

Audited financial report for the

eight-month period ended 31 August 2017

Deutsche Bahn Finance B.V.

(Currently known as 'Deutsche Bahn Finance GmbH' after its change of legal seat effective as
per 1 September 2017)

Amsterdam

Deutsche Bahn Finance B.V.
Amsterdam

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Deutsche Bahn Finance B.V. Amsterdam

Semi-Annual report of the directors

General

We herewith present the audited Report of Deutsche Bahn Finance B.V. (hereafter "the Company") for the financial year ended 31 August 2017.

Profit and loss account for the year ended 31 August 2017

The Company was incorporated in Amsterdam on 16 September 1994. The Company is a wholly owned subsidiary of Deutsche Bahn AG, Germany. The Company is incorporated in the Netherlands with its statutory seat at Amsterdam and its registered office at De Entree 99, 1101 HE in Amsterdam and acts as a finance company for the Deutsche Bahn Group through the providing of long-term liquidity and intercompany funding. Funding of these activities is done mainly through the issue of bearer bonds on different stock exchanges in Europe. As per 31 August 2017, the total book value of the bonds outstanding was thousands of EUR 19,772,285 (2016: thousands of EUR 19,744,780).

The Company is party to a EUR 2,000,000,000 multi-currency commercial paper programme, arranged by Deutsche Bahn AG in October 1994, re-denominated into EUR (previously DEM) in January 1999 and increased from EUR 1,000,000,000 to EUR 2,000,000,000 in December 2003, under which the Company can issue notes, together with Deutsche Bahn AG.

The Company is party to a EUR 25,000,000,000 Debt Issuance Programme (The programme), arranged by Deutsche Bahn AG in May 2001. The programme was increased from EUR 5,000,000,000 to EUR 10,000,000,000 in August 2003, to EUR 15,000,000,000 in July 2009, to EUR 20,000,000,000 in June 2012 and finally to EUR 25,000,000,000 in June 2016. In addition, the programme has been updated as per 24 May 2017. In January 2017 also a AUD 5,000,000,000 Debt Issuance Programme was arranged by Deutsche Bahn AG. These instruments enable the Company to issue all kinds of bonds in different currencies and with different maturity dates. The proceeds are used to finance Deutsche Bahn AG in Berlin or other companies of Deutsche Bahn Group.

Result for the period

The Company's balance sheet total decreased by thousands of EUR 3,834 (-0.019%) to stand at thousands of EUR 20,079,346 at August 2017. The main factor behind this decrease despite a slightly higher new issuance of bonds compared to repayments was the lower interest rate level, which resulted in lower interest receivables and payables. Additionally the Company retained the profit of the year 2016. This remains to a solid liquidity and solvency position of the Company.

The financial position of the Company shows a profit for the period after taxation to thousands of EUR 6,704 (2016 full year: thousands of EUR 10,118).

Risk & risk management

We refer to paragraph 1.18 for the principal risks that the Company is facing. The Company's aim is to exclude the connected market risk, especially interest rate risk and liquidity risk associated with financial instruments. Risk management of the Company is based on the policy that the interest and currency risks are hedged via back to back on-lending within the group, given the fact that repayment conditions on granted loans to intercompany parties are identical with the conditions on the bonds issued which all are guaranteed by Deutsche Bahn AG. It is the Company's policy to attract a fixed interest rate margin on loans to finance its operations. The Company obtains this set margin on the back to back funding. All individually significant assets are assessed for specific impairment. The risk management process comprises the early identification of risks and opportunities, their measurement and the use of suitable instruments to manage and monitor risks. The risk Management system comprises a wide range of organizational and methodological components that are finely tuned to each other. The company has established an encompassing reporting system that provides decision makers with comprehensive, up-to-date information and insights into developments with regard to the capital markets. Risk management is viewed as a continuous process, given the fact that changes in the legal, economic or regulatory environment or those within the Company itself could lead to new risks or to recognized risks being differently assessed.

Overall risk management within the Deutsche Bahn Group is managed centrally and reviewed for appropriateness and effectiveness by the Deutsche Bahn Group's internal audit department. The integration and optimization of processes have reduced operational risk. At present, no risks have been identified which could threaten the going concern status of the Company or which could have a materially adverse impact on the net assets, financial position or results of operations of the Company.

The Company has a low risk appetite: based on the mitigating measures as outlined above, management is of the opinion that the potential impact of these risks is expected to be low.

Deutsche Bahn Finance B.V. Amsterdam

Audit committee

Pursuant to Section 2 of the Decree implementing the Directive 2006/43/EG (the Decree) and Section 3 sub a of the Decree. The Company should have an audit committee in place which should consist of members of the supervisory board of the Company, unless an exemption applies.

Deutsche Bahn AG (the parent company) has such an audit committee in place and complies with the relevant provisions of the Dutch Corporate Governance Code (CGC). Accordingly, the Company makes use of the exemption from the obligation to install an audit committee.

Reference is made to the Audit committee presented in the consolidated Financial Statements of the parent company.

Events after balance sheet date

As per 1 September 2017 the Corporate seat as well as the registered office of the Company was relocated to Berlin, Federal Republic of Germany. At the same time the legal form changed from a B.V. (Private Limited Liability Company) into a GmbH (Private Limited Liability Company) and the name was changed into Deutsche Bahn Finance GmbH. At the same day the management agreement with Deutsche International Trust Company N.V. (DITC) was terminated and DITC was released from its role of director. The Company elected Marcus Mehlinger as a new director.

The Company issued the following new bonds:

AUD 425,000,000 - 3.50%, maturity 2024

AUD 175,000,000 - 3.80%, maturity 2027

CHF 300,000,000 - 0.45%, maturity 2030

AUD 150,000,000 - 4.05%, maturity 2032

EUR 300,000,000 - Floating rate, maturity 2024

EUR 1,000,000,000 - 1.00%, maturity 2027

And has onlent the funds to Deutsche Bahn AG with the same maturity and currency.

Furthermore the Company repaid maturing bonds over EUR 500,000,000, CHF 150,000,000, CHF 375,000,000 and GBP 200m 000 000, the corresponding loans were repaid to the Company.

Future developments

The Company will continue its operations as a group finance company for the foreseeable future. No significant changes are expected in respect of financial income, solvency or liquidity. There are no significant deviations from previous expectations or uncertainties.

Responsibility Statement

"The Managing Directors of the Company hereby declare that to the best of their knowledge and in accordance with the applicable reporting principles for the financial reporting, the financial statements for the period from 01 January 2017 until 31 August 2017 give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and that the Director's report referred to above gives a true and fair view concerning the position as per the balance sheet date, the development and performance of the business during the financial year of the Company together with a description of the principal risks that it faces."

Amsterdam, 2 February 2018

The Directors,

W. Bohner

M. Mehlinger

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Balance sheet as at 31 August 2017
(before proposed appropriation of result)

(In EUR'000)	Notes	<u>31-Aug-17</u>	<u>31-Dec-16</u>
Assets			
Non-current assets			
Financial assets:	2.1	-	
- Loans receivable from group companies		16,703,531	17,890,799
- Inter-company current account Deutsche Bahn AG		<u>77,000</u>	<u>69,159</u>
		16,780,531	17,959,958
Current assets			
- Interest receivable on loans receivable	2.2	245,790	285,184
- Loans receivable from group companies	2.3	3,053,017	1,838,016
- Prepaid Corporate Income Tax		-	-
- Cash at banks	2.4	<u>8</u>	<u>22</u>
		3,298,815	2,123,222
		<u>20,079,346</u>	<u>20,083,180</u>

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Balance sheet as at 31 August 2017
(before proposed appropriation of result)

(In EUR'000)	Notes	31-Aug-17	31-Dec-16
Liabilities			
Shareholder's equity			
	2.5		
Issued and paid-up share capital		100	100
Retained earnings		57,330	47,212
Profit for the year		6,704	10,118
		<u>64,134</u>	<u>57,430</u>
Non-current liabilities			
	2.6		
Long-term bonds		16,719,183	17,906,354
		<u>16,719,183</u>	<u>17,906,354</u>
Current liabilities			
	2.7		
Interest payable on bonds		231,937	270,363
Short-term bonds	2.8	3,053,102	1,838,424
Inter-company payable Deutsche Bahn AG		8,800	9,011
Payables to group companies		-	-
Expired Bonds not yet collected		344	345
Corporate Income Tax payable		1,732	1,103
Accrued expenses		114	150
		<u>3,296,029</u>	<u>2,119,396</u>
		<u>20,079,346</u>	<u>20,083,180</u>

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Profit and loss account for the period from 01 January 2017 until 31 August 2017

(In EUR'000)	Notes	01-Jan-17 until 31-Aug-17	01-Jan-16 until 31-Dec-16
Financial income	3.3		
Interest on inter-company loans		343,450	560,582
Release of discount on loans receivable		11,300	17,078
Other interest		-	74
Exchange difference		851	968
		<u>355,601</u>	<u>578,702</u>
Financial expense	3.3		
Interest expense		323,283	530,122
Other interest		-	-
Amortisation/discount on bonds issued		9,389	14,037
Exchange difference		-	-
		<u>332,672</u>	<u>544,159</u>
Net financial income		22,929	34,543
Other expenses			
Guarantee fee		13,078	19,968
Bond-issue costs		750	637
General and administrative expenses		176	462
		<u>14,004</u>	<u>21,067</u>
Result before taxation		8,925	13,476
Taxation on result from ordinary operations	3.4	2,221	3,358
Taxation previous years		-	-
Result after taxation		<u><u>6,704</u></u>	<u><u>10,118</u></u>

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Cash flow statement for the period from 01 January 2017 until 31 August 2017

(In EUR'000)	Notes	01-Jan-17 until 31-Aug-17	01-Jan-16 until 31-Dec-16
Result before taxes		8,925	13,476
Adjustments for:			
Release of discount on loans receivable		(11,300)	(17,078)
Amortisation/discount on bonds issued		9,389	14,037
		(1,911)	(3,041)
Changes in working capital:			
Movements interest receivable	2.2	39,394	6,140
Movements interest payable	2.7	(38,426)	(7,258)
Movements expenses payable		(36)	57
		932	(1,061)
Cash flow used in operating activities			
Income tax paid	3.4	(1,592)	(2,894)
		(1,592)	(2,894)
Net cash used in operating activities		6,354	6,480
Cash flows used in investment activities			
Issuance of long-term loans	2.1	(950,366)	(2,118,442)
Repayment of short-term loans	2.3	1,838,016	1,550,334
Inter-company Deutsche Bahn AG		(8,052)	(6,109)
Net cash used in investment activities		879,598	(574,217)
Cash flows from financing activities			
Issuance of long-term bonds	2.6	952,816	2,118,619
Repayment of short-term bonds	2.8	(1,838,016)	(1,550,556)
Repayment of Expired bonds		(1)	-
Dividend paid	2.5	-	-
Net cash from financing activities		(885,201)	568,063
Exchange differences		(765)	(311)
Net cash flows		(14)	15
Cash and cash equivalents	2.4		
Balance as at 1 January		22	7
Movement for the year		(14)	15
Balance as at 31 August		8	22

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Notes to the balance sheet and profit and loss account

1 Accounting principles

1.1 Activities and group structure

The Company was incorporated in Amsterdam on 16 September 1994. The Company is a wholly owned subsidiary of Deutsche Bahn AG, Germany. The Company is incorporated in the Netherlands with its statutory seat at Amsterdam and its registered office at De Entree 99, 1101 HE in Amsterdam and acts as a finance company for the Deutsche Bahn Group through the providing of long-term liquidity and intercompany funding. Funding of these activities is done mainly through the issue of bearer bonds on different stock exchanges in Europe. As per 31 August 2017, the total book value of the bonds outstanding was thousands of EUR 19,722,285 (2016: thousands of EUR 19,744,780).

The Company is party to a EUR 2,000,000,000 multi-currency commercial paper programme, arranged by Deutsche Bahn AG in October 1994, re-denominated into EUR (previously DEM) in January 1999 and increased from EUR 1,000,000,000 to EUR 2,000,000,000 in December 2003, under which the Company can issue notes, together with Deutsche Bahn AG.

The Company is party to a EUR 25,000,000,000 Debt Issuance Programme (The programme), arranged by Deutsche Bahn AG in May 2001. The programme was increased from EUR 5,000,000,000 to EUR 10,000,000,000 in August 2003, to EUR 15,000,000,000 in July 2009, to EUR 20,000,000,000 in June 2012 and finally to EUR 25,000,000,000 in June 2016. The programme has been updated as per 24 May 2017. In addition, in January 2017 also a AUD 5,000,000,000 Debt Issuance Programme was arranged by Deutsche Bahn AG. These instruments enable the Company to issue all kinds of bonds in different currencies and with different maturity dates. The proceeds are used to finance Deutsche Bahn AG in Berlin or other companies of Deutsche Bahn Group.

As per 1 September 2017 the Corporate seat as well as the registered office of the Company was relocated to Berlin, Federal Republic of Germany. At the same time the legal form changed from a B.V. (Private Limited Liability Company) into a GmbH (Private Limited Liability Company) and the name was changed into Deutsche Bahn Finance GmbH. This has no further impact on the going concern of the structure nor the Company as such.

1.2 General

The financial statements have been prepared in accordance with the statutory provisions of Part 9, Book 2, of the Dutch Civil Code and the firm pronouncements in the Dutch Accounting Standards ("DASs") for Annual Reporting in the Netherlands as issued by the Dutch Accounting Standards Board.

In general, assets and liabilities are stated at the amounts at which they were acquired or incurred, or current value. If not specifically stated otherwise, they are recognised at the amounts at which they were acquired or incurred. The balance sheet and income statement include references to the notes.

The accounting principles have not changed compared to last year.

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1.3 Foreign exchange

Balance sheet items relating to assets and liabilities denominated in currencies other than EUR are converted at the rate of exchange prevailing on balance sheet date. The resulting exchange rate differences are credited or charged to the profit and loss account.

The Company manages its exchange exposure by means of back to back funding of the initiated loans in the respective currencies. Therefore, the Company has no currency exposure on the nominal loan amounts in foreign currencies. Exchange results arise from settlement and conversion and are charged or credited to the profit and loss account.

The company's functional currency is Euro (EUR).

Cash flows in foreign currencies in the cash flow statement have been converted at exchange rates prevailing at the date the transaction took place.

The exchange rates used in the annual accounts are:

	31/08/2017	31/12/2016	30/06/2016
1 EUR = AUD (Australian dollar)	1.5016	1.4596	1.4929
1 EUR = CHF (Suisse franc)	1.1446	1.0739	1.0867
1 EUR = GBP (Pound sterling)	0.9197	0.8562	0.8265
1 EUR = HKD (Hong Kong dollar)	9.2526	8.1751	8.6135
1 EUR = JPY (Japanese yen)	130.81	123.40	114.05
1 EUR = NOK (Norwegian krone)	9.2790	9.0863	9.3008
1 EUR = SEK (Swedish krone)	9.4818	9.5525	9.4242
1 EUR = SGD (Singapore dollar)	1.6094	1.5234	1.4957
1 EUR = USD (US dollar)	1.1825	1.0541	1.1102

1.4 Estimates

In applying the principles and policies for drawing up the financial statements, the directors of Deutsche Bahn Finance B.V. make different estimates and judgments that may be essential to the amounts disclosed in the special purpose financial information. If it is necessary in order to provide the transparency required under Part 9, Book 2, article 362, paragraph 1 of the Dutch Civil Code, the nature of these estimates and judgments, including related assumptions, is disclosed in the notes to the relevant financial statement item.

1.5 Related parties

All legal entities that can be controlled, jointly controlled or significantly influenced are considered to be a related party. Also, entities which can control the company are considered a related party. In addition, statutory directors, other key management of the Company or the ultimate parent company and close relatives are regarded as related parties.

1.6 Non-derivative Financial instruments

The Company initially recognizes loans, receivables, cash and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

1.7 Financial assets

Financial assets relate to the inter-company loans receivable and the inter-company account with Deutsche Bahn AG. The inter-company loans receivable are stated at its fair value on initial recognition and are subsequently stated on the basis of amortized cost being the amount paid taking into account of any premium or discount and its amortization on a straight line basis. Impairment of financial fixed assets as at balance sheet date if any, is taken into account in the valuation of these assets.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets: Financial assets, cash at banks and borrowings.

1.8 Impairment

At each balance sheet date, the Company tests whether there are any indications of assets being subject to impairment. If any such indications exist, the recoverable amount of the asset is determined.

The amount of an impairment incurred on financial assets stated at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal shall be recognised through profit or loss.

1.9 Cash at banks

Cash represents cash in hand and bank balances, which are stated at face value.

1.10 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, being the amount received taking account of any premium or discount, less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest in the income statement over the period of the borrowings using a straight-line depreciation.

1.11 Principles for the determination of the result

The result is the difference between the realisable value of the goods/services provided and the costs and other charges during the year. The results on transactions are recognised in the year in which they are realised.

1.12 Financial income and expense

Interest paid and received is recognised on a time-weighted basis, taking account of the effective interest rate of the assets and liabilities concerned. When recognising interest paid, allowance is made for transaction costs on loans received as part of the calculation of effective interest.

1.13 Discount/premium on bond and loan issues

Discounts/premiums arising on the issue of inter-company loans and the issue of bonds are respectively released, amortised on a straight-line basis over the term of the loans/bonds.

1.14 Guarantee fee

Guarantee fee represents the costs relating to the guarantee issued by Deutsche Bahn AG in relation to the redemption of the bonds and the payment of interest thereon. The guarantee fee amounts to 0.1% of the issued bonds per annum. The outstanding balance at year-end relating to the guarantee fee is part of the inter-company payable with Deutsche Bahn AG.

1.15 Bond issue costs

Bond issue costs relate to the marketing costs of new bonds issued. These costs include road shows, conferences, hotel and travelling expenses. These costs are recognised on the historical cost convention and are expensed in the reporting year the bond was issued.

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1.16 General and administrative expenses

General and administrative expenses relate to professional fees and other office expenses.

1.17 Taxation

The liability for income tax is based on taxable income, which is defined under a specific Advanced Pricing Agreement for the Company applicable up to and including the financial year 2015. A new Advanced Pricing Agreement has not been finalised due to the relocation of the Company.

The Company entered, retroactively as from 2011, into a fiscal unity with DB Nederland Holding B.V., DB Cargo Nederland N.V. and Schenker Nederland B.V.

1.18 Cash flow statement

The cash flow statement has been prepared using the indirect method. The cash items disclosed in the cash flow statement comprise cash at banks and in hand except for deposits with a maturity longer than three months. Cash flows denominated in foreign currencies have been translated at average estimated exchange rates. Exchange differences affecting cash items are shown separately in the cash flow statement. Interest paid and received, dividends received and income taxes are included in cash from operating activities. Dividends paid are recognized as cash used in financing activities. Transactions not resulting in inflow or outflow of cash, are not recognized in the cash flow statement.

1.19 Risk management

The Company has limited exposure to currency risk, interest rate risk and credit risk. These risks are actively managed via natural hedging. Risks are closely managed as following:

- Currency risk

The Company is exposed to currency risk on notes issued and loans granted that are denominated in a currency other than the respective functional currency, primarily the euro. In order to mitigate the impact of currency risk arising from operational and financial activities, the Company continually assesses its exposure to this risk. The currencies in which these transactions primarily are denominated are EUR, CHF, GBP, NOK, JPY and USD. The Company hedges 100% of its estimated foreign currency exposure and manages its exchange exposure by means of back to back funding of the initiated loans in the respective currencies. Therefore, the Company has no currency exposure on the nominal loan amounts in foreign currencies.

- Interest rate risk

It is the Company's policy to attract a fixed interest rate margin on loans to finance its operations. The Company obtains this set margin on the back to back funding. Its margin is therefore fixed and interest rate risk is minimised.

- Credit risk

Credit risk arises principally from the Company loans and receivables presented under financial fixed assets, interest receivable on loans receivable, loans receivable from shareholder and cash. The credit risk is concentrated at the limited number of 6 counterparties being all companies belonging to the Deutsche Bahn Group. The counterparties have always satisfied their obligations to pay in time, no impairment has been recognised. The present economic situation of Deutsche Bahn Group does not indicate any of such credit risk that the creditworthiness of the counterparties is to be reconsidered. The credit ratings for Deutsche Bahn AG defined by the rating agencies are:

<u>Rating agency</u>	<u>Long-term</u>	<u>Short-term</u>	
Standard & Poor's	AA-/stable	A-1+	as per August 30, 2017
Moody's	Aa1/stable	P-1	as per April 12, 2017

- Refinancing risk

The Company runs an interest rate risk on interest bearing assets and liabilities and on the refinancing of existing loans. For assets and liabilities with variable interest rate agreements, the Company runs a risks of future cash flows relating. The company uses a fixed interest rate margin on back to back financing, in order to exclude the interest risk of variable interest rate loans. The group company's policy is focused on maintaining the Aa1/AA rating, which mitigates the refinancing risk of the company.

- Liquidity risk

The Company monitors its cash position by using successive liquidity budgets. The management ensures that the cash position is sufficient to meet the Company's financial obligations towards creditors and to stay within the limits of its loan covenants.

The Company has a low risk appetite: based on the mitigating measures as outlined above, management is of the opinion that the potential impact of these risks is expected to be low.

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2 Notes to the balance sheet

(In EUR'000)

2.1 Financial assets

The financial assets can be detailed as follows:

Non-current financial assets:

Opening balances as per 1 January 2016 17,959,958

Movements for the period 1 January 2017 until 31 August 2017

Amortisation of discounts/premiums	10,305
New Loans	950,366
Foreign exchange adjustments	(248,495)
Reclassification Loans	(1,899,444)
Reclassification Inter-company account Deutsche Bahn AG	7,841

Closing balance as per 31 August 2017 16,780,531

The table below presents a summary of the Company's non-current financial assets

	31-Aug-17	31-Dec-16
Loans granted to group companies	16,803,063	17,995,864
Discount on loans	(99,532)	(105,065)
Inter-company Deutsche Bahn AG	77,000	69,159
	<u>16,780,531</u>	<u>17,959,958</u>

Loans to group companies included in financial assets are stated at the carrying value of the amount owed, which normally consists of its face value net of any provisions considered necessary. Deferred premiums and discounts on loans to group companies are amortised on a straight-line basis over the term of the loans.

The interest rate charged on loans to group companies vary between 0.160 % and 5.495 %, depending on the respective currency, maturity and market conditions. The maturity of the loans equals the maturity of the issued bonds as stated under note 2.6.

The total market value of all current and non-current outstanding loans amounts to thousands of EUR 21,219,515 (2016: thousands of EUR 21,394,160).

The fair value of the loans is based on the market value of the underlying bonds and reflects the current interest environment compared to the cashflow of the loans.

2.2 Interest receivable on loans receivable

The interest receivable on loans receivable relates to the interest on non-current financial assets stated under note 2.1 and interest on loans receivable from shareholder stated under note 2.3.

2.3 Loans receivable from shareholder

The loans receivable from the shareholder can be detailed as follows:

	31-Aug-17	31-Dec-16
Loans granted to shareholder	3,053,810	1,839,269
Discount on loans	(793)	(1,253)
	<u>3,053,017</u>	<u>1,838,016</u>

The loans receivable from shareholder have not been secured, the interest rates vary between 0.261% and 5.050% and maturity dates from on 16 October 2017 till 14 March 2018.

2.4 Cash at banks

Cash at banks consists of a current account in EUR with Deutsche Bank AG, Amsterdam branch and is at free disposal. Cash and cash equivalents are at free disposal of the Company and are stated at face value.

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2.5 Shareholder's equity

The authorised share capital the Deutsche Bahn Finance B.V. amounts to EUR 500,000, divided into 1,000 ordinary shares of EUR 500 each. Of these, 200 ordinary shares in the amount of EUR 100,000 have been fully paid up.

(In EUR'000)	Issued and paid-up share capital	Retained earnings	Profit for the period	Total
2016				
Balance at 31 December 2015	100	39,937	7,275	47,312
Allocation of profit for the year 2015	-	7,275	(7,275)	-
Profit for the year	-	-	10,118	10,118
Balance at 31 December 2016	<u>100</u>	<u>47,212</u>	<u>10,118</u>	<u>57,430</u>
2017				
Balance at 31 December 2016	100	47,212	10,118	57,430
Allocation of profit for the year 2016	-	10,118	(10,118)	-
Profit for the period until 31 August 2017	-	-	6,704	6,704
Balance at 31 August 2017	<u>100</u>	<u>57,330</u>	<u>6,704</u>	<u>64,134</u>

2.6 Non-current liabilities

	31-Aug-17	31-Dec-16
Opening balances as per 1 January 2017	17,906,354	17,761,761
Movements :		
Amortisation of discounts/premiums	8,708	13,541
New Bonds	952,816	2,118,619
Foreign exchange adjustments	(249,251)	(149,142)
Reclassification Bonds	(1,899,444)	(1,838,425)
	<u>(1,187,171)</u>	<u>144,593</u>
Closing balance as per 31 August 2017	<u>16,719,183</u>	<u>17,906,354</u>
	<u>31-Aug-17</u>	<u>31-Dec-16</u>
Bonds Issued	16,803,063	17,995,864
Discount on Bonds	<u>(83,880)</u>	<u>(89,510)</u>
	<u>16,719,183</u>	<u>17,906,354</u>

All bonds are guaranteed by Deutsche Bahn AG.

The table below summarises the re-payment schedule of the Company's bonds issued

(In EUR'000)	31-Aug-17				31-Dec-16	
Non-current:	Within 1 - 5 year	More than 5 year	Average Coupon	Total	Average Coupon	Total
AUD	-	179,809	4.298%	179,809	4.298%	184,982
CHF	655,253	917,353	1.435%	1,572,606	1.435%	1,676,143
EUR	4,650,000	7,540,000	2.350%	12,190,000	2.615%	13,590,000
GBP	434,912	853,515	2.625%	1,288,427	3.049%	1,033,662
JPY	417,144	-	1.206%	417,144	1.206%	442,260
HKD	-	37,828	2.070%	37,828	2.070%	42,812
NOK	-	603,512	3.042%	603,512	3.121%	539,294
SEK	168,752	55,899	2.250%	224,651	2.246%	167,488
SGD	77,669	-	2.290%	77,669	2.290%	82,054
USD	211,417	-	1.737%	211,417	1.357%	237,170
Discount	<u>(12,398)</u>	<u>(71,482)</u>		<u>(83,880)</u>		<u>(89,510)</u>
	<u>6,602,749</u>	<u>10,116,434</u>		<u>16,719,183</u>		<u>17,906,355</u>

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, being the amount received taking account of any premium or discount, less transaction costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest in the income statement over the period of the borrowings using a straight-line depreciation.

The total market value of all current and non-current outstanding bonds is EUR 21,238 million (2016: EUR 21,413 million). The fair value of the bonds is calculated by the year-end quotation on the respective stock exchanges.

Deutsche Bahn Finance B.V.
Amsterdam

2.7 Current liabilities

All current liabilities fall due in less than one year. The fair value of the current liabilities approximates the book value due to its short-term character.

2.8 Short-term bonds

The short-term bonds can be detailed as follows:

(In EUR'000)	31-Aug-17			31-Dec-16	
	Within 1 year	Average Coupon	Total	Average Coupon	Total
Current:					
EUR	2,400,000	3.935%	2,400,000	3.813%	1,000,000
CHF	327,626	1.500%	327,626	1.286%	488,875
GBP	326,184	1.375%	326,184	1.375%	350,394
Discount	(708)	-	(708)	-	(845)
	<u>3,053,102</u>		<u>3,053,102</u>		<u>1,838,424</u>

All bonds are guaranteed by Deutsche Bahn AG., the short-term bonds bear an interest rate vary between 0,101% and 4.750% and maturity dates from 16 October 2017 and 14 March 2018.

3 Notes to the profit and loss account

3.1 Director's remuneration

The Company has two managing directors and no employees. One managing director received a fixed annual fee of EUR 5,000 for management services and domiciliation.

3.2 Staff numbers and employment costs

The Company has no employees and hence incurred no wages, salaries or related social security charges during the reporting period, nor during the previous year.

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Amsterdam

3.3 Financial income and expense

All financial income and expense is recognised in the period in which they occur.

3.4 Taxation on result from ordinary operations

	31-Aug-17	31-Dec-16
Taxable amount	8,925	13,476
Tax expense based on nominal tax rate (25%)	2,221	3,358

The effective tax rate is 24.9% (2016: 24.9%).

The Corporate Income Tax is calculated on the profit/loss before tax in the income statement, taking into account any losses carried forward from previous financial years and tax exempt items and plus non-deductible expenses. Calculation is also in accordance with the APA which has been concluded with the tax authorities. Although this APA was valid from 1 January 2011 until 31 December 2015, this is still applied.

A mutual agreement procedure with the Dutch Ministry of Finance was started to discuss the income adjustments made by the German tax authorities for the fiscal years 2007 to 2017 in relation to the Company's remuneration for its financing activities. In this procedure, mutual agreement between the Netherlands and Germany was reached, although an official confirmation of this event has not yet been given to the Company and further liaison with the competent tax inspector and Deutsche Bahn Group should take place in order to settle the outcome of the mutual agreement. Provided that outcome of the mutual agreement procedure will be settled in the following months a total CIT reimbursement of EUR 15,218,637 could be expected, being the CIT reduction for the years 2007-2017.

3.5 Transactions with related parties

Transactions with related parties occur when a relationship exists between the Company, its participating interests and their directors and key management personnel.

All transactions with related parties are on an "arms length" basis.

The company granted loans in thousands of EUR 19,833,548 to group companies. The interest rate charged on loans to group companies vary between 0 % and 5.495 %, depending on the respective currency, maturity and market conditions. The maturity of the loans equals the maturity of the issued bonds as stated under note 2.6.

No obligation for early repayment has been agreed.

As per 1 September 2017 the Corporate seat as well as the registered office of the Company was relocated to Berlin, Federal Republic of Germany. At the same time the legal form changed from a B.V. (Private Limited Liability Company) into a GmbH (Private Limited Liability Company) and the name was changed into Deutsche Bahn Finance GmbH. At the same day the management agreement with Deutsche International Trust Company N.V. (DITC) was terminated and DITC was released from its role of director. The Company elected Marcus Mehlinger as a new director.

The Company issued the following new bonds:

AUD 425,000,000 - 3.50%, maturity 2024

AUD 175,000,000 - 3.80%, maturity 2027

CHF 300,000,000 - 0.45%, maturity 2030

AUD 150,000,000 - 4.05%, maturity 2032

EUR 300,000,000 - Floating rate, maturity 2024

EUR 1,000,000,000 - 1.00%, maturity 2027

And has onlent the funds to Deutsche Bahn AG with the same maturity and currency.

Furthermore the Company repaid maturing bonds over EUR 500,000,000, CHF 150,000,000, CHF 375,000,000 and GBP 200m 000 000, the correspondend loans were repaid to the Company.

Amsterdam, 2 February 2018

The Directors,

W. Bohner

M. Mehlinger

Other information

Appropriation of the result for the 2016 financial year

In accordance with Article 20 of the Articles of Association, the result after taxation is at the disposal of the General Meeting. The annual accounts for 2016 were adopted by the General Meeting of Shareholders. The General Meeting of Shareholders has determined the appropriation of the result as it was proposed.

Independent auditor's report

The independent auditor's report is presented on the next page.

INDEPENDENT AUDITOR'S REPORT

To: general meeting of shareholders of Deutsche Bahn Finance GmbH

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 AUGUST 2017 INCLUDED IN THE ANNUAL REPORT

OUR OPINION

We have audited the financial statements of Deutsche Bahn Finance B.V. (currently known as Deutsche Bahn Finance GmbH after its change of legal seat effective as per 1 September 2017) for the financial year ended 31 of August 2017. In our opinion the accompanying financial statements give a true and fair view of the financial position of Deutsche Bahn Finance B.V. as at 31 August 2017, and of its result for the financial year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- the balance sheet as at 31 August 2017;
- the profit and loss account for the financial year ended 31 August 2017; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

BASIS FOR OUR OPINION

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Deutsche Bahn Finance B.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIALITY

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 100 million. The materiality is based on 0.5% of total assets. We use total assets given the Company's main activity is intra-group lending. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

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MAZARS PAARDEKOOPER HOFFMAN ACCOUNTANTS N.V.
WITH ITS REGISTERED OFFICE IN ROTTERDAM (TRADE REGISTER ROTTERDAM NR. 24402415).

The Company facilitates the Deutsche Bahn AG group companies in its financing activities for which it receives a margin.

We agreed with the directors that misstatements in excess of EUR 5 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

OUR KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matter to the directors. The key audit matters are not a comprehensive reflection of all matters discussed.

Due to the nature of the company's business we recognise that key audit matters may be long-standing and therefore may not change significantly from one year to the next. As compared to prior year there have been no changes in key audit matters.

This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation and existence of the loans issued

The principal activity of Deutsche Bahn Finance B.V. is to raise funds through the issue of bonds. The proceeds of bonds issued, are on-lent to Deutsche Bahn AG. The bonds issued are also guaranteed by Deutsche Bahn AG, as disclosed in the financial statements.

We consider the valuation and existence of the loans issued, as disclosed in note 2.1 to the financial statements for a total amount of EUR 16,8 billion, as a key audit matter. This is due to the size of the loan portfolio and given that an impairment may have a material effect on the income statement and the balance sheet position. Loans are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method. The directors did not identify any impairment triggers regarding the loans issued.

We have performed detailed audit work addressing the existence and valuation of the loans issued to intra-group companies by verifying loans receivable with loan agreements, obtaining year-end confirmations for the loans outstanding and reconciled recorded amounts with these confirmations from Deutsche Bahn A.G. group companies. We have recalculated the effective interest applied and amortised cost at year-end and reconciled these to recorded amounts. We have also assessed whether there were any impairment triggers, including an assessment of the financial position of the borrowers and their payment history. In addition, we determined that the financial statements disclosures is appropriate including the audit of the fair value of the loans receivable for which we challenged the assumptions from the directors.

REPORT ON THE OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Director's report;
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code. We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The directors are responsible for the preparation of the other information, including the director's Report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

ENGAGEMENT

We were appointed as auditor of Deutsche Bahn Finance B.V. (currently known as Deutsche Bahn Finance GmbH after its change of legal seat effective as per 1 September 2017) as of the audit for the year 2016 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

DESCRIPTION OF RESPONSIBILITIES REGARDING THE FINANCIAL STATEMENTS

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the directors are responsible for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the directors should prepare the financial statements using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

OUR RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control;
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

Amsterdam, 2 February 2018

MAZARS PAARDEKOOPEL HOFFMAN ACCOUNTANTS N.V.

w.s. drs. P.A.B. Schutjens RA