Financial report 2011

Deutsche Bahn Finance B.V.

Amsterdam

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Annual report of the directors

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We have pleasure in presenting the Annual Report of Deutsche Bahn Finance B.V. (hereafter the Company) for the year ended 31 December 2011. We have considered the annual accounts and recommend that the shareholder approve these accounts at the Annual General Meeting.

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 in Amsterdam and acts as a finance company for the Deutsche Bahn Group. Funding of these activities is done through the issue of bearer bonds on different stock exchanges in Europe. As per 31 December 2011, the total book value of the bonds outstanding was in thousands of EUR 12,622,558 (2010: in thousands of EUR 11,777,292).
The annual accounts are prepared in thousands of EUR.
The office address of the Company changed from Herengracht 450, Amsterdam to De Entrée 99 - 197, Amsterdam Zuid Oost, during the reporting period.

Result for the period

The profit for the year after taxation amounts to thousands of EUR 6,729 (2010: thousands of EUR 6,055).

Risk & risk management

We refer to paragraph 1.17 for the principal risks that the company is facing.
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.
We refer to the notes of the financial statements.

Events after balance sheet date

There were no post balance sheet events to be mentioned in this Report.

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 year ending 31 December 2011 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, 25 April 2012

The Directors,

W. Reuter	Deutsche International Trust Company N.V.

Annual accounts

Balance sheet as at 31 December 2011
(before proposed appropriation of result)

		31 December 2011		31 December 2010	
	Notes	EUR'000	EUR'000	EUR'000	EUR'000
Assets					
Non-current assets					
Financial assets:					
- loans receivable from group companies	2.1	11,978,495		10,446,482	
- inter-company Deutsche Bahn AG		35,891		55,716	
			12,014,386		10,502,198
Current assets					
Interest receivable on inter-company loans		240,619		262,010	
Inter-company loans receivable	2.1	637,810		1,324,946	
Prepaid Corporate taxes		-		264	
Cash at banks	2.2	347		307	
			878,776		1,587,527
			12,893,162		12,089,725

Balance sheet as at 31 December 2011
(before proposed appropriation of result)

	Notes	31 December 2011 EUR'000	31 December 2011 EUR'000	31 December 2010 EUR'000	31 December 2010 EUR'000
Liabilities					
Shareholders' equity					
Share capital	2.3	100		100	
Retained earnings	2.4	25,733		48,677	
Profit for the year		6,729		6,055	
			32,562		54,832
Non-current liabilities	2.5				
Long-term bonds		11,986,313		10,452,683	
			11,986,313		10,452,683
Current liabilities	2.6				
Interest payable on bonds		231,758		251,479	
Short-term bonds		636,245		1,324,609	
Inter-company payable					
Deutsche Bahn AG		5,668		5,589	
Expired Bonds and coupons					
not yet collected		444		467	
Corporate taxes payable		80		-	
Accrued expenses		92		66	
			874,287		1,582,210
			12,893,162		12,089,725

Profit and loss account for the year ended 31 December 2011

	Notes	year ended 31 December 2011		year ended 31 December 2010	
		EUR'000	EUR'000	EUR'000	EUR'000
Financial income	3.2				
Interest on inter-company loans		473,442		478,786	
Release of discount on loans receivable		10,232		9,937	
Other interest		331		198	
			484,005		488,921
Financial expense	3.2				
Interest expense		453,086		459,575	
Amortisation/discount on bonds issued		9,379		9,959	
Exchange difference		235		362	
			462,700		469,896
Net financial income			21,305		19,025
Other expenses					
Guarantee fee	3.3	11,655		10,403	
Bond-issue costs		387		249	
General and administrative expenses		349		261	
			12,391		10,913
Net result before taxation			8,914		8,112
Taxation on result from ordinary operations	3.4		2,185		2,057
Net result after taxation			6,729		6,055

Cash flow statement for the year ended 31 December 2011

	Notes	year ended 31 December 2011 EUR'000	year ended 31 December 2010 EUR'000
Cash flows from operating activities			
Cash generated from operations:			
Interest received	3.2	497,008	496,863
Interest paid	3.2	(475,491)	(477,694)
Expenses paid		(12,354)	(10,825)
Income tax paid	3.4	(1,840)	(1,993)
Net cash from operating activities		**7,323**	**6,351**
Cash flows from investment activities			
Issuance of long-term loans	2.1	(2,059,192)	(2,466,983)
Repayment of long-term loans	2.1	1,329,268	1,000,000
Inter-company Deutsche Bahn AG		19,825	(11,382)
Net cash from investment activities		**(710,099)**	**(1,478,365)**
Cash flows from financing activities			
Issuance of long term bonds	2.5	2,061,103	2,472,269
Repayment of long term bonds	2.5	(1,329,287)	(1,000,005)
Dividend paid	2.4	(29,000)	-
Net cash from financing activities		**702,816**	**1,472,264**
Net cash flows		**40**	**250**
Cash and cash equivalents	2.2	**31-12-2011**	**31-12-2010**
Balance as at 1 January		307	57
Movement for the year		40	250
Balance as at 31 December		**347**	**307**

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 in Amsterdam and acts as a finance company for the Deutsche Bahn Group. Funding of these activities is done mainly through the issue of bearer bonds on different stock exchanges in Europe. As per 31 December 2011, the total book value of the bonds outstanding was in thousands of EUR 12,622,558 (2010: in thousands of EUR 11,777,292).

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 15,000,000,000 debt issuance 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 and finally to EUR 15,000,000,000 in July 2009. This instrument enables the Company to issue all kinds of bonds in different currencies and with different maturity dates.
The proceeds were used to finance Deutsche Bahn AG in Berlin or other companies of Deutsche Bahn Group.
The programme has been updated as per 28 April 2011 and a supplement was made as per 5 August 2011.

1.2 General

The financial statements have been prepared in accordance with the statutory provisions of Part 9, Book 2, of the Netherlands Civil Code and the firm pronouncements in the 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, income statement and cash flow statement include references to the notes.

1.3 Foreign exchange

Balance sheet items relating to assets and liabilities denominated in currencies other than EUR are translated 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 translation and are charged or credited to the profit and loss account.
The company's functional currency is EURO.
Cash flows in foreign currencies in the cash flow statement have been translated at exchange rates prevailing at the date the transaction took place.

1.4 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.

Significant transactions with related parties are disclosed in the notes insofar as they are not transacted under normal market conditions. The nature, extent and other information is disclosed if this is required for to provide the true and fair view.

1.5 Financial assets

Financial assets relate to the inter-company loans receivables and the inter-company account with Deutsche Bahn AG. The inter-company loans receivables are stated at nominal value minus the value of the discount at year-end. Impairment of financial fixed assets as at balance sheet date if any, is taken into account in the valuation of these assets.

1.6 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. If this proves to be impossible, the recoverable amount of the cash-generating unit to which the asset belongs is identified. An asset is subject to impairment if its carrying amount exceeds its recoverable amount; the recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Fair value less costs to sell is determined based on the active market. For the purposes of determining value in use, cash flows are discounted at a rate of 25% (2010: 25.5%). An impairment loss is directly expensed in the income statement.

If it is established that a previously recognised impairment loss no longer applies or has declined, the increased carrying amount of the assets in question is not set any higher than the carrying amount that would have been determined had no asset impairment been recognised.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the impairment loss is determined and recognised in the income statement.

The amount of an impairment loss 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 in profit or loss.

If an impairment loss has been incurred on an investment in an equity instrument carried at cost, the amount of the impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment loss shall be reversed only if the evidence of impairment is objectively shown to have been removed.

1.7 Cash at banks

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

1.8 Valuation of 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 straigth line depreciation.

1.9 Financial income

Financial income represents the interest income on inter-company loans recognised, the release of discounts on these loans as well as other interest income.

1.10 Financial expense

Financial expense represents the interest expenses on outstanding bonds, the amortisation of discounts/premiums on these bonds as well as other interest expenses.

1.11 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.

1.12 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.

1.13 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.

1.14 General and administrative expenses

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

1.15 Taxation

The provision 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 2011.

1.16 Cash flow statement

The cash flow statement has been prepared applying the direct method. The cash and cash equivalents in the cash flow statement comprise the balance sheet items inter-company Deutsche Bahn AG and cash and bank balances.

Cash flows in foreign currencies have been translated at exchange rates prevailing at the date the transaction took place. Receipts and payments of interest and corporate income tax are included in the cash flow from operating activities.

1.17 Risk management

General
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 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*

The Company obtains a set margin on the back to back funding. Its margin is therefore fixed and interest rate risk is minimised.

- *Credit risk*

The Company has limited credit risks in connection with providing to loans of companies belonging to the Deutsche Bahn Group.

- *Refinancing risk*

The group company's policy is focused on maintaining the AA+ rate, which mitigates the refinancing risk of the company.

2 Notes to the balance sheet

2.1 Financial assets

	Loans receivable from group companies	Inter-company Deutsche Bahn AG	Total
	EUR'000	EUR'000	EUR'000
1 January 2011			
Inter-company account opening Balance	-	55,716	55,716
Loans granted	10,512,250	-	10,512,250
Loan discounts	(65,768)	-	(65,768)
Book value	10,446,482	55,716	10,502,198
Movements 2011			
Amortisation of discounts/premiums	10,232	-	10,232
New Loans	2,049,287		2,049,287
Foreign exchange revaluation	108,707	-	108,707
Reclassification Loans	(636,213)	-	(636,213)
Decrease inter-company loan	-	(19,825)	(19,825)
31 December 2011	11,978,495	35,891	12,014,386

31 December 2011	
Loans granted	12,045,109
Loan discounts	(66,614)
Book value	11,978,495

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 amortized over the term of the loans.

The interest rate charged on loans to group companies vary between 1.23% and 5.97%, depending on the respective currency, maturity and market conditions.

Inter-company loans receivable

31 December 2011	
Loans granted	638,068
Loan discounts	(258)
Book value	637,810

The remaining lifetime of these loans is less than 1 year and therefore considered as short-term.

The total market value of outstanding loans is EUR 13,580 million (2010 = 12,418) million.

2.2 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.
Cash and cash equivalents are stated at face value.

2.3 Shareholder's equity

Share capital
The authorised share capital the Deutsche Bahn Finance B.V. amounts to € 500,000, divided into 0 preference shares and 1,000 ordinary shares of €500 each. Of these, 200 ordinary shares have been issued.

Called-up and paid-in share capital

	31 December 2011	**31 December 2010**
	EUR'000	EUR'000
200 shares of EUR 500 each	100	100

2.4 Retained earnings

	31 December 2011	**31 December 2010**
	EUR'000	EUR'000
Balance at January 1	48,677	42,780
Result for the previous period	6,055	5,897
Dividend paid	(29,000)	-
Rounding difference	1	-
	25,733	48,677

3 Notes to the profit and loss account

3.1 Employee information

The company has two managing directors and no employees. One managing director received a fixed fee of EUR 5,000 for providing the Company with a registered address and for the day to day management.

3.2 Financial income and expense

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

3.3 Guarantee fee

	year ended 31 December 2011	year ended 31 december 2010
	EUR'000	EUR'000
Guarantee fee	11,655	10,403
Total	11,655	10,403

3.4 Taxation on result from ordinary operations

	year ended 31 December 2011	year ended 31 december 2010
	EUR'000	EUR'000
Taxable amount	8,914	8,112
Tax expense based on nominal tax rate (25%)	2,185	2,057

The effective tax rate is 24.9% (2010: 25.4%).

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 deductable expenses. Calculation is also in accordance with the APA which has been concluded with the tax authorities. This APA is valid from 1 January 2011 until 31 December 2015.

3.5 Independent auditor's fees

Details of the fees of the Company's auditor have not been disclosed because such information is included in the consolidated financial statements of Deutsche Bahn AG.

Amsterdam, 25 April 2012

The Directors,

W. Reuter

Deutsche International Trust Company N.V.

Other information

Profit appropriation according to the Articles of Association

In accordance with Article 20 of the Articles of Association, the result after taxation is at the disposal of the Shareholder at the Annual General Meeting.

Proposed profit appropriation

For the year 2011, management proposes to add the result after taxation to the retained earnings.

The appropriation of profit is not reflected in these annual accounts.

Post Balance Sheet Events

During the first months of 2012 the following bonds have been issued:

3.375% NOK 750 million due 1 September 2016
3.5% EUR 98 million due 19 december 2025
0.75% CHF 150 million due 21 August 2017
1.50% CHF 100 million due 21 February 2024
3% EUR 500 million due 8 March 2024

No further significant events occurred after the balance sheet date.

Independent auditor's report

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

Independent auditor's report

To: the general meeting of shareholders of Deutsche Bahn Finance B.V.

Report on the annual accounts

We have audited the accompanying annual accounts of Deutsche Bahn Finance B.V., Amsterdam, which comprise the balance sheet as at 31 December 2011, the profit and loss account for the year then ended and the notes, comprising a summary of accounting policies and other explanatory information.

Directors' responsibility

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

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the annual accounts.

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

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Deutsche Bahn Finance B.V. as at 31 December 2011, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

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Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2: 393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the annual report of the directors, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2: 392 sub 1 at b-h has been annexed. Further we report that the directors' report, to the extent we can assess, is consistent with the annual accounts as required by Section 2: 391 sub 4 of the Dutch Civil Code.

Amsterdam, 25 April 2012
PricewaterhouseCoopers Accountants N.V.

Original signed by A.J. Brouwer RA