained in a safe condition and that it is developed further in a forward-looking manner. In addition, the rail infrastructure companies also have to observe statutory duties with regard to noise abatement in the case of any new and expansion projects. The DB Group voluntarily participates in the "Rail Noise Abatement Program" for existing lines.

The rail infrastructure companies provide non-discriminatory access to the rail infrastructure in accordance with section 14 AEG and charge so-called train-path utilization fees to the rail transport companies in accordance with the principles of the Ordinance governing Use of Rail Infrastructure (Eisenbahninfrastrukturbenutzungsverordnung; EIBV). The Federal Network Agency (Bundesnetzagentur) is responsible for monitoring compliance with the principles applicable for imposing the train-path utilization fees in accordance with the EIBV, and is also responsible for ensuring that these principles are applied in a non-discriminatory manner.

The above-mentioned infrastructure companies generated overall revenues of € 6,742 million in 2006 (previous year: € 6,387 million); of this figure, € 1,107 million was generated with non-Group customers (previous year: € 880 million).

The assets of the rail infrastructure are the legal and economic property of the company.

Transport contracts

Service licenses and similar approvals which guarantee the general public access to important economic and public facilities have been granted to companies in the DB Group. This is applicable particularly for DB Regio AG as well as its subsidiaries which conduct rail passenger operations.

DB Regio AG and its subsidiaries provide transport services on the basis of ordered-service contracts. These transport contracts for local passenger transport services are signed with the organization which orders the transport services (e.g. Federal State, special-purpose association, local transport company). These contracts determine the way in which the transport service is provided and continued, and also govern the relevant compensation paid for the transport services (ordered-services fees).

The funds necessary for this purpose are made available to the Federal States by the government in accordance with the regulations of the Regionalization Act (Regionalisierungsgesetz; RegG). The total ordered-services fees amounted to € 4,551 million in the year under review (previous year: € 4,537 million).

The most important rail transport contracts with annual ordered-services fees in excess of € 20 million (previous year figures have been adjusted) are explained in the following:

Overall, these transportation contracts represent € 4,283 million (previous year: € 4,329 million); this corresponds to 94.1% (previous year: 95.4%) of the total ordered-services fees (see Note [1]). The fact that the compensation received is virtually unchanged is due to the fact that an annual increase of 1.5% to 2% for the compensation is opposed by tender-related reduced revenues in virtually all contracts.

The transport contracts run for periods of between 10 and 15 years. With the exception of two contracts, all of the contracts run until at least 2010, and 77% of the contracts run until at least 2012, 29% of the contracts run until at least 2015. The transport contract can only be terminated by the ordering organization during its life if there is a compelling reason. In general, a transport contract contains stipulations according to which parts of the transport services can be taken out of the contract while the contract is still running and put out to tender again. This is applicable for on average 30% of the services at the beginning of the contract term. After the transport contracts have expired, it is expected that the transport services will be put out to competitive tender.

The company enjoys legal and beneficial ownership of virtually all of the assets necessary for providing the services, and in particular the rolling stock. No special obligations exist after the end of the contract term.

(37) Related-party disclosures

Parties related to the DB Group for the purposes of IAS 24 (Related-Party Disclosures) are as follows:

- The Federal Government in its capacity as the owner of all shares in DB AG,
- the companies or enterprises subject to the control of the Federal Republic of Germany (referred to in the following as "Federal Companies"),
- affiliated, non-consolidated and associated companies as well as joint ventures of DB Group, as well as
- the members of the Management Board and the Supervisory Board of DB AG and their close relatives.

The figures attributable to related companies and persons are stated under the corresponding items of the "Notes to the balance sheet" with the designation "thereof". Individual figures are set out in the Notes (19), (28) and (29).

Details and explanations of transactions between the DB Group and the Federal Republic of Germany are included in the Notes (3), (5), (9), (13), (31), (34) and (36).

Significant economic relations which need to be reported separately between the DB Group and related companies and persons are explained in the following:

Relationships with the Federal Republic of Germany

€ million	Federal Government	
	2006	2005
Services received by DB Group		
Purchase of goods and services	1,673	1,819
Investment grants	3,041	3,103
Other grants	161	129
	4,875	**5,051**
Services rendered by DB Group		
Sales of goods and services	242	239
Lease and rental payments received	11	9
Other services rendered	314	67
Repayment of investment grants	262	234
Repayment of other grants	14	0
	843	**549**
Other disclosures		
Unsecured receivables	225	300
Unsecured liabilities	3,996	4,050
Current total of guarantees received	3,041	3,106
Current total of guarantees granted	7	5

Purchases of products and services comprise mainly the amounts paid to the Federal Government on a pro-forma basis for the assigned civil servants.

The investment grants have been extended via the Transport Infrastructure Financing Company (Verkehrsinfrastrukturfinanzierungsgesellschaft; VIFG) mainly in accordance with the Federal Rail Infrastructure Extension Act (Bundesschienenwegeausbaugesetz; BSchwAG), the Municipal Transport Financing Act (Gemeindeverkehrsfinanzierungsgesetz; GVFG) and the Transport Infrastructure Financing Act (Verkehrsinfrastrukturfinanzierungsgesetz; VIFGG).

The grants recognized in the income statement relate mainly to payments provided by the government for covering excessive burdens borne by the DB Group as a result of operating and maintaining equal-height crossings with roads of all construction authorities.

Sales of goods and services also comprise services for carrying severely disabled persons, persons who are working on alternative military service and Bundeswehr traffic.

The unsecured receivables of € 225 million (previous year: € 300 million) due from the government relate primarily to claims for transfer of property by the Federal Railway Fund (Bundeseisenbahnvermögen; BEV).

The liabilities due from the government comprise the interest-free loans, which are shown with their present values, and other liabilities of € 396 million (previous year: € 410 million); of this figure, liabilities attributable to old obligations account for € 51 million (previous year: € 102 million).

The guarantees received from the government primarily relate to the loans received from EUROFIMA as well as the outstanding contributions and liabilities arising from collective liability of Deutsche Bahn AG at EUROFIMA. The guarantees which have been received include a maximum commitment of € 2,354 million of the government for loans of EUROFIMA. The loan amounted to € 1,609 million as of the balance sheet date.

The following agreements were concluded with the Federal Government in 2006:

With the “Agreement for Updating Existing Financing Agreements” (Vereinbarung zur Aktualisierung bestehender Finanzierungsvereinbarungen; APV2006) between the Government and the rail infrastructure companies (Eisenbahninfrastrukturunternehmen; EIU), the term, financing volume and costs of the existing financing agreements of the requirement plan or of the existing network were extended on December 4, 2006.

In the course of the financial year, 13 new financing agreements were agreed, with a Federal content totaling approx. € 2.3 billion. The financing agreements have different terms (ranging from one year up to eight years). Financing is provided completely in the form of capital spending grants which do not have to be repaid.

For the years 2004 to 2008, DB AG has waived its entitlement to reimbursement of the costs for employees and assigned civil servants which it incurs as a result of the fact that employment contracts which were transferred to DB AG in accordance with section 14 (2) of the Deutsche Bahn Foundation Act (Deutsche Bahn Gründungsgesetz; DBGrG) cannot be terminated (see section 21 [5] and [6] DBGrG) although the personnel requirements of DB AG have diminished because of technical, operational and organizational measures.

Relations with Federal Companies

Most of the transactions carried out in accordance with IAS 24 in the period under review and in the corresponding previous year period related to operations, and overall were of minor significance for the DB Group. The receivables and liabilities which have arisen cancelled each other out almost completely as of the reporting date.

Relations with affiliated, non-consolidated companies, associated companies and joint ventures

In the course of the 2006 financial year, the DB Group purchased goods and services worth € 157 million (previous year: € 165 million), mainly for purchasing passenger and freight transport services. Most of this figure, namely € 128 million (previous year: € 153 million), was attributable to transactions conducted with associated companies.

Interest payments of € 94 million (previous year: € 92 million) were also incurred in the period under review. This figure relates almost exclusively to interest payments for the loans extended by EUROFIMA. Please refer to the details under Note (28).

In 2006, the DB Group generated revenues of € 507 million (previous year: € 538 million) from sales of goods and services. The revenues were generated mainly in the Railion segment and relate to revenues generated by transport services which were provided.

Guarantees totaling € 26 million (previous year: € 7 million) have been extended; of this figure € 15 million (previous year: € 5 million) was attributable to joint ventures.

An equivalent volume of transactions with related companies was conducted in the previous year period.

Relations with the Management Board and Supervisory Board of Deutsche Bahn AG

The following section sets out the transactions between the DB Group and the members of the Management Board and the Supervisory Board, as well as the companies in which members of the Management Board or the Supervisory Board own a majority interest.

€ thousand	**2006**	**2005**
Total compensation of the Management Board	20,143	12,584
thereof fixed	7,763	6,477 [1]
thereof variable	12,380	6,107 [1]
thereof short-term	(16,710)	(9,410) [1]
thereof for retirement provision	(3,433)	(2,474) [1]
thereof severance pay	(0)	(700)
Compensation of former members of the Management Board	1,385	1,275
Retirement benefit obligation in respect of former members of the Management Board	25,697	21,652
Total compensation of the Supervisory Board	875	303
thereof short-term	(875)	(303)
Services rendered by DB Group		
Sales of goods and services	18,307	12,467
Lease and rental payments received	0	0
Trade receivables as of Dec 31	83	2
Services received by DB Group		
Purchase of goods and services	52,444	37,545
Trade liabilities as of Dec 31	6,793	0

[1] Figure adjusted

The revenues of € 18,307 thousand generated by the DB Group (service provider) relate mainly to transport and freight forwarding services provided by the Railion and Schenker segments; of this figure, services worth € 4,769 thousand were provided to the SMS Group and services worth € 13,538 thousand were provided to Georgsmarienhütte Holding GmbH.

The products and services purchased by the DB Group (service recipient) comprise exclusively supplies of Georgsmarienhütte Holding GmbH.

The allocation of the short-term compensation of the Management Board is shown in the following:

€ thousand	Fixed compensation 2006	Variable compensation[1] 2006	Other[2] 2006	Total 2006
Hartmut Mehdorn	750	2,410	24	3,184
Dr. Norbert Bensel	550	1,700	51	2,301
Stefan Garber	400	1,290	44	1,734
Roland Heinisch	400	1,220	60	1,680
Dr. Karl-Friedrich Rausch	550	1,610	32	2,192
Diethelm Sack	550	1,660	40	2,250
Margret Suckale	400	1,290	26	1,716
Dr. Otto Wiesheu	450	1,200	3	1,653
Total	**4,050**	**12,380**	**280**	**16,710**

[1] Variable compensation is still subject to approval of the Supervisory Board.
[2] Supervisory Board compensation, benefits of pecuniary condition from travel benefits and usage of company cars as well as insurance allowances.

(38) Events after the balance sheet date

In 2004, intalliance AG, Hanover, was established on the basis of cooperation agreements between DB AG and üstra, Hanover. In this connection, DB AG contributed shares in a previously fully consolidated subsidiary to üstra. The 40 % stake in intalliance AG was accounted for using the equity method after the implementation of all cooperation agreements.

After confirmation of the decision of the Cartel Authority (Kartellamt) due to a verdict of the Federal Court of Justice (Bundesgerichtshof), specifying that intalliance AG, Hanover, has a regional market-dominating position, the cooperation agreements between üstra and DB AG underlying this company were reversed. The originally contributed shares in a subsidiary of DB AG were re-transferred, resulting in the company again being included in the scope of consolidation of DB AG since January 1, 2007. This is not expected to have a major impact on the consolidated financial statements.

With effect from January 1, 2007, the stake in DB GesundheitsService GmbH was sold to the Institut für Arbeits- und Sozialhygiene Stiftung. In addition, the Swiss rail transport company Brunner Railway Services GmbH was acquired by Railion Deutschland AG. The shares in Nuclear Cargo + Service GmbH are expected to be sold to Compagnie Daher S.A., France. In addition, the shares in Frachtcontor Junge & Co. GmbH are expected to be transferred to a subsidiary of M. M. Warburg & Co. The two disposals set out above are still subject to approval of the Supervisory Board of DB AG as well as approval in accordance with section 65 (3) of the Federal Budget Code (Bundeshaushaltsordnung) at the point at which these financial statements were signed.

(39) Exemption of subsidiaries from the disclosure requirements of the German Commercial Code

The following subsidiaries intend to make use of section 264 (3) German Commercial Code (Handelsgesetzbuch; HGB), which provides an exemption from the disclosure requirements:

A. Philippi GmbH, Quierschied
AMEROPA-Reisen GmbH, Bad Homburg v. d. H.
Anterist + Schneider Automotive Service GmbH, Saarwellingen
Anterist & Schneider GmbH, Saarbrücken
Anterist + Schneider Möbel-Logistik GmbH, Saarbrücken
Anterist + Schneider Versicherungs-Vermittlungsgesellschaft mbH, Saarbrücken
ATG Autotransportlogistic Gesellschaft mbH, Eschborn
Autokraft GmbH, Kiel
Bayern Express & P. Kühn Berlin GmbH, Berlin
BBH BahnBus Hochstift GmbH, Paderborn
BRN Busverkehr Rhein-Neckar GmbH, Ludwigshafen
BRN Stadtbus GmbH, Ludwigshafen
BRS Busverkehr Ruhr-Sieg GmbH, Meschede
BTS Kombiwaggon Service GmbH, Mainz
BTT BahnTank Transport GmbH, Mainz
BVO Busverkehr Ostwestfalen GmbH, Bielefeld
BVR Busverkehr Rheinland GmbH, Düsseldorf
DB Akademie GmbH, Potsdam
DB Bahnbau GmbH, Berlin
DB Dialog Telefonservice GmbH, Berlin
DB Dienstleistungen GmbH, Berlin
DB European Railservice GmbH, Dortmund
DB FuhrparkService GmbH, Frankfurt/Main
DB Gastronomie GmbH, Frankfurt/Main
DB JobService GmbH, Berlin
DB Media & Buch GmbH, Kassel
DB ProjektBau GmbH, Berlin
DB Rent GmbH, Frankfurt/Main
DB Sechste Vermögensverwaltungsgesellschaft mbH, Berlin
DB Services Immobilien GmbH, Berlin
DB Services Technische Dienste GmbH, Berlin
DB Sicherheit GmbH, Berlin
DB Stadtverkehr GmbH, Frankfurt/Main
DB Systems GmbH, Frankfurt/Main
DB Telematik GmbH, Eschborn
DB Vertrieb GmbH, Berlin

DB Zeitarbeit GmbH, Berlin
DE-Consult Deutsche Eisenbahn-Consulting GmbH, Berlin
Deutsche Gleis- und Tiefbau GmbH, Berlin
DVA Deutsche Verkehrs-Assekuranz-Vermittlungs-GmbH, Bad Homburg
ECO-Trucking GmbH, Coburg
Emder Verkehrsgesellschaft Aktiengesellschaft, Emden
Europac GmbH, Coburg
EVAG Automotive GmbH, Emden
EVB Handelshaus Bour GmbH, Landau/Palatinate
Frachtcontor Junge & Co. GmbH, Hamburg
Friedrich Müller Omnibusunternehmen GmbH, Schwäbisch Hall
Frisia Handels- und Transport GmbH, Emden
Georg Schulmeyer GmbH, Mörfelden-Walldorf
GVV Gesellschaft zur Verwaltung von Vermögenswerten mbH, Essen
H. Albrecht Speditions Gesellschaft mbH, Frankfurt/Main
Hanekamp Busreisen GmbH, Cloppenburg
Heider Stadtverkehr GmbH, Heide
Ibb Ingenieur-, Brücken- und Tiefbau GmbH, Dresden
Intertec Retail Logistics GmbH, Landau/Palatinate
Inter-Union Technohandel GmbH, Landau/Palatinate
Johannes R. Weichelt GmbH, Coburg
KVB Sigmaringen GmbH, Sigmaringen
Mair Spedition und Logistik GmbH, Gersthofen
MOS Mobile Oberbauschweißtechnik GmbH, Berlin
Nieten Fracht Logistik GmbH, Freilassing
NVO Temme Nahverkehr Ostwestfalen GmbH, Halle (Westphalia)
Omnibusverkehr Franken GmbH (OVF), Nuremberg
ORN Omnibusverkehr Rhein-Nahe GmbH, Mainz
Poseidon Schiffahrt GmbH, Hamburg
Railion GmbH, Mainz
Railog GmbH, Kelsterbach
RBO Regionalbus Ostbayern GmbH, Regensburg
Regional Bus Stuttgart GmbH RBS, Stuttgart
Regionalverkehr Allgäu GmbH (RVA), Oberstdorf
Regionalverkehr Kurhessen GmbH (RKH), Kassel
Regionalverkehr Oberbayern GmbH, Munich
RMV Rhein-Mosel Verkehrsgesellschaft mbH, Koblenz
RSW Regionalbus Saar-Westpfalz GmbH, Saarbrücken
RVE Regionalverkehr Euregio Maas-Rhein GmbH, Aachen
RVN Regionalverkehr Niederrhein GmbH, Wesel
RVS Regionalbusverkehr Südwest GmbH, Karlsruhe
SBG SüdbadenBus GmbH, Freiburg
Schenker Aktiengesellschaft, Essen
Schenker Automotive RailNet GmbH, Kelsterbach
Schenker (BAX) Europe Holding GmbH, Essen
Schenker Deutschland AG, Frankfurt/Main
SCHENKER INTERNATIONAL AKTIENGESELLSCHAFT, Essen
Schenker NIGHT PLUS GmbH, Wülfrath
Stinnes AG, Berlin
Stinnes Beteiligungs-Verwaltungs GmbH, Essen
TRANSA Spedition GmbH, Offenbach/Main
Verkehrsgesellschaft mbH Untermain –VU–, Aschaffenburg
WB Westfalen Bus GmbH, Münster (Westphalia)
Weser-Ems Busverkehr GmbH (WEB), Bremen
Zehlendorfer Eisenbahn- und Hafen GmbH, Berlin
Zentral-Omnibusbahnhof Berlin GmbH, Berlin

(40) Major subsidiaries

The major subsidiaries for which the figures stated for revenues are consistent with IFRS reporting are shown on the pages 196–198.

The complete list of all subsidiaries of the DB Group is published in the electronic Federal Gazette.

(41) Supervisory Board and Management Board

The names and mandates of the members of the Supervisory Board and Management Board are set out in the list on the pages 199–201.

Berlin, March 6, 2007

Deutsche Bahn AG
The Management Board

Major Subsidiaries

Name and domicile	Ownership in %	Revenues 2006 in € million	Employees as of Dec 31, 2006
Passenger Transport Group division			
Long-Distance Transport business unit			
CityNightLine CNL AG, Zurich/Switzerland	100.0	66.8	143
DB Fernverkehr AG, Frankfurt/Main	100.0	3,106.5	14,384
DB AutoZug GmbH, Dortmund	100.0	202.0	347
Regional Transport business unit			
DB Regio AG, Frankfurt/Main	100.0	5,197.0	20,643
DB RegioNetz Verkehrs GmbH, Frankfurt/Main	100.0	159.5	679
DB Regio NRW GmbH, Düsseldorf	100.0	1,140.9	4,070
DB ZugBus Regionalverkehr Alb-Bodensee GmbH (RAB), Ulm (Danube)	100.0	273.3	1,176
Urban Transport business unit			
Autokraft GmbH, Kiel	100.0	79.6	666
BRN Busverkehr Rhein-Neckar GmbH, Ludwigshafen/Rh.	100.0	53.0	479
Omnibusverkehr Franken GmbH (OVF), Nuremberg	100.0	88.0	499
ORN Omnibusverkehr Rhein-Nahe GmbH, Mainz	100.0	40.6	321
RBO Regionalbus Ostbayern GmbH, Regensburg	100.0	63.4	300
Regional Bus Stuttgart GmbH RBS, Stuttgart	100.0	69.7	503
Regionalverkehr Kurhessen GmbH (RKH), Kassel	100.0	77.5	712
Regionalverkehr Oberbayern GmbH, Munich	100.0	56.5	569
RMV Rhein-Mosel Verkehrsgesellschaft mbH, Koblenz	74.9	57.2	258
RSW Regionalbus Saar-Westpfalz GmbH, Saarbrücken	100.0	59.8	287
RVS Regionalbusverkehr Südwest GmbH, Karlsruhe	100.0	53.4	354
S-Bahn Berlin GmbH, Berlin	100.0	525.9	3,647
S-Bahn Hamburg GmbH, Hamburg	100.0	197.9	859
SBG SüdbadenBus GmbH, Freiburg i. Br.	100.0	67.6	464
Weser-Ems Busverkehr GmbH (WEB), Bremen	100.0	58.6	347

Name and domicile	Ownership in %	Revenues 2006 in € million	Employees as of Dec 31, 2006
Transport and Logistics Group division			
Railion business unit			
Railion Danmark A/S, Glostrup/Denmark	98.0	67.4	373
Railion Deutschland AG, Mainz	98.0	3,548.9	21,239
Railion Nederland N.V., Utrecht/Netherlands	98.0	157.8	1,097
RBH Logistics GmbH, Gladbeck	98.0	191.9	922
Schenker business unit			
ATG Autotransportlogistic Gesellschaft mbH, Eschborn/Taunus	100.0	300.6	55
BAX Global (China) Co Ltd., Suzhou/China	100.0	185.3	507
BAX Global Limited, Hong Kong/China	100.0	343.8	621
HANGARTNER S.r.l., Verona/Italy	100.0	63.1	84
HANGARTNER Terminal AG, Aarau/Switzerland	100.0	70.3	3
SCHENKER & Co. AG, Vienna/Austria	100.0	582.8	1,724
Schenker A/S, Hvidovre/Denmark	99.1	178.1	297
SCHENKER AB, Gothenburg/Sweden	99.1	1,151.9	2,465
Schenker AG, Essen	100.0	2,881.2	9,940
Schenker Cargo Oy, Turku/Finland	99.1	180.9	979
Schenker China Ltd., Pudong, Shanghai/China	100.0	208.0	533
Schenker International (HK) Ltd., Hong Kong/China	100.0	382.4	1,119
Schenker Italiana S.p.A., Peschiera/Italy	100.0	358.2	828
Schenker Linjegods AS, Oslo/Norway	99.1	287.6	1,080
Schenker LTD., London/Great Britain	100.0	220.5	487
SCHENKER N.V., Antwerp/Belgium	100.0	182.9	559
Schenker of Canada Ltd., Toronto/Canada	100.0	331.1	1,230
Schenker OY, Helsinki/Finland	99.1	299.4	398
Schenker S.A., Gennevilliers/France	100.0	479.2	1,158
Schenker Sp. zo. o., Warsaw/Poland	98.7	220.1	1,358
SCHENKER JOYAU SAS, Montaigu Cedex/France	99.9	330.7	3,095
Schenker-Seino Co. Ltd., Tokyo/Japan	60.0	186.5	198
Stinnes Holding Corporation, Tarrytown/USA[1)]	100.0	1,936.1	9,410
Stinnes business unit[2)]			
BTS Kombiwaggon Service GmbH, Mainz	100.0	51.7	269
BTT BahnTank Transport GmbH, Mainz	100.0	72.3	95
Nieten Fracht Logistik GmbH, Freilassing	100.0	135.4	46
Stinnes AG, Berlin	100.0	81.1	497
TRANSA Spedition GmbH, Offenbach/Main	100.0	324.6	378

Name and domicile	Ownership in %	Revenues 2006 in € million	Employees as of Dec 31, 2006
Infrastructure and Services Group division			
Track Infrastructure business unit			
DB Bahnbau GmbH, Berlin	100.0	58.3	905
DB Netz AG, Frankfurt/Main	100.0	3,862.8	38,774
DB RegioNetz Infrastruktur GmbH, Frankfurt/Main	100.0	57.3	566
Deutsche Bahn Gleisbau GmbH, Duisburg	100.0	93.1	488
Deutsche Gleis- und Tiefbau GmbH, Berlin	100.0	186.0	1,192
Passenger Stations business unit			
DB Station&Service AG, Berlin	100.0	929.2	4,883
Energy business unit[2]			
DB Energie GmbH, Frankfurt/Main	100.0	1,949.8	1,694
Services business unit			
DB Rent GmbH, Frankfurt/Main	100.0	67.6	87
DB Services Nord GmbH, Hamburg	100.0	54.4	1,407
DB Services Nordost GmbH, Berlin	100.0	67.7	2,076
DB Services Süd GmbH, Munich	100.0	52.9	1,583
DB Services Südost GmbH, Leipzig	100.0	61.1	3,802
DB Services Südwest GmbH, Frankfurt/Main	100.0	70.8	1,914
DB Services Technische Dienste GmbH, Berlin	100.0	74.9	1,243
DB Services West GmbH, Cologne	100.0	60.2	1,301
DB Systems GmbH, Frankfurt/Main	100.0	518.7	2,080
DB Telematik GmbH, Eschborn	100.0	318.1	2,831
DB FuhrparkService GmbH, Frankfurt/Main	100.0	146.0	179
Other subsidiaries			
AMEROPA-REISEN GmbH, Bad Homburg v. d. H.[3]	100.0	92.2	122
DB Dialog Telefonservice GmbH, Berlin[3]	100.0	45.0	1,042
DB Media & Buch GmbH, Kassel	100.0	71.7	0
DB ProjektBau GmbH, Berlin[4]	100.0	527.1	3,927
DE-Consult Deutsche Eisenbahn-Consulting GmbH, Berlin[4]	100.0	74.3	549

[1] Figures comply with consolidated Group figures from Stinnes Corporation
[2] Shown under other activities in the segment report
[3] According to the organizational structure consolidated within Passenger Transport Group division
[4] According to the organizational structure consolidated within Infrastructure and Services Group division

The Boards of Deutsche Bahn AG

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,
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]
RBH Logistics GmbH (Chairman)[1]
DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G.
Partner für Berlin Holding Gesellschaft für Hauptstadt-Marketing mbH
Praktiker Bau- und Heimwerkermärkte AG
Praktiker Bau- und Heimwerkermärkte Holding AG
Sparda-Bank Berlin eG
b) IAS Institut für Arbeits- und Sozialhygiene Stiftung (Advisory Board)

Stefan Garber
Infrastructure and Services,
Bad Homburg
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.
Sparda-Bank Baden-Württemberg eG
b) DB Dienstleistungen GmbH (Advisory Board, Chairman)[1]
Arcor AG & Co. KG (Partner Committee member)[1]
Signal Iduna Gruppe (Advisory Board)

Roland Heinisch
Integrated Systems Rail,
Idstein
a) DB ProjektBau GmbH[1]

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.
gbo AG
b) DVA Deutsche Verkehrs-Assekuranz-Vermittlungs-GmbH (Chairman)[1]
EUROFIMA Europäische Gesellschaft für die Finanzierung von Eisenbahnmaterial, Basel/Schweiz (Administrative Board)[1]

Margret Suckale
Personnel,
Berlin
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 Sach- und HUK-Versicherungsverein a.G. (Advisory Board)

Dr. Otto Wiesheu
Economic and Political Affairs,
Zolling
b) DB Sicherheit GmbH[1]

[1] Mandate within the 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, 2006 or date of resignation.

Supervisory Board of Deutsche Bahn AG

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

Dr. Werner Müller
Chairman of the Supervisory Board,
Chairman of the Executive Board of RAG AG and RAG Beteiligungs 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) g.e.b.b. Gesellschaft für Entwicklung, Beschaffung und Betrieb mbH (Chairman)
Stadler Rail AG (Administrative Board)

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

Georg Brunnhuber
Member of the German Bundestag,
Oberkochen
– since July 1, 2006 –
b) Kreissparkasse Ostalb (Administrative Board)

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

Dr. Eckhard Cordes
Chairman of the Management Board of Franz Haniel & Cie. GmbH,
Düsseldorf
– from July 1 through August 25, 2006 –
a) Celesio AG (Chairman)
METRO AG (Chairman)
Rheinmetall AG
TAKKT AG
b) Air Berlin PLC, London/Great Britain (Board of Directors)
Aktiebolaget SKF, Gothenburg/Sweden (Board of Directors)
FIEGE Holding Stiftung & Co. KG (Advisory Board, Chairman)

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

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

Volker Halsch
State Secretary (ret.),
Berlin
– through March 1, 2006 –

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,
Berlin
– since February 1, 2006 –
a) Fraport AG
b) DFS Deutsche Flugsicherung GmbH

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
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 Sach- und HUK-Versicherungsverein a.G. (Advisory Board)

Dr. Jürgen Krumnow
Former member of the Management Board of Deutsche Bank AG,
Königstein/Taunus
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/Urban Transport,
Stuttgart
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.),
Member of the Management Board of PUTZ & PARTNER Unternehmensberatung AG,
Berlin
– through January 31, 2006 –
b) DFS Deutsche Flugsicherung GmbH (Advisory Board, Chairman)

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

Dr. Bernd Pfaffenbach
State Secretary, Federal Ministry of Economics and Technology,
Wachtberg-Pech
a) Deutsche Postbank AG
Lufthansa Cargo AG

Dr.-Ing. Ekkehard D. Schulz
Chairman of the Management Board of ThyssenKrupp AG,
Krefeld
– through June 30, 2006 –
a) ThyssenKrupp Automotive AG (Chairman)[1)]
ThyssenKrupp Elevator AG (Chairman)[1)]
ThyssenKrupp Services AG (Chairman)[1)]
AXA Konzern AG
Bayer AG
MAN AG (Chairman)
RAG AG
RWE AG
b) RAG Beteiligungs-GmbH

Dr. h. c. Eggert Voscherau
Vice Chairman of the Board of Executive Directors of BASF AG,
Neustadt
– since December 8, 2006 –
a) BASF Schwarzheide GmbH (Chairman)[1)]
CropEnergies AG (Chairman)
HDI Haftpflichtverband der Deutschen Industrie VVaG
Talanx AG
b) BASF Antwerpen NV (Administrative Board, Chairman)[1)]
Nord Stream AG (Shareholders Committee)

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
Voith AG
b) Concast AG, Zurich/Switzerland (Administrative Board)[1)]
Bombardier Inc., Montreal/Canada

Margareta Wolf
Member of the German Bundestag,
Rüsselsheim-Bauschheim
– through June 30, 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

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

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

* Employee representative on the Supervisory Board

1) Mandate within the 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, 2006 or date of resignation.

Auditor's Report

The Consolidated Financial Statements have been audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, who added the following auditor's report[1]:

"We have audited the consolidated financial statements of Deutsche Bahn Aktiengesellschaft, Berlin – consisting of income statement, balance sheet, statement of changes in equity, cash flow statement and the notes – for the business year from January 1 to December 31, 2006. The preparation of the consolidated financial statements in accordance with the IFRS is the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (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 consolidated financial statements in accordance with German principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion based on the results of our audit the consolidated financial statements are in compliance with IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS.

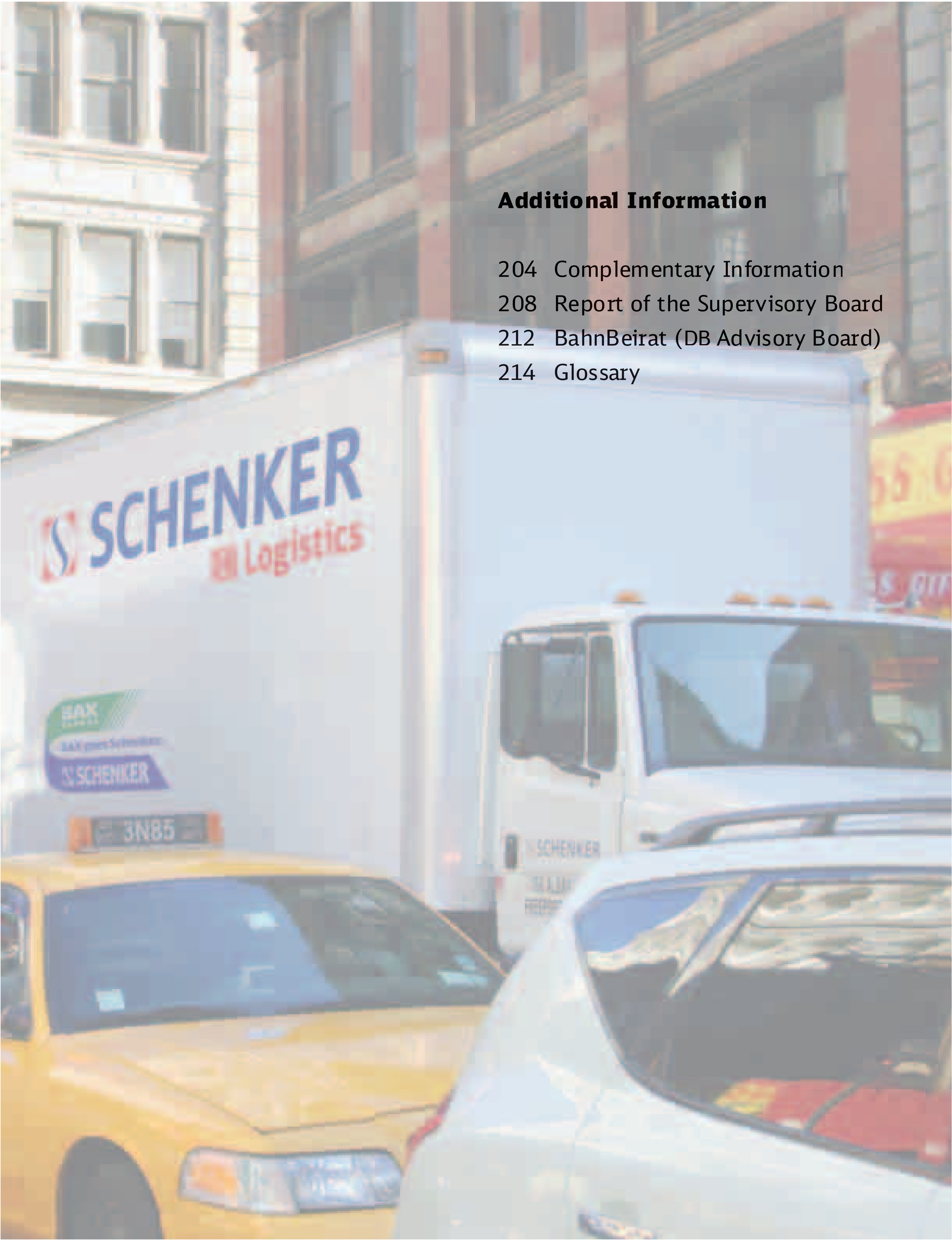
Our audit, which also extends to the group management report prepared by the Board of Managing Directors for the business year from January 1 to December 31, 2006, has not led to any reservations. In our opinion, the group management report is in accordance with the annual financial statements and provides on the whole a suitable understanding of the Group's position and suitably presents the chances and risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2006, satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German accounting law."

Berlin, March 7, 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Kämpfer)	(Eggemann)
Wirtschaftsprüfer	Wirtschaftsprüfer

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



Additional Information

Major Activity Relationships Within the DB Group

The following table shows the major intra-Group activity relationships among the segments of the DB Group. The figures indicate the infrastructure-related offset for the use of train-paths, local infrastructure (including marshalling yards and storage sidings) and passenger stations, as well as energy cost offset.

The offset for infrastructure utilization is billed based on the published pricing systems (train-path pricing system, facility pricing system and station pricing system). The activities are rendered by DB Netz AG or DB Station & Service AG. The recipients of intra-Group activities are primarily the railroad companies in the passenger and freight transport area.

Energy activities are consolidated: DB Energie GmbH purchases all energy products from external sources and then charges these activities on to the intra-Group consumers, at fair market conditions. Energy cost offset includes both tractive energy (diesel fuel, rail electricity) and electricity for stationary facilities (such as switch-track heaters and train preheating units of DB Netz AG).

€ million	Long-Distance Transport	Regional Transport	Urban Transport	Railion	Schenker	Track Infra-structure	Passenger Stations	Services	Holdings/ Other
Train-path utilization	- 715	- 1,898	- 173	- 473	0	3,263	0	- 1	- 3
Utilization of local infrastructure	- 17	- 42	- 1	- 140	0	202	0	- 1	- 1
Station utilization	- 91	- 390	- 93	0	0	0	574	0	0
Energy allocation	- 281	- 644	- 71	- 402	- 2	- 109	- 54	- 9	1,572

Development of investment grants for rail infrastructure companies

€ million	Beginning value as of Jan 1, 2006	Fund inflow	Use of funds	Cancellations	End value as of Dec 31, 2006
Deutsche Bahn AG	35,776	3,683	–	- 262	39,197
thereof DB Station&Service AG	2,722	393	216	- 40	3,291
thereof DB Netz AG	32,616	3,226	- 243	- 220	35,379
thereof DB Energie GmbH	438	65	27	- 3	527

The development of investment grants to purchase assets related to rail infrastructure companies is shown above in tabular form.

Investment grants are authorized for the purchase or manufacturing of fixed assets. They are primarily distributed by the Federal Government as part of the funds on demand procedure. However, other entities (state, municipality, third parties) also provide Deutsche Bahn with such grants. Following the completion of the acquisition and/or manufacturing, investment grants received are shown as a reduction in acquisition or manufacturing costs. This leads to a lower carrying amount attributable to the asset, which results in correspondingly lower depreciation. The grant therefore has the effect of lowering the burden on operating profit over the entire useful life of the asset. Corporate tax law refers to this situation as a profit-neutral treatment of the grants.

The main foundations for approving investment grants as well as the various allocation categories are explained in more detail in the following section.

1. Third party grants

Third party grants which reduce acquisition/ manufacturing costs

These grants involve third party funds (state, municipality, private companies), which result in a reduction in acquisition and manufacturing costs, with the exception of state funds that fall under the Local, Regional and Municipal Traffic Financing Act (Gemeindeverkehrsfinanzierungsgesetz; GVFG). These grants mostly involve funds for the settlement of crossing measures between road and rail, as set forth in the Railroad Crossings Act (Eisenbahnkreuzungsgesetz; EKrG). In addition, partial grants are available which relate to the removal of private track connections and closing the gap in the connecting track, the costs of which must be capitalized on the balance sheet. Other third party grants, depending on the region, can be structured in numerous ways.

Grants according to the GVFG (excluding the Federal Government)

The so-called GVFG grants refer to contributions of the individual states according to the Local, Regional and Municipal Traffic Financing Act (Gemeindeverkehrsfinanzierungsgesetz; GVFG). With this type of grant, the state agencies reimburse DB, in addition to funds it receives from the Federal government, for up to 40 % of the approved costs for “Investments for improving traffic conditions of the municipalities”, according to Article 1 GVFG. Furthermore, the states grant an additional lump-sum payment for planning costs of 7 % of the eligible total costs. However, different percentage amounts can be agreed upon bilaterally with the individual states.

2. Federal grants and grants from the European Union

Federal grants – noise abatement

Federal Government allocates resources for measures for “Noise Abatement on the Existing Network of the Federal Government’s Railways” (“Maßnahmen zur Lärmsanierung an bestehenden Schienenwegen der Eisenbahnen des

Bundes"). Grants were made for active noise reduction measures (investments such as noise protection walls) when noise levels exceed certain limits. Within the federal budget the allocated funds are shown in Departmental Budget 12, Chapter 22, Title 89105.

Federal grants – VIFG funds (transport infrastructure provider)

These grants involve funds for investments in federal railways which are provided by the Transport Infrastructure Financing C ompany (Verkehrsinfrastrukturfinanzierungsgesellschaft; VIFG). These funds are allocated to track infrastructure measures and are provided by the newly founded Federal Financing Company, financed with proceeds from the truck toll for certain sections of highway.

Federal grants – special burdens due to past underinvestment

The Federal Government provides grants for special burdens due to past underinvestment according to Art. 22 Sec. 1, No. 2 of the Deutsche Bahn Foundation Act (Deutsche Bahn Gründungsgesetz; DBGrG) which authorizes capital expenditures into fixed assets and the modernization of existing elements of the fixed assets of the former Deutsche Reichsbahn for the assimilation of the rail network and the overall rail infrastructure. The provision of these funds was limited to 9 years following the takeover of operations by DB AG and therefore ended on December 31, 2002.

Federal grants – former special burdens due to past underinvestment, BSchwAG

The planned financing amounts allocated for the procedure described above were not fully retrievable in the specified time period. For this reason, following the discontinuation of the former regulation, the Federal Government, the new German states and Deutsche Bahn agreed to a new "Joint Statement concerning the continued reduction of special burdens due to past underinvestment related to the former special assets of the Deutsche Reichsbahn from 2003". This joint statement provided, among other things, for the provision of the remaining funds according to the regulations of the Federal Rail Infrastructure Expansion Act (Bundesschienenwegeausbaugesetz; BSchwAG) as non-repayable investment grants, in order to achieve the complete reduction of the special burdens due to past underinvestment by 2007.

Federal grants – civil defense

The Federal Government provides funds in the context of DB's obligation to secure the rails for purposes of civil defense, according to Art. 10a Transport Guarantee Act (Verkehrssicherstellungsgesetz; VSG) on the initiative of the Federal Ministry of Transport, Building and Housing.

Federal grants – GVFG local public passenger transport

These federal grants involve contributions related to Art. 11 Local, Regional and Municipal Traffic Financing Act (Gemeindeverkehrsfinanzierungsgesetz; GVFG) in an amount up to 60 % of the eligible costs. Investment grants according to GVFG are shown as a reduction in the acquisition/manufacturing costs of the funded assets. Expense grants are recorded as income in the period in which they are provided. The Federal Railroad Authority has expressed its approval of this procedure. In addition to federal funds under the GVFG, these federal grants also include contributions related to the so-called Capital Contract from 1994. This contract provides for the Federal Government's participation in additional financial support resulting from the expansion of the government and parliament area in Berlin.

Federal funds – BschwAG

Investment grants from the Federal Government are provided according to Art. 8 Federal Rail Infrastructure Expansion Act (Bundesschienenwegeausbaugesetz; BSchwAG) for investments in new or expansion lines or for replacement investments in the existing federal rail network. The appendix of Art. 1 BSchwAG contains the "Federal Government's Rail Requirements Planning" for the implementation of accepted individual projects, which is in agreement with the Federal Transportation Infrastructure Plan. The plans are subdivided according to (1) primary priority, (2) secondary priority and (3) inter-state projects.

Funds are still being disbursed from the € 2 billion transport program to improve the transport infrastructure by means of a separate budget title established by the Federal Government. These funds were approved by the Cabinet as a supplementary contribution to strengthen economic development during the 2005 to 2008 period; € 750 million of these funds have been allocated for rail projects. The purpose of the program is to ensure that urgently required transport-related investments are made.

Federal grants – UMTS funds

These federal grants are provided based on the "Joint Statement of the Federal Republic of Germany, represented by the Federal Ministry of Transport, Building and Housing and the Federal Ministry of Finance, as well as DB AG, regarding the extent of rail infrastructure investments from 2001 through 2003" (trilateral agreement).

The grants stem from the sale of UMTS mobile licenses and are primarily dedicated to quality improvement measures for the existing network through the removal of slow-travel areas and the short-term, noticeable modernization of the command and control technology.

Federal grants – imposed lines

These grants are federal contributions for obligations of DB to maintain certain lines of the rail infrastructure, according to Art. 10b VSG and Art. 23 VSG. The EU-Directive 1191/69 forms the legal basis for this obligation.

Grants – EU funds

The European Union (EU) provides community funds to Deutsche Bahn, taking into account certain obligations to provide supporting documentation.

Among other purposes, these grants are allocated for the so-called trans-European networks (TEN funds). Measures given priority include the expansion/new Nuremberg–Ingolstadt–Munich line, the Karlsruhe–Basle line and the Berlin Central Station.

Community grants for trans-European networks have also been provided for the "European Rail Traffic Management System (ERTMS)" and "European Train Control System (ETCS)" projects, which are tied to the Ludwigsfelde–Jüterbog-Halle/Leipzig test line.

Furthermore, the EU also provides financing grants from the European Fund for Regional Development. The requirement for such grants is the submission of a community support concept compiled by the member state and approved by the EU Commission.

Among other projects, the European Regional Development Fund's (ERDF) federal program stipulates grants for the expansion of the Berlin–Frankfurt/Oder line and the city rail tunnel in Leipzig.

Report of the Supervisory Board

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

During the 2006 financial year the Supervisory Board of Deutsche Bahn AG (DB AG) was intensively involved with the company's business situation. The Supervisory Board advised the Management Board and monitored the management of the business. The Supervisory Board was included in all decisions related to vital business policy issues. The Management Board regularly kept the Supervisory Board informed in a comprehensive and up-to-date manner. This was achieved through comprehensive reports presented either verbally or in writing 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

During the 2006 financial year the Supervisory Board convened for four regular meetings and one special meeting together with the Federal Government's Steering Committee on privatizing the Deutsche Bahn's capital. The Executive Committee and the Audit Committee, which held five meetings each, prepared the meetings of the Supervisory Board in advance. During its meetings the Management Board briefed the Supervisory Board extensively about the business and financial developments at DB AG and its Group companies, important business events, as well as about corporate strategy and planning. The Supervisory Board was directly involved in intensive discussions in all matters requiring the approval of the Supervisory Board.

During its meeting on March 30, 2006, the Supervisory Board mainly discussed the Management Report and the 2005 annual financial statements as well as the Group Management Report and the 2005 consolidated financial statements of DB AG.

Furthermore, the Supervisory Board dealt with strategy and development, as well as an update on dividing the business responsibilities and further development of the management structure within the Transport and Logistics Group division, and the strategy for the hinterland feeder routes to seaports. It approved the creation of a joint logistics company to be operated together with the Russian railroad, as well as capital expenditures to be made in the infrastructure division. In addition, it approved the Rules of Procedure for the Audit Committee of the Supervisory Board of DB AG. Related to this issue, the Supervisory Board approved an amendment to the Rules of Procedure for the Supervisory Board, the Rules of Procedure for the Management Board and the Corporate Governance principles.

In its meeting on June 30, 2005 the Supervisory Board approved the creation of a personnel committee as well as the earlier-than-planned termination of WestLB AG's stake in Aurelis Real Estate GmbH & Co. KG.

The status of the decision regarding the privatization of capital was the focal point of the meeting of the Supervisory Board held on September 6, 2006. During this meeting the Supervisory Board approved a sale of shares held in an as-yet-to-be-founded vehicle company to ÖBB-Personenverkehr AG, as well as certain infrastructure projects.

In its meeting on December 8, 2006 the Supervisory Board approved the budget plans for the 2007 financial year and took note of the mid-term plans covering 2007 to 2011, as well as DB AG's long-term strategic goals. It also approved the sale of DB AG's stake in Scandlines Aktiengesellschaft and to acquire a share of China United International Rail Containers Co., Ltd., Beijing/China.

Meetings of the Supervisory Board Committees

The Executive Committee of the Supervisory Board maintained regular contact with the Management Board to discuss fundamental business policy issues. During these meetings in-depth discussions were held and preparations initiated for the individual focal points of the upcoming Supervisory Board meetings.

In the presence of the auditor, the Audit Committee reviewed the annual financial statements of DB AG and the DB Group and prepared the Supervisory Board's findings regarding the annual financial statements for the 2005 financial year. In addition, extensive discussions were held regarding the selection of an auditor for the 2006 financial year. The Committee also focused particularly on budget plans for the 2007 financial year, mid-term plans for the period 2007–2011, quarterly reports and the six-month reports, questions dealing with accounting issues, risk management, the integration of BAX Global and the subject of compliance. Following each meeting the Supervisory Board was advised without delay about the work of the Audit Committee.

Moreover, the Supervisory Board established a Personnel Committee. The Personnel Committee did not convene during the year under review.

Corporate Governance

During its meetings held on March 30th and June 30th, 2006, the Supervisory Board dealt with the further development of DB AG's Corporate Governance principles and updated them in accordance with amendments made to the German Corporate Governance Codex. In addition, the Supervisory Board examined the efficiency of its operations during the meeting on December 8, 2006.

Annual financial statements

The annual financial statements prepared by the Management Board and DB AG's Management Report as well as the consolidated financial statements and the Group Management Report as of December 31, 2006 were examined by the auditor appointed by the Annual General Meeting of Shareholders, PwC PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, and received an unqualified audit certificate. As part of the annual audit the auditor also examined the 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 subject of the Audit Committee meeting held on March 27, 2007 and was presented and extensively discussed during the Supervisory Board's balance sheet meeting held on March 28, 2007 in the presence of the auditor who signed the report. The auditors reported on the significant aspects of their examinations and were available to answer questions. The Supervisory Board accepted the results of the audit.

The Supervisory Board reviewed the annual financial statements and the DB AG Management Report, as well as the consolidated financial statements along with the Group Management Report for the 2006 financial year, and also examined the proposed allocation of distributable profits. No objections were raised. The annual financial statements of DB AG for the 2006 financial year were approved and they are thereby adopted.

The auditor also examined the report prepared by the Management Board on relations with affiliated companies. The auditor issued the report an unqualified audit certificate and reported on the audit results.

The Supervisory Board also examined this report and raised no objections to the Management Board's declaration at the end of the report, nor to the results of the audit conducted by PwC.

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

Mr. Ralf Nagel resigned from the Supervisory Board effective January 31, 2006. He was succeeded effective February 1, 2006 by Mr. Jörg Hennerkes, Undersecretary in the Federal Ministry for Transport, Building and Urban Affairs, pursuant to Sec. 9 (2) of Deutsche Bahn AG's Articles of Incorporation, and was appointed to the Supervisory Board by the Federal Republic of Germany.

Mr. Volker Halsch resigned his membership in the Supervisory Board effective March 1, 2006. He was succeeded effective March 1, 2006 by Dr. Axel Nawrath, Undersecretary in the Federal Ministry of Finance, pursuant to Sec. 9 (2) of Deutsche Bahn AG's Articles of Incorporation, and was appointed to the Supervisory Board by the Federal Republic of Germany.

The Annual General Meeting of Shareholders held on June 30, 2006 elected the following persons to the Supervisory Board as shareholder representatives as of July 1, 2006: Mr. Georg Brunnhuber, Member of the German Parliament (Bundestag), and Dr. Eckhard Cordes, Chairman of the Management Board of Franz Haniel & Cie. GmbH. Prof. Dr. Ekkehard D. Schulz and Ms. Margareta Wolf resigned from the Supervisory Board at this time.

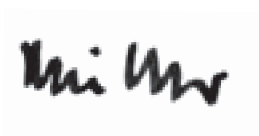
Dr. Cordes left the Supervisory Board effective August 25, 2006. At the extraordinary General Meeting of Shareholders held on December 8, 2006, Dr. Eggert Voscherau, Deputy Chairman of BASF Aktiengesellschaft, was appointed to succeed the shareholder representative effective December 8, 2006.

At this point the Supervisory Board would like to thank all former members for their dedication and constructive work on behalf of the company.

Dr. Otto Wiesheu was appointed to succeed Mr. Klaus Daubertshäuser as a member of the Management Board of DB AG effective January 1, 2006.

The Supervisory Board wishes to thank the Management Board, all employees and employee representatives of DB AG and its affiliated companies for their efforts during the year under review.

Berlin, March 2007
For the Supervisory Board



Dr. Werner Müller
Chairman

BahnBeirat (DB Advisory Board)

Prof. Dr. Gerd Aberle
Chair of Competition Theory, Competition Policy and Transportation Economy, Justus-Liebig-Universität, Gießen

Prof. Dr. Dr. h. c. mult. Horst Albach
Formerly Chair for Managerial Economics and Head of the Institute for Corporate Theory and Policy, Humboldt-Universität zu Berlin, Former Director of the WZB, Berlin, and President of the Akademie der Wissenschaften zu Berlin

Prof. Dr. Thomas Ehrmann
Chair of Enterprise Founding and Development, Westfälische Wilhelms-Universität, Münster

Prof. Dr. Sylvius Hartwig
Specialist for hazardous materials, Bergische Universität, Wuppertal

Dr. Volker Hauff
Senior Vice President BearingPoint GmbH, Federal Minister (ret.)

Hans Jochen Henke
Secretary-General of Wirtschaftsrat der CDU e.V., State Secretary (ret.)

Prof. Dr. Peter Hommelhoff
Chair of Civil Law/Commercial, Business and Capital Market Law, Ruprecht-Karls-Universität, Heidelberg

Prof. Dr. Dr. Christian Kirchner LL.M.
Chair of German, European and International Civil and Commercial Law, and Institutional Economics, Humboldt-Universität zu Berlin

Dr. Dieter Klumpp
Vice President, German Rail Industry Federation e.V., Berlin

Prof. Dr. Ernst Otto Krasney
Vice President (ret.), Federal Social Court

Karl-Ulrich Kuhlo
Founder of the news channel n-tv

Dr. Walther Leisler Kiep
Minister (ret.)

Prof. Dr. Dr. h. c. mult. Heribert Meffert
Marketing Centrum Münster (MCM)

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

Prof. Dr. Rüdiger Pohl
Chair of Monetary Economics, Department for Economics, Martin-Luther-Universität, Halle-Wittenberg

Prof. Dr. Dr. F. J. Radermacher
Head of the Research Institute for Applied Knowledge Processing, Ulm

Prof. Dr. Werner Rothengatter
Institute for Economic Policy and Research, Universität Karlsruhe (TH)

Prof. Dr. Joachim Schwalbach
Chair of International Management, Humboldt-Universität zu Berlin

Prof. Dr. Wulf Schwanhäußer
Consultant for rail policy and the transportation sector, Professor emeritus, Rheinisch-Westfälische Technische Hochschule Aachen

Prof. Dr. Jürgen Siegmann
Chair of Track and Railway Operations, Technische Universität Berlin

Horst Stuchly
President (ret.), Federal Railroad Authority

Prof. Dr. Andreas Troge
President, Federal Environmental Agency

Dr. Jürgen Warnke
Attorney-at-law, Federal Minister of Transport (ret.)

Dr. Jürgen Weber
Chairman of the Supervisory Board of Deutsche Lufthansa AG

Ulrich Weiß
President, Federal Association of Small and Medium-Sized Construction Companies e.V., Bonn

Dr. Wendelin Wiedeking
President and CEO of Dr. Ing. h. c. Porsche AG

Glossary

Financial Glossary

Capital employed
Comprises properties (including intangible assets) plus net working capital.

Cash flow statement
Representation of movements in cash and cash equivalents during a financial year.

Commercial paper program
Contractual framework or sample documentation for the issuance of short-term bonds.

Credit facilities
Credit lines arranged with banks that can be drawn upon as necessary.

Debt issuance program
Contractual framework or sample documentation for the issuance of bonds. Ensures high flexibility in issuing activity.

Derivative financial instruments (derivatives)
Finance contracts, the value of which depends on the performance of the underlying assets (reference amounts include, for example, interest rates or commodity prices). Important examples include options, futures, forwards and swaps.

EBIT (earnings before interest and taxes)
Adjusted operating income before interest and taxes.

EBITDA (earnings before interest, taxes, depreciation and amortization)
Adjusted operating income before interest, taxes, depreciation and amortization.

Equity method/at-equity accounting
Procedure used to account for investments where assets and liabilities are not fully consolidated in the consolidated financial statements. The carrying amount of the investment is adjusted to reflect the development of the pro-rata share of equity.

Equity ratio
Key financial performance indicator based on the balance sheet structure: expresses equity as a percentage of total assets.

Fair value
Price calculated in efficient markets taking into account all factors influencing prices, and negotiated between knowledgeable, willing parties in an arm's length transaction.

Gearing
Key financial performance indicator that expresses the ratio of net financial debt to equity as a percentage.

Gross capital expenditures
Total capital expenditure for property, plant and equipment and intangible assets – irrespective of the type of financing.

Hedging
Hedging transactions conducted within the scope of risk management, particularly to minimize interest and currency risks.

IFRS (International Financial Reporting Standards)
Internationally recognized accounting standards. Since 2005, the term IFRS has applied to the entire accounting concept issued by the International Accounting Standards Board. Standards issued prior to this continue to be referred to as International Accounting Standards (IAS).

Interest-free loans
Repayable, yet interest-free loans extended by the German Federal Government. Result from the financial participation of the Federal Republic of Germany in capital expenditure for the extension and replacement of track infrastructure.

Investment grants
Third party financial investments in specified investment projects without future repayment requirements.

Net capital expenditures
Gross capital expenditures less third party investment grants, for example for infrastructure capital expenditures.

Rating
An assessment of creditworthiness issued by rating agents for a company; affects a company's refinancing options and costs.

Redemption coverage
Key financial performance indicator that describes the ratio between the ongoing financing power and the financial obligations of the company (adjusted net financial debt).

Return on Capital Employed (ROCE)
Key ratio used in value-based management. Expresses ratio of adjusted EBIT to capital employed as a percentage.

Scope of consolidation
Group of subsidiaries that are included in a group's consolidated financial statements.

Special burden compensation
Deutsche Bahn received federal compensation from 1994 to 2002 for the increased cost of materials and personnel expenses resulting from the inefficient structures inherited from the former Deutsche Reichsbahn.

Swap
A financial transaction in which two counterparties exchange financing conditions and in which each party benefits from the other's cost advantages.

DB-specific terms

Combined rail/road transport
The integrated transport of containers or entire trucks on the roads and rails.

Existing network
The existing rail network – and thus the backbone of the infrastructure.

Freight carriers
Companies that are used for the transport of goods.

GSM-Rail (Global System for Mobile Communication – Rail)
A special European standard that is based on the GSM standard for mobile cellular technology. The platform for the future standardized pan-European command and control technology in rail transport.

Hub
Principal handling base. Collection point for the handling and the centralization of good flows in different directions.

Intermodal competition
Competition with other modes of transport, e.g. between rail and air transport.

Interoperability (multisystem capability)
The ability of track vehicles to adapt to different technical standards (e.g. track widths or power systems) and to operate on different rail networks with as little delay as possible.

Intramodal competition
Competition within a mode of transport, e.g. within the railway sector.

Length of line operated
The length of the rail network at DB Netz AG – irrespective of the number of parallel tracks. Unit of measure: kilometers (km).

"Net 21" ("Netz 21")
Our strategic approach for segregating passenger and freight traffic within the network, to increase line capacity.

One-stop shopping
Complete offerings of products and services from one source in line with customer requirements.

Operating performance
Distance traveled by railroad companies on the DB Netz AG rail network. Unit of measure: train-path kilometers (train-path km).

Ordering organizations
Generally the German States, which are responsible for providing local rail passenger transport (Schienenpersonennahverkehr; SPNV) and order the respective services from transport companies.

Passenger kilometers (pkm)
Unit of measure for transport performance in passenger transport: product of number of passengers and mean travel distance.

"Qualify"
Our extensive Group-wide program designed to safeguard further improvements in profits. The focus is on improvements in efficiency, performance quality and utilization of growth opportunities.

"RailPlus"
Extensive new program designed to redevelop and safeguard the future of rail freight services. Focuses on the utilization and realization of rationalization and growth potential.

Regionalization Act
Regulates the payments of the German Federal Government to the German states and thus facilitates ordering of local transport services on the roads and rails.

Requirement plan network
New line construction and expansion contained in the Federal Transport Infrastructure Plan.

Station pricing system
Transparent and non-discriminatory pricing system for the utilization of passenger stations. The specific station prices depend primarily on the performance and furnishings of the respective stations.

TEU (Twenty-Foot Container Equivalent Unit)
Standardized twenty-foot long container unit (1 foot = 30 cm).

Ton kilometers (tkm)
Unit of measure for transport performance in freight transport: product of freight carried (in metric tons) and mean transport distance (km).

Train-path
Route traveled by a train, defined in the timetable.

Train-path pricing system (TPS)
Regulates in a transparent and non-discriminatory manner the prices for the utilization of the rail network by internal and external customers. Takes into account the individual characteristics of the infrastructure utilized.

Transport contract
A contract between an ordering organization and a railroad company regarding the rendering of local passenger transport services.

Transport performance
Central key performance indicator used to measure performance rendered in passenger and freight transport. Unit of measure: passenger kilometers (pkm) and/or ton kilometers (tkm).

DB Internet Presence

In addition to the popular travel portal www.bahn.de and the transport and logistics portal www.dblogistics.de, we have established the Group portal www.db.de, which is primarily focused on target groups such as Deutsche Bahn business partners, journalists, investors, political opinion leaders and applicants.

In the Group portal www.db.de with its themes "Traveling with DB", "Transport & Logistics", "Business with DB" and "DB Group", the internet user is comprehensively informed about the Group and its services, offerings and engagements. As such, the section "Business with DB" provides an overview of the business-to-business services of the Group. The "DB Group" section comprises Group topics such as press, jobs and careers, as well as information on environmental and social activities and an overview of the Group divisions and major subsidiaries.

The investor relations web presence of Deutsche Bahn is also part of the new Group portal and is directly accessible at www.db.de/ir-english. We will continue to gradually expand the content of our internet presence and we already offer extensive information for current and potential investors as well as anyone interested in Deutsche Bahn's operating development.

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10-Year Summary

€ million	2006	2005	2004	2003[1]	2002[1]	2001[1]	2000[1]	1999[1]	1998[1]	1997[1]
Consolidated Statement of Income										
Revenues	30,053	25,055	23,962	28,228	18,685	15,722	15,465	15,630	15,348	15,577
Overall performance	31,943	26,728	25,890	30,438	20,900	17,535	17,267	17,521	17,104	17,422
Other operating income	2,859	2,366	2,860	3,138	2,830	2,406	3,653	2,511	2,596	2,141
Cost of materials	- 16,449	- 12,650	- 12,054	- 15,776	- 9,546	- 7,108	- 6,625	- 6,688	- 6,595	- 6,716
Personnel expenses	- 9,782	- 9,211	- 9,556	- 10,337	- 8,387	- 7,487	- 8,475	- 8,285	- 8,389	- 8,663
Depreciation	- 2,950	- 2,801	- 2,722	- 2,694	- 2,434	- 2,162	- 2,052	- 1,965	- 1,737	- 1,620
Other operating expenses	- 3,144	- 3,080	- 3,274	- 4,316	- 3,358	- 3,282	- 3,436	- 2,790	- 2,546	- 2,204
Operating profit (EBIT)	2,477	1,352	1,144	–	–	–	–	–	–	–
Investment income	–	–	–	51	46	2	- 44	- 55	- 143	- 151
Result from investments accounted for using the equity method	18	76	49	–	–	–	–	–	–	–
Other financial result	1	7	- 55	–	–	–	–	–	–	–
Net interest income	- 941	- 945	- 984	- 637	- 489	- 313	- 251	- 158	- 89	- 26
Profit before taxes on income	1,555	490	154	- 133	- 438	- 409	37	91	201	183
Net profit for the year	1,680	611	180	- 245	- 468	- 406	85	87	170	200
Value Management / Operating Profit Measures										
Return on Capital Employed (ROCE)[2]	7.5%	5.0%	3.8%	1.5%	0.1%	0.4%	1.6%	0.3%	1.1%	1.4%
EBIT[3] adjusted for special items	2,143	1,350	1,011	465	37	109	450	71	260	300
Capital employed[4]	28,693	27,013	26,490	30,964	30,428	28,649	27,443	24,911	22,656	20,878
EBITDA[5] before special burden compensation	–	–	–	–	2,021	1,433	1,264	427	35	- 445
Special burden compensation	–	–	–	–	443	838	1,228	1,609	1,962	2,365
EBITDA[5]	5,427	4,153	3,866	3,092	2,464	2,271	2,492	2,036	1,997	1,920
Cash Flow/Capital Expenditures										
Cash flow from operating activities	3,678	2,652	2,736	–	–	–	–	–	–	–
Gross capital expenditures	6,584	6,379	7,238	9,121	9,994	7,110	6,892	8,372	7,660	7,136
Net capital expenditures[6]	2,836	2,360	3,251	4,013	5,355	3,307	3,250	3,229	3,040	6,223
Asset and Capital Structure										
Non-current assets	43,360	42,907	43,200	–	–	–	–	–	–	–
thereof property, plant and equipment and intangible assets	(41,081)	(40,430)	(40,861)	(40,093)	(38,869)	(35,055)	(34,071)	(32,815)	(31,155)	(29,866)
thereof deferred tax assets	(1,800)	(1,556)	(1,301)	–	–	–	–	–	–	–
Current assets	5,080	4,194	4,416	–	–	–	–	–	–	–
thereof cash and cash equivalents	(295)	(305)	(765)	(265)	(271)	(363)	(394)	(280)	(351)	(447)
Equity	9,214	7,675	7,067	5,076	5,708	8,436	8,788	8,701	8,528	8,422
Non-current liabilities	26,319	27,963	29,440	30,464	27,779	24,421	21,331	21,149	20,592	18,278
thereof retirement benefit obligations and other provisions	(5,507)	(5,575)	(5,768)	–	–	–	–	–	–	–
thereof deferred tax liabilities	(72)	(46)	(17)	–	–	–	–	–	–	–
Current liabilities	12,907	11,463	11,109	12,107	12,524	9,090	9,329	7,325	5,803	7,145
Total assets	48,440	47,101	47,616	47,647	46,023	41,962	39,467	37,198	34,961	33,892
Net financial debt	19,586	19,669	19,511	–	–	–	–	–	–	–
Property, plant and equipment and intangible assets as % of total assets	84.8%	85.8%	85.8%	84.1%	84.5%	83.5%	86.3%	88.2%	89.1%	88.1%
Equity ratio[7]	19.0%	16.3%	14.8%	10.7%	12.4%	20.1%	22.3%	23.5%	24.5%	25.0%

	2006	2005	2004	2003[1]	2002[1]	2001[1]	2000[1]	1999[1]	1998[1]	1997[1]
Rail Transport Performance										
Passengers (million)	1,854	1,785	1,695	1,682	1,657	1,702	1,713	1,680	1,668	1,641
Long-Distance Transport	120	119	115	117	128	136	145	147	149	152
Regional and Urban Transport	1,734	1,667	1,580	1,564	1,529	1,566	1,568	1,534	1,520	1,489
Passenger kilometers (million pkm)	74,788	72,554	70,260	69,534	69,848	74,459	74,388	72,846	71,853	71,630
Long-Distance Transport	34,458	33,641	32,330	31,619	33,173	35,342	36,226	34,897	34,562	35,155
Regional and Urban Transport	40,331	38,913	37,930	37,915	36,675	39,117	38,162	37,949	37,291	36,475
Freight carried[8] (million t[9])	307.6	274.6	295.3	294.5	289.4	301.3	310.8	289.7	288.7	295.5
Transport performance[8] (million tkm[9])	96,388	88,022	89,494	85,151	82,756	84,716	85,008	75,785	73,273	72,614
Total transport performance (million ptkm)	171,177	160,576	159,755	154,686	152,603	159,175	159,397	148,631	145,126	144,244
Train kilometers (million train-path km)	1,016	998	1,001	988	967	977	984	977	947	-
Employees[10]										
Average	228,990	220,343	229,830	249,251	224,758	219,146	230,615	244,851	259,072	277,471
At year end	229,200	216,389	225,632	242,759	250,690	214,371	222,656	241,638	252,468	268,273

[1] German GAAP
[2] Defined as EBIT/Capital employed
[3] Operating profit before interest and taxes adjusted for special items
[4] Property, plant and equipment plus operating net working capital. Differences in definition according to German GAAP respectively IFRS with regard to treatment of interest-free loans
[5] Operating profit before interest, taxes and depreciation (according to German GAAP adjusted for special items)
[6] Gross capital expenditures less investment grants from third parties
[7] Until 2003 equity including special items
[8] Until 1997 including less-than-carload business; from 2000 on including Railion Nederland; from 2001 on including Railion Danmark; from 2006 on including RBH Logistics GmbH
[9] Changeover to gross figures in 2006, figures up to 1999 were adjusted accordingly
[10] Full-time employees, part-time employees are accounted for on a pro-rata basis

Contacts

Investor Relations
Phone: +49 (0) 30 2 97-6 16 66
Fax: +49 (0) 30 2 97-6 19 59
E-mail: investor.relations@bahn.de
Internet: www.db.de/ir-english

Deutsche Bahn AG
Investor Relations
Potsdamer Platz 2
D-10785 Berlin
Germany

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

Fax: +49 (0) 30 2 97-6 19 19
E-mail: medienbetreuung@bahn.de
Internet: www.db.de/presse

Deutsche Bahn's hotline for general telephone requests is available under the telephone number +49 (0) 30 2 97-0.

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August 23, 2007	Publication of the Interim Report January–June 2007
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Deutsche Bahn AG
Potsdamer Platz 2
D-10785 Berlin
Germany

www.db.de
www.bahn.de