

Speech by
Wilken von Hodenberg, Spokesman of the Board of Management
of Deutsche Beteiligungs AG,
Frankfurt am Main,
at the Annual Meeting
on March 17, 2004 in Frankfurt am Main

Dear Shareholders and
Shareholders' Representatives,
Ladies and Gentlemen,

My four colleagues and I are very happy to welcome you to this year's Annual Meeting.

It is a particular pleasure to be able to speak to you here this year. Deutsche Beteiligungs AG – your company – posted a profit of 18.2 million euros in financial year 2003/2004. That means that we have returned to the long-term level of good profitability that has distinguished this Company. And, following two years without a dividend disbursement, we recommend paying a dividend to shareholders this year. The new financial year is also off to a good start: we reported on it in an ad hoc release last week. As the interim report at 31 January 2005 we presented this morning shows, we achieved a profit of 19.6 million euros in the first quarter. Since we converted the accounting to the IAS/IFRS format at the beginning of the new financial year, these two figures are only conditionally comparable, but nonetheless revealing. The positive development exhibited in financial year 2003/2004 has continued into the current business year. I will comment on the differences a little later.

But first, the 2003/2004 financial year.

Deutsche Beteiligungs AG has weathered the sharp recession that shook, in particular, our country in the last three years. The great majority of our portfolio companies emerged stronger out of this phase, and my colleagues and I are confident that we will be able to present further very satisfactory progress in the years to come.

In addition to the consolidated profit, other key indicators also exhibited a good development in the past financial year:

- Our return on equity before taxes reached more than twelve percent.
- We invested more than twice as much as in the previous years.
- Although we are dissatisfied with the price movement of our shares, we can look back upon a successful capital increase and important changes to the shareholder profile, which is to our shareholders' – that is your – benefit.

I would like to give you an in-depth account of the following topics:

- our profit and loss account
- our balance sheet
- our shares
- and the fair value of our shares.

Additionally, I want to particularly address one major event: At the beginning of the new financial year, Deutsche Beteiligungs AG converted its accounting to internationally accepted accounting standards, namely the International Financial Reporting Standards. This move will change our earnings disclosure – as the interim report at 31 January 2005 we presented today already shows.

Let me start with the earnings. We closed the 2003/2004 financial year with a consolidated profit of 18.2 million euros. This is some 15 million euros over that of the previous year and the fourth-best result of the last ten years.

A look back at the results of the last ten years shows once again how important it is not to assess the performance of Deutsche Beteiligungs AG on individual annual closings or, least of all, quarterly figures. Success in the private equity business does not set in at short notice. The time-frames for our transactions are only conditionally planable or foreseeable.

The consolidated profit of 18.2 million euros is equal to a return on the opening equity at the beginning of the financial year of 12.2 percent. Even after taxes, we have achieved a return of 11.5 percent. That is quite respectable in comparison with other S-Dax companies: the average post-tax return on equity of S-Dax enterprises is less than ten percent for 2004.

In the weighted average over the last ten years, we achieved an after-tax return on equity of more than eleven percent. In that category, too, we exceed most other quoted German companies.

How did we reach that good level of profitability last year?

We had three major sources of income:

- Income from disposals of financial assets, meaning capital gains from realisations; this is our key source of income – at least based on our former accounting in compliance with the German accounting standards.
- Income from investments – these largely constitute the profit disbursements from our portfolio companies.
- Finally, "other operating income" – this item contains, for instance, fees we earn for the management of our co-investment funds.

Through realisations – or, in other words, investment disposals – we earned income totaling 20.0 million euros last year. Three quarters of this amount stems from the disinvestment of Hörmann KG. We concluded our investment in this company towards the end of this past financial year. Deutsche Beteiligungs AG was invested in Hörmann for more than seven years. With the IPO of Funkwerk AG, which we co-led, we had already achieved one of our investment objectives in 2000. Now, we have realised the value that was built in this enterprise and successfully concluded this growth financing investment.

We also disinvested our interest in US-based Home Care Supply and in Victorvox AG, achieving a small capital gain over the book value. Smaller capital gains were also realised through the sale of our residual shares in Andritz AG and Schubert & Salzer GmbH: both of these investments stem from very successful transactions in the past.

Income from investments, totalling 15.4 million euros in 2003/2004, were clearly in excess of the year before; this income was not only sourced from profit distributions from our investments. The rise also stems from capital gains. The US-based Harvest Partners VI fund has, in part, realised the additional value that has meanwhile been built in one of its investments and distributed the proceeds to the fund investors.

In total, however, current income on our income statement will lose in importance. In the future, we will tend to earn less through profit distributions from portfolio companies but, in turn, more through the value appreciation which we realise upon their ultimate sale. The greater the focus of our investments on management buyouts, the less current income we can expect to earn from these investments. Our majority investments use their cash-flow surpluses to finance growth or to reduce the acquisition financing, not, however, to disburse to shareholders.

Let me come to other operating income. Totalling 16.8 million euros, this item is somewhat lower than the prior year. This is primarily due to the fact that valuation uplifts on investments whose valuation had previously been depreciated,

amounting to 2.9 million euros, were four million euros less than those of the previous year.

The most significant single item under this caption is management and structuring fees earned by Deutsche Beteiligungs AG for its investment services.

This fee income, ladies and gentlemen, serves to cover a large part of the current costs of Deutsche Beteiligungs AG.

I've addressed the write-ups – let me now come to the expenses and first discuss the write-downs. Both must be viewed in one context – the write-downs, and, on the other side, the write-ups.

Modifying the valuation of a portfolio enterprise downward on our balance sheet because that company's earnings have significantly declined or because its indebtedness has increased does not necessarily mean that these valuation corrections are of a permanent nature. It often happens that – with management's support or sometimes with that of a new management team – an enterprise's difficulties can be overcome. This paves the way to a reversal – in part or in total – to the former valuation.

At 9.9 million euros, we performed significantly less write-downs than the prior year, reaching the lowest level in five years. Netted against write-ups, the correction to the portfolio valued at 255 million euros – the book value of our investments at the beginning of the financial year – amounted to seven million euros. This is less than three percent.

Other expenses were slightly above the previous year's level due to special charges. "Other operating expenses" contain costs attributable to the capital increase about which I reported last year. By contrast, net interest clearly improved compared with the prior year, following a distinct decline in the corporate debt this past financial year.

I would now like to focus your attention on the balance sheet.

The capital-to-assets ratio rose to 74 percent at the end of the financial year. Meanwhile, at the end of the first quarter, Deutsche Beteiligungs AG has completely repaid its liabilities to banks. That makes us outstandingly equipped for future investments.

After two years of not paying dividends, ladies and gentlemen, I am particularly happy to recommend that you resolve a dividend disbursement this year.

Our recommendation is a dividend of 0.33 euros per share.

That puts us at the high end of what we announced on the occasion of the capital increase. Last year, I held out the prospect of installing a new dividend policy. Unlike many instances in past years, we do not want to distribute the major part of our annual profit. Rather, our goal is to create the basis for a more consistent disbursement of dividends. Following fluctuations from 0 to 1.80 euros in past years, we intend to pay a dividend in the future which is not linked so much to realisation proceeds. Or in other terms: we plan to make the dividends on shares of Deutsche Beteiligungs AG more calculable. By this, we aim to achieve a certain cap against drastic downward share-price movements similar to those we experienced in 2003, where the lowest price point reached six euros.

In the future, we want to disburse dividends that are geared to money market rates, in relation to the issue price for new shares from our most recent capital increase. In view of this year's positive results, we interpreted this very generously and arrived at a dividend yield of some three percent. This indicator, too, puts us ahead of the average of other S-Dax companies, which posted a dividend yield of 1.5 percent in the previous year and, based on bank estimates, will arrive at some two percent this year.

That concludes my account of the past financial year.

I would now like to report on the changes in the portfolio. I have already mentioned our major realisations. Additionally, we also redeemed two silent participations at the nominal value, as scheduled – our investment in HKL Baumaschinen GmbH and in Otto Sauer Achsenfabrik. We transformed the latter investment into a management buyout in April 2004. I reported last year on this new majority acquisition as well as on the other two management buyouts in which we invested this past financial year – Preh GmbH and Babcock Borsig Service GmbH.

On October 31, 2004, there were 11 expansion financing investments in the portfolio, or four less than the previous year. Less than one third of our capital is now invested in growth financing investments; this share will diminish further. The past has shown that we are able to achieve higher returns through majority investments structured as management buyouts.

In 2003/2004, we utilised the good level of investment opportunities and, at 60.7 million euros, spent double the sum invested in previous years.

Similar to past years, we channeled the major part of the new capital invested into management buyouts. More than 90 percent of the amount invested in 2003/2004 was spent directly or indirectly – via international buyout funds – on MBOs. I mentioned the three new investments in Germany. In the US, we provided further

capital to the Harvest Partners IV fund; this fund backed three management buyouts in 2004.

Following the divestment of several smaller investments, the number of investments in the portfolio again declined. At the end of October 2004, our capital was invested in 40 portfolio companies; one year earlier, on 31 October 2003, we had 43, and one year prior to that there were 49 investments in the portfolio.

Our company has changed – a fact that is not only mirrored in these figures. We focus on management buyouts; for each investment, we endeavour to invest a sum of eight to twelve million euros. That way, we achieve a balanced portfolio in which the acquisition cost of one single investment amounts to no more than five to seven percent of the equity of Deutsche Beteiligungs AG.

Let me now come to the market environment in which we operate. Over the last five years, we consistently adhered to our strategy and exclusively invested in management buyouts in the mid-market segment in Germany.

We are confident that we will continue to be able to make use of the competitive edge we have through our extensive experience. Particularly in view of the fact that the number of opportunities is rising. This is clearly mirrored by the chart you see on the wall behind me. It shows the number and value of the transactions in our market over the past 13 years. In the early 1990s, management buyouts in the mid-market segment in Germany virtually did not exist. A market has since developed in which, in addition to us, other competitors have found ample room to operate. The number of transactions has grown steadily – in 2004, we saw 20 buyouts in our segment, more than ever.

The reasons driving this development remain unchanged: large conglomerates are continuing efforts to concentrate on what they do best. Lines of non-core businesses are being disinvested. Half of all transactions last year stem from this source. Beyond that, we experienced a notable number of so-called secondary buyouts for the first time in Germany last year: these constitute the sale of an investment by one financial investor to another financial investor. The sizeable number of such transactions is surely also a consequence of the stock market situation. For small and mid-sized enterprises an IPO remains difficult. To fill the gap, financial investors are offering their services. The private equity industry is acting as a kind of stock market for mid-sized companies. It is thus contributing importantly towards the permanent change on which our economy thrives and on which it depends, if it wants to stay successful. By the way: this appreciable number of such secondary transactions is proof that the German private equity market has made further progress – transactions of this nature have long been common in Anglo-Saxon countries.

Let me now address our shares:

The share price movement this past year was marked by ups and downs and, ultimately, was unsatisfactory. The downtrend at the commencement of the financial year quickly rebounded, and our shares reached the performance levels of the Dax and S-Dax: the optimistic sentiment in early 2004 triggered anticipations that Deutsche Beteiligungs AG should be able to exit investments through public offerings.

These hopes remained unfulfilled. On the contrary: the sentiment on the capital markets deteriorated in spring of 2004. This is, for the most part, always at the expense of those companies whose balance sheets contain a great deal of equity investments – such as ours.

The price of our stock only saw an improvement following the announcement of our disinvestment of Hörmann KG, which we exited with a commensurate capital gain.

Although the share price performance is not at all in keeping with our expectations, a number of other parameters have significantly improved. The free-float proportion of our shares has increased again. It now amounts to more than 60 percent. The turnover in the past months shows that the market welcomes and is receptive for the greater liquidity. The average daily turnover this past financial year was twice as high as two years ago. Meanwhile, it has made further headway: in the first four months of the new financial year, 26.400 shares were traded on average daily, up 150 percent over the daily average in 2003/2004.

Ladies and gentlemen, since the beginning of the new financial year, the accounting of Deutsche Beteiligungs AG is no longer based on the accounting standards of the German Commercial Code we have long been accustomed to and familiar with, but rather on internationally accepted accounting rules – the International Financial Reporting Standards. The law requires that all capital market-orientated enterprises in Europe convert their accounting to these standards beginning 1 January 2005 at the latest. The aim of this regulation is to achieve better international comparability of corporate financial statements and greater transparency in the presentation of individual company closings.

In the past years, even until the very end, there were hot debates on the rules applicable to private equity companies. For instance, it is now certain that we are not required to consolidate our investments – as that would definitely contradict our business model.

The most significant difference compared with the German Commercial Code relates to the recognition of valuation corrections.

In the past, we valued our investments at their historic acquisition cost in our balance sheet. If there was a long-lasting decline in value of these investments, we were required to perform a valuation adjustment; vice versa, if there was a long-lasting improvement in the situation, we were required to reverse the write-down completely or in part. In any event, the historic acquisition cost was the upper limit for an investment's valuation.

The IFRS provides for a quarterly valuation of each single investment. Based on defined methodologies, the current market value of the portfolio is required to be measured. In that context, historic acquisition costs only play a subordinate role. The changes in comparison to the last valuation determined are recognised in "Net result of valuation and disposal of financial assets and loans and receivables" – that is now the first caption on our new income statement. Formerly, we merely recorded the "Gains from investments disposals", which constitutes the actually realised capital gains we achieved on the sale of investments. Under this caption, we will now also measure and disclose the changes in valuation that have not yet been realised – or what was formerly generally referred to as "silent reserves".

This is of major significance to us: the value that is built over the holding period of an investment will now be recognised step-by-step on a quarterly basis and not in the complete sum at the investment's ultimate sale. Changes to the valuation of investments are thus taken to equity on a quarterly basis via the consolidated profit. The net asset value per share, or the equity less minority interest divided by the number of shares, will become the new key indicator for the assessment of the company's performance. You can read this net asset value directly from the balance sheet.

The new accounting rules will also present a challenge to us in terms of capital market communications. In the past, our performance was based on capital gains achieved through one or two successful disinvestments. Now, the result will not only be impacted by the business position of our investments, but by the general sentiment on capital markets, exchange rate gyrations and other factors. In the past years, we experienced just how volatile stock market sentiment and assessments can be. They can change rapidly; set-backs can be as temporary as euphoric exaggerations can.

Let me illustrate that by an example: the exchange rate of the US dollar declined from 1 November 2003 to 31 January 2005 from 1.16 per euro to 1.30 per euro. Not steadily, however. In the first three months of the past financial year, it fell from 1.16 to 1.24 dollars per euro. This change meant a value loss of 4.3 million euros for our portfolio. Three months later, the exchange rate again stood at 1.20 dollars per euro – compensating for part of our loss, some two million euros. These

ups and downs have nothing to do with changes in the intrinsic value of our US-based investments.

It remains to be seen if and to what extent such effects will impact the valuation result in the future. Some such temporary effects will be compensated, others will cumulate. Thus, our advice to shareholders has lost nothing of its validity: private equity is a long-term investment that has delivered better returns in the long run than other forms of investment. In our view, however, private equity is not suited to achieving short-term investment objectives.

I will come back to the valuation result later, when I report on the first quarter of the new financial year. Let me again return to 2003/2004.

Two years ago, in anticipation of the changes, we began valuing our portfolio on the basis of the IFRS rules. We reported the results to you at semi-annual intervals, thereby providing information on the value development of the portfolio. Linked with the equity of our company, we derived a "fair value" of our shares from that.

We began the past financial year with an equity per share of 10.85 euros and valuation reserves of 1.12 euros. Both of these figures are adjusted, meaning that we have allowed for the effects of the capital increase, or the rights value you recorded. Consequently, the fair value at the beginning of the financial year amounted to 11.97 euros per share.

At 31 October 2004, the fair value of our shares then advanced by 3.8 percent. Following the realisation of value appreciations through divestments, the book value of the equity rose: at 31 October 2004, it totalled 12.21 euros per share. The valuation reserve – due last but not least to the realisations – declined to 0.21 euros per share. In total, the fair value at 31 October 2004 amounted to 12.42 euros per share.

Which developments led to this result?

Various influential factors are relevant for the valuation of the portfolio. The value of an equity investment will rise if its earnings position improves or its indebtedness declines. The value of our portfolio will, however, also increase or decrease if an entire industrial sector merits revaluation, although other parameters such as earnings or debt remain unchanged.

Stock market trends are another determinant that is mirrored in the portfolio value – either directly – via the valuation of quoted companies – or indirectly – through changes in multiples (such as the price-earnings ratio).

Nearly 30 percent of the portfolio value is attributable to investments whose valuation is linked to the US dollar. Changes in the exchange rate of the dollar directly impact the fair value of the portfolio. Exchange rate changes also impact the portfolio value indirectly, because many of our German investments manufacture and distribute their products in regions in which business is transacted in US dollars. The deterioration of the US dollar has thus also impacted the valuation of our portfolio indirectly.

Upward stock market prices and, importantly, the improvement our investee companies achieved in their earnings position augmented the value of the portfolio: stock market prices led to an increase of 16 euros cents per share in the fair value, whereas changes in earnings and multiples accounted for gains of 53 euro cents per share.

The weakness of the US dollar again negatively impacted the fair value. Its strong devaluation cost us 32 euro cents per share. Over the two-year period, the loss amounts to 1.16 euro cents per share. Every further devaluation of the US currency by 5 cents would strike us with some 15 euro cents per share. However, we have hedged a part of our exposure to currency-related risks and have thus limited the negative impact on the fair value, should the dollar deteriorate further.

The caption of "Others" comprises various factors, such as changes that have entered into the annual result for 2003/2004.

Before coming to the first-quarter results, I would like to address several items on the agenda.

We are asking you for your approval on the creation of new Authorised Capital – against cash and non-cash contributions or issues of warrant-linked bonds and/or convertible bonds. We also request that you again authorise us to purchase own shares.

The aim is essentially a prolongation of the status quo: Earlier approvals resolved at past Annual Meetings expire after a certain term. These approvals are to be cancelled and replaced by new resolutions, which will permit us to use these financial instruments in the interests of the Company and its shareholders in the coming years.

The motions we are submitting for adoption are within the scope of what is common by a national and international standard. This past financial year, we utilised the major part of the existing Authorised Capital for the capital increase; now, we are asking you for a new, global authorisation to be able to act, if the opportunity arises, without having to wait for an Annual Meeting to solicit approval.

Warrant-linked bonds and convertible bonds can be attractive financing instruments. We want to be in a position to take advantage of such opportunities on a case-by-case basis. You – the shareholders of the Company – will be principally entitled to subscription rights. However, it may be reasonable to exclude subscription rights, in instances, for example, where these financing instruments can be used to directly purchase investments.

Should we make use of the option to re-purchase own shares, all shareholders will formally be treated equally. The legal base to exclude subscription rights when re-selling own shares is intended to equip us to act in situations I described.

Ladies and gentlemen, in 2005 Deutsche Beteiligungs AG will be celebrating two anniversaries: The predecessor company of Deutsche Beteiligungs AG, Deutsche Beteiligungsgesellschaft mbH, was founded 40 years ago on 23 September 1965 in Frankfurt am Main.

Since that time, our group of companies has completed several hundred transactions, the vast majority of which can be termed a success. Partners and shareholders have profited – as have the numerous companies whose growth and prosperity were made possible by the equity we provided.

The importance of private equity and a functioning private equity market for the economy became evident this past year: I already pointed out that private equity firms have become a kind of stock market for mid-sized companies. But beyond that, private equity renders an important contribution to the affluence of society: companies that are backed by private equity grow faster and create more jobs – these were the findings of a study which we conducted with the support of a research group and which drew a considerable amount of public attention.

For 20 years now – and that brings me to our second anniversary, which will be of particular interest to you – since 1985, Deutsche Beteiligungs AG has been a publicly quoted company. Deutsche Beteiligungs AG and its predecessor companies have significantly contributed towards shaping and fuelling the private equity business in Germany. This holds particularly true for the most recent phase in which management buyouts dominate market activity.

In our anniversary year, we are off to an excellent start this financial year. I have already mentioned our outstanding quarterly result. The value appreciation that this result mirrors has meanwhile largely been realised: We concluded our investment in schlott gruppe AG through a share placement in early March. Last week, we signed a contract for the sale of Babcock Borsig Serrvice GmbH.

The consolidated net profit led to a net asset value per share of 13.62 euros, which is 1.05 euros or 8.4 percent over that at the beginning of the quarter.

The price of our shares clearly responded to the good news last week.

However, as long-standing shareholders of our Company, you are very well aware of the fact that it is impossible to measure performance in private equity on three months' results. We are extremely pleased – as certainly you are as well – about the very favourable progress in the first quarter. Based on the information I have given you about the various influential factors governing our results, it is evident that it is impossible to simply extrapolate this quarterly result to the complete year.

What objectives did we set for this current financial year?

Our profitable realisations of the past months show that the market is currently receptive for successful businesses. We have been holding such businesses in the portfolio for some time. We plan to exploit opportunities for realisations as they arise.

We are confident that we will be able to further augment the profit in the remaining months of this financial year.

Thank you for your attention. My colleagues and I will be glad to answer your questions.