



Deutsche  
**Beteiligungs AG**

## OFFERING CIRCULAR

dated 27 February 2004

# Deutsche Beteiligungs AG

Frankfurt am Main

This is a translation of the German Prospectus for convenience purposes only.  
The only binding document shall be the German Prospectus.



27 February 2004

## **Offering Circular**

for

### **4,666,667 New Ordinary Bearer Shares – with no-par value (no-par shares) –**

issued pursuant to a cash capital increase from authorised capital passed by the Management Board on 24 February 2004 with the consent of the Supervisory Board on 25 February 2004 and including shareholders' Subscription Rights (with the exception of the fractional amount of one share); each share has a current calculated nominal value of EUR 2.60 and carries full dividend rights from 1 November 2003.

– German Securities Identification Code (WKN): A0A HTU –  
– ISIN Code: DE 000A0AHTU1 –

of

## **Deutsche Beteiligungs AG**

Frankfurt am Main

# Table of Contents

|   |    |
|---|----|
| <b>1 General Information</b>  | 7  |
| 1.1 Responsibility for the Contents of the Offering Circular                                | 7  |
| 1.2 Statement of Compliance with Going-Public Principles                                    | 7  |
| 1.3 Inspection of Documents   | 7  |
| 1.4 Sources   | 8  |
| <b>2 Summary of the Prospectus</b>  | 9  |
| 2.1 The Company   | 9  |
| 2.2 Summary of Key Financial Data   | 10 |
| 2.3 Overview of the Offering  | 11 |
| <b>3 The Offering</b>   | 14 |
| 3.1 Subject Matter of the Offering Circular   | 14 |
| 3.2 The Offering, Timetable, and Rights Offering  | 14 |
| 3.2.1 The Offering  | 14 |
| 3.2.2 Timetable   | 15 |
| 3.2.3 Rights Offering   | 15 |
| 3.2.4 Sale of Shares not having been subscribed for   | 16 |
| 3.3 Information on the Shares   | 16 |
| 3.3.1 Listing   | 16 |
| 3.3.2 Settlement  | 16 |
| 3.3.3 Identification Codes  | 16 |
| 3.3.4 Certification   | 16 |
| 3.3.5 Lock-up, Transferability  | 17 |
| 3.3.6 Stabilisation, Over-allotment Option  | 17 |
| 3.3.7 Designated Sponsors   | 17 |
| 3.3.8 Use of Issue Proceeds   | 17 |
| 3.3.9 Notices, Paying and Depository Agent  | 17 |
| <b>4 Risk Factors and Investment Considerations</b>   | 18 |
| 4.1 Company-Specific Risks  | 18 |
| 4.1.1 The Company's Dependency on Economic Influences and the Financial Markets             | 18 |
| 4.1.2 Loss of Parallel Funds as Co-Investors  | 21 |
| 4.1.3 Income Volatility – Impact of IFRS/IAS  | 22 |
| 4.1.4 Financing Risks   | 23 |
| 4.1.5 Uncertainty Concerning the Economic Development of Individual Portfolio Companies     | 23 |
| 4.1.6 Risks Associated with Foreign Investments   | 24 |
| 4.1.7 Dependency on Regular Income from Portfolio Companies                                 | 24 |
| 4.1.8 Risks Relating to the Controlling and Review of Investments                           | 24 |
| 4.1.9 Risks Relating to Acquisitions  | 25 |
| 4.1.10 Restrictions on the Sale of Minority Investments                                     | 25 |
| 4.1.11 Dependency on the Availability of and Access to Attractive Investments – Competition | 25 |
| 4.1.12 Liability for Investments Sold   | 26 |
| 4.1.13 Liability as Initiator of Funds and Reputational Risk                                | 27 |
| 4.1.14 Currency Risks   | 27 |
| 4.1.15 Dependency on Persons in Key Positions   | 28 |
| 4.1.16 Dependency on the Recruitment of Qualified Personnel                                 | 28 |

|          |   |           |
|----------|---|-----------|
| 4.1.17   | Cancellation of Recognition as Private Equity/Venture Capital Company . . .                             | 28        |
| 4.1.18   | Litigation . . . . .  | 29        |
| 4.1.19   | Tax Situation . . . . .   | 29        |
| 4.1.20   | Accounting in Accordance with the German Commercial Code . . . . .                                      | 30        |
| 4.2      | Risks Relating to the Share Investment and the Offering . . . . .                                       | 30        |
| 4.2.1    | Future Capital Requirements and Risks arising from Debt Financing . . . . .                             | 30        |
| 4.2.2    | Major Shareholders/Future Share Sales and Exercise of Options . . . . .                                 | 31        |
| 4.2.3    | Extensive Discretion in Using the Proceeds from the Issue . . . . .                                     | 31        |
| 4.2.4    | Fluctuations in Share Prices . . . . .  | 31        |
| 4.2.5    | Insufficient Trading in Subscription Rights/Volatile Market Prices<br>for Subscription Rights . . . . . | 31        |
| 4.2.6    | Volatility of Share Prices . . . . .  | 32        |
| 4.2.7    | Reliability of Opinions and Forecasts . . . . .   | 32        |
| <b>5</b> | <b>Business of the Issuer . . . . .</b>   | <b>33</b> |
| 5.1      | Introduction . . . . .  | 33        |
| 5.2      | The Market and Competition . . . . .  | 34        |
| 5.2.1    | General Conditions for Private Equity in Germany . . . . .  | 35        |
| 5.2.2    | Investment Opportunities . . . . .  | 36        |
| 5.2.3    | Conditions in International Markets Relevant for the Company . . . . .                                  | 38        |
| 5.2.4    | Competition . . . . .   | 38        |
| 5.3      | DBAG's Business Concept . . . . .   | 40        |
| 5.3.1    | Acquiring, Holding and Disposing of Investments . . . . .   | 40        |
| 5.3.2    | Management Activities for Parallel Funds . . . . .  | 45        |
| 5.3.3    | Co-investments alongside Fund IV . . . . .  | 48        |
| 5.3.4    | Financing the Business . . . . .  | 50        |
| 5.3.5    | Trust Agreements . . . . .  | 50        |
| 5.4      | Principal Holdings of DBAG and the Group Companies . . . . .  | 51        |
| 5.5      | Portfolio Structure . . . . .   | 52        |
| 5.5.1    | Risk Diversification within the Investment Portfolio . . . . .  | 52        |
| 5.5.2    | Portfolio Breakdown by Business Fields . . . . .  | 52        |
| 5.5.3    | Portfolio Volume . . . . .  | 53        |
| 5.5.4    | Portfolio Breakdown by Investment Size . . . . .  | 53        |
| 5.5.5    | Geographic Distribution of the Portfolio . . . . .  | 53        |
| 5.5.6    | Portfolio Breakdown by Industry . . . . .   | 54        |
| 5.5.7    | Fund Investments . . . . .  | 54        |
| 5.5.8    | Development of the Portfolio . . . . .  | 55        |
| 5.6      | Corporate Objectives and Strategy . . . . .   | 55        |
| 5.7      | Regulatory Framework . . . . .  | 56        |
| 5.8      | Employees . . . . .   | 57        |
| 5.9      | Intellectual Property, Trademarks and Domain Names . . . . .  | 58        |
| 5.10     | Industrial Premises and Real Property . . . . .   | 58        |
| 5.11     | Legal Disputes . . . . .  | 58        |
| 5.12     | Insurance . . . . .   | 59        |
| <b>6</b> | <b>General Information on the Company . . . . .</b>   | <b>60</b> |
| 6.1      | History of the Company . . . . .  | 60        |
| 6.2      | Formation, Registered Office, Term and Financial Year . . . . .   | 61        |
| 6.3      | Object of the Enterprise . . . . .  | 61        |
| 6.4      | Ownership Structure . . . . .   | 62        |
| 6.4.1    | Shareholder Structure . . . . .   | 62        |
| 6.4.2    | Holdings of the Management Board and the Supervisory Board . . . . .                                    | 62        |
| 6.5      | Employee Participation Plan . . . . .   | 63        |
| 6.5.1    | Stock Option Plan . . . . .   | 63        |

|           |  |           |
|-----------|--|-----------|
| 6.5.2     | Additional Employee Participation Plan .....   | 64        |
| 6.6       | Presentation of the Net Assets, Financial Condition and Results of Operations pursuant to HGB – Financial Statements not Currently Prepared in Accordance with International Accounting Principles ..... | 64        |
| 6.7       | Publication of the Company’s Fair Value under IFRS/IAS .....   | 65        |
| 6.8       | Earnings and Dividends per Share .....   | 66        |
| 6.9       | Balance Sheet Profit and Dividend Policy .....   | 66        |
| 6.10      | Auditors .....   | 66        |
| <b>7</b>  | <b>Principal Holdings .....</b>  | <b>67</b> |
| 7.1       | Group Structure .....  | 67        |
| 7.2       | Principal Subsidiaries of DBAG .....   | 68        |
| 7.2.1     | DBG Auslandsbeteiligungen GmbH & Co. KG .....  | 68        |
| 7.2.2     | Deutsche Beteiligungsgesellschaft mbH .....  | 69        |
| 7.2.3     | Q.P.O.N. Beteiligungs GmbH .....   | 69        |
| 7.2.4     | DBG Fourth Equity Team GmbH & Co. KGaA .....   | 70        |
| 7.2.5     | DBG Fifth Equity International GmbH .....  | 70        |
| 7.2.6     | DBG Advisors GmbH & Co. KG .....   | 71        |
| 7.2.7     | Undecima Beteiligungs GmbH .....   | 71        |
| 7.2.8     | DBG Management GmbH & Co. KG .....   | 72        |
| 7.3       | Associated Companies .....   | 73        |
| <b>8</b>  | <b>Information on the Company’s Capital .....</b>  | <b>75</b> |
| 8.1       | Registered Capital Increases .....   | 75        |
| 8.2       | Development of the Company’s Share Capital .....   | 75        |
| 8.3       | Shares .....   | 76        |
| 8.4       | Authorised Capital .....   | 77        |
| 8.5       | Contingent Capital .....   | 77        |
| 8.6       | Authorisation to Purchase Own Shares .....   | 78        |
| <b>9</b>  | <b>Governing Bodies of the Company .....</b>   | <b>79</b> |
| 9.1       | Management Board .....   | 79        |
| 9.2       | Supervisory Board .....  | 82        |
| 9.3       | Shareholders’ Meeting .....  | 86        |
| 9.4       | Corporate Governance .....   | 87        |
| <b>10</b> | <b>Transactions and Legal Relations with Related Persons .....</b>   | <b>89</b> |
| <b>11</b> | <b>Taxation in the Federal Republic of Germany .....</b>   | <b>90</b> |
| 11.1      | Taxation of the Company .....  | 90        |
| 11.2      | Taxation of Dividends .....  | 91        |
| 11.2.1    | Withholding Tax .....  | 91        |
| 11.2.2    | Taxation of Shareholders .....   | 91        |
| 11.3      | Taxation of Capital Gains .....  | 93        |
| 11.3.1    | Resident Shareholders .....  | 93        |
| 11.3.2    | Non-Resident Shareholders .....  | 94        |
| 11.4      | Special Tax Rules for Banks, Financial Service Institutions and Finance Companies .....  | 94        |
| 11.5      | Net Wealth Tax .....   | 94        |
| 11.6      | Inheritance and Gift Tax .....   | 95        |
| 11.7      | Other German Taxes .....   | 95        |

|  |     |
|--|-----|
| <b>12 Management's Discussion and Analysis of the Group's Financial Condition and Business Developments for the Period 1 November 2000 through 31 October 2003</b> ..... | 96  |
| 12.1 Changes in Consolidated Group of Enterprises .....  | 96  |
| 12.2 Valuation of Financial Assets .....   | 96  |
| 12.3 Income Development of the DBAG Group 2000/2001 – 2002/2003 .....  | 97  |
| 12.3.1 Summary of Income Development of the DBAG Group 2000/2001 – 2002/2003 .....   | 97  |
| 12.3.2 Income from Financial Assets .....  | 97  |
| 12.3.3 Gains on the Sale of Holdings .....   | 98  |
| 12.3.4 Losses on the Sale of Holdings .....  | 98  |
| 12.3.5 Write-down of Financial Assets and Marketable Securities .....  | 99  |
| 12.3.6 Other Operating Income .....  | 99  |
| 12.3.7 Personnel Costs .....   | 100 |
| 12.3.8 Depreciation of Tangible Assets and Amortisation of Intangible Assets ....  | 100 |
| 12.3.9 Other Operating Expenses .....  | 100 |
| 12.3.10 Net Interest .....   | 101 |
| 12.3.11 Taxes .....  | 101 |
| 12.3.12 Consolidated Annual Net Income (Loss) .....  | 101 |
| 12.4 Financial Position and Net Assets of the DBAG Group 2000/2001 – 2002/2003 .....   | 101 |
| 12.4.1 Summary of Balance Sheet Development of the DGAB Group 2000/2001 – 2002/2003 .....  | 101 |
| 12.4.2 Miscellaneous .....   | 103 |
| 12.4.3 Summary Cash Flow Statement of the DBAG Group 2000/2001 – 2002/2003 .   | 103 |
| <br>   |     |
| <b>13 Consolidated Financial Statements of the DBAG Group for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)</b> .....   | 105 |
| 13.1 Auditor's Reports on the Consolidated Financial Statements for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB) .....                                       | 105 |
| 13.1.1 Auditor's Report on the Consolidated Financial Statements for Financial Year 2002/2003 (HGB) .....  | 105 |
| 13.1.2 Auditor's Report on the Consolidated Financial Statements for Financial Year 2001/2002 (HGB) .....  | 107 |
| 13.1.3 Auditor's Report on the Consolidated Financial Statements for Financial Year 2000/2001 (HGB) .....  | 108 |
| 13.2 Comparison of the Consolidated DBAG Group Balance Sheets for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB) .....   | 110 |
| 13.3 Comparison of the Consolidated DBAG Group Profit and Loss Accounts for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB) .....                               | 112 |
| 13.4 Comparison of the Consolidated Cash Flow Statements for the DBAG Group for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)                                 | 113 |
| 13.5 Notes to the Consolidated Financial Statements for Financial Year 2002/2003   | 114 |
| 13.6 Group Management Report of Deutsche Beteiligungs AG .....   | 129 |

|   |            |
|---|------------|
| <b>14 Annual Financial Statements of the Company for<br/>Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB) .....</b>               | <b>137</b> |
| 14.1 Auditor's Reports on the Company's Annual Financial Statements for<br>Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB) ..... | 137        |
| 14.1.1 Auditor's Report on the Company's Annual Financial Statements for<br>Financial Year 2002/2003 .....                                | 137        |
| 14.1.2 Auditor's Report on the Company's Annual Financial Statements for<br>Financial Year 2001/2002 .....                                | 139        |
| 14.1.3 Auditor's Report on the Company's Annual Financial Statements for<br>Financial Year 2000/2001 .....                                | 140        |
| 14.2 Comparison of the DBAG Balance Sheets for Financial Years<br>2002/2003, 2001/2002 and 2000/2001 (HGB) .....                          | 142        |
| 14.3 Comparison of the DBAG Profit and Loss Accounts for<br>Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB) .....                | 144        |
| 14.4 Comparison of the Company's Cash Flow Statements for<br>Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB) .....               | 145        |
| 14.5 Notes for Financial Year 2002/2003 .....   | 146        |
| 14.6 Management Report of Deutsche Beteiligungs AG .....  | 159        |
| <b>15 Current Business Development and Outlook .....</b>  | <b>167</b> |

# 1 General Information

## 1.1 Responsibility for the Contents of the Offering Circular

Deutsche Beteiligungs AG, Frankfurt am Main, and Sal. Oppenheim jr. & Cie. KGaA ("**Oppenheim**") and Cazenove AG ("**Cazenove**") and Cazenove & Co. Ltd. and Landesbank Baden-Württemberg (LBBW) ("**LBBW**") assume liability pursuant to § 13 of the German Securities Offering Prospectus Act (Wertpapier-Verkaufsprospektgesetz) in conjunction with § 44 of the German Stock Exchange Act (Börsengesetz) and hereby state that, to the best of their knowledge, the information contained in this Offering Circular ("**Prospectus**") is correct, and that no material facts or circumstances have been omitted. Oppenheim and Cazenove are together referred to as the "**Lead Managers**" and together with LBBW referred to as the "**Syndicate Banks**". Deutsche Beteiligungs AG will hereinafter be referred to as either the "**Company**" or "**DBAG**". **DBAG**, together with its controlled companies ("Group Companies"), will hereinafter be referred to as the "**DBAG Group**".

## 1.2 Statement of Compliance with Going-Public Principles

The Company and the Syndicate Banks hereby state that they have complied with Deutsche Börse AG's going-public principles, as amended at 15 July 2002, subject to the following:

1. The outline of this Prospectus essentially follows the outline prescribed by the going-public principles. It does, however, deviate from the prescribed outline in those cases where the Company and the Syndicate Banks deemed this to be appropriate.
2. The going-public principles require that the risk factors be listed according to the extent of the economic impact they would have on the Company, should they happen. However, the actual extent of the economic effect that individual risk factors could have on the Company, should they come to pass, cannot be reliably predicted. Therefore, it cannot be ruled out that certain risk factors, should they occur, could have a greater economic effect on the Company than that which has been indicated in this Prospectus. In certain instances, the Prospectus also makes statements as to the probability of the occurrence of specific risk factors. While this information reflects the Management Board's expectations at present, there are many factors affecting it which could lead to a different outcome. Therefore, it cannot be ruled out that the probability of the occurrence of risk factors may in fact be different to that which has been indicated in this Prospectus, insofar as any statements have been made in this regard.

## 1.3 Inspection of Documents

Annual reports and any future interim reports of the Company as well as the documents specified in this Prospectus may, to the extent they relate to the Company, be inspected during regular business hours at the offices of DBAG, Kleine Wiesenau 1, 60323 Frankfurt am Main, as well as at the offices of Oppenheim, Königsberger Strasse 29, 60487 Frankfurt am Main, the offices of Cazenove, Börsenstrasse 2–4, 60313 Frankfurt am Main, and at the offices of LBBW, Friedrichstr. 24, 70174 Stuttgart.

## 1.4 Sources

All information regarding the Company's market, in particular, the information regarding market share, growth rates, investment or transaction volumes, is based on public sources or estimates by DBAG. The following public sources were used:

- BVK Statistics 2002, "Das Jahr 2002 in Zahlen" (The Year 2002 in Statistics) ("**BVK Statistics**");
- European Private Equity & Venture Capital Association Yearbook 2003 ("**EVCA Yearbook**");
- German Federal Bureau of Statistics (Statistisches Bundesamt), National Economic Accounting Statistics for the Federal Government ("**Federal Bureau of Statistics**");
- 2003 Review, Centre for Management Buy-Out Research; Nottingham University Business School ("**2003 Review**");
- "Beteiligungskapital in Deutschland: Anbieterstrukturen, Verhaltensmuster, Marktlücken und Förderbedarf (Venture Capital in Germany: Provider Structures, Behavioural Patterns, Market Gaps and Support Requirements)"; KfW Bankengruppe, Frankfurt am Main, May 2003, ("**KfW**");
- Pan-European Survey of Performance, ENN Supplement, EVCA, Zaventem (Belgium), September 2003 ("**Survey of Performance**");
- European Private Equity in Review, mergers market, August 2003 ("**European Review**");
- Global Private Equity 2003, compiled by 3i Group plc and 3i Investment plc, as well as Price-WaterhouseCoopers ("**Global Private Equity**");
- German Research, Deutsche Beteiligungs AG, Initiating Coverage, Cazenove, 3 November 2003 ("**Cazenove Research Report**").

DBAG's estimates in connection with the description of the market are based exclusively on the above sources. These sources are themselves based on publicly available sources or market data, or, particularly in the case of industry reports, by associations such as the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – German Venture Capital Association e.V. (BVK), on information which these associations have, for example, received from their members. The Company therefore assumes that market data and data based on the collection of voluntary information does not necessarily reflect the actual market situation.

The Company assumes no guarantee for the accuracy of the information taken from these sources or for the estimates based on the information taken from such sources.

## 2 Summary of the Prospectus

The following summary is supplemented by more detailed information contained elsewhere in this Prospectus and should only be read in conjunction therewith.

### 2.1 The Company

The companies of the DBAG Group acquire equity interests in companies (hereinafter also **“Investments”** or **“Holdings”**; the companies are also referred to as **“Portfolio Companies”**), and assist the management of such companies in further developing the Portfolio Companies in order to enhance their value, and subsequently divest these Holdings at a profit if possible. Further to that, the Company assumes direct or indirect management responsibilities for private equity funds, which are also in the business of acquiring, holding, and disposing of Investments. In the German-speaking region, these private equity funds (hereinafter also referred to as **“Parallel Funds”**) invest in the same Portfolio Companies jointly and on the same terms (**“parallel”**) as the DBAG Group, which gives the Company the opportunity to execute larger transactions and to gain access to a larger number of transactions. The Company also receives compensation to cover its management expenses in the form of a management fee paid by the private equity funds.

DBAG Group usually acquires Investments in Portfolio Companies jointly with the Parallel Funds and, if applicable, additional co-investors in the German-speaking region, through management buyouts. A management buyout essentially means that as well as the DBAG Group, a Parallel Fund and, if applicable, co-investors, the management of the relevant enterprise also acquires an equity interest therein. In so doing, the majority of the shares are held by the DBAG Group, the Parallel Funds and the co-investors. Because the DBAG Group is generally not the sole investor, but rather co-invests alongside Parallel Funds and, if applicable, other co-investors, the DBAG Group usually does not acquire a majority interest in the Portfolio Companies. Nevertheless, DBAG is able, together with the Parallel Funds and the co-investors, to act like a majority shareholder in relation to the Portfolio Company.

The Company invests exclusively in established enterprises with sales generally ranging between approximately EUR 50 million and EUR 500 million. The debt-free value of the Portfolio Company (also referred to as **“Transaction Value”**) generally ranges between approximately EUR 50 million and EUR 250 million.

In the German-speaking region, DBAG searches and structures its investments itself. In other private equity markets outside the German-speaking region, companies of the DBAG Group invest in private equity funds. A significant portion of the respective fund commitments is attributed to private equity funds, which pursue an investment strategy largely comparable to that of the Company; i.e. they also concentrate primarily on management buyouts. In some cases, the DBAG Group will invest directly in the relevant management buyout outside the German-speaking region.

In the past, the DBAG Group has also entered into Investments which did not involve management buyouts. In such cases, it invested as a minority shareholder with the objective of supporting the companies' growth (also referred to as **“Expansion Financing”**). Today, the Company and the DBAG Group enter into such Expansion Financing only in individual cases.

The DBAG Group's investment portfolio reflects the current investment policy only to a limited extent. It still contains a relatively large percentage of Investments that were entered into for the purpose of Expansion Financing, which is expected to decline in the course of the next years.

The Company was founded in December 1984 by Deutsche Bank AG, Frankfurt am Main and Bankgeschäft Karl Schmidt, Hof, under the name Deutsche Beteiligungs AG Unternehmensbeteiligungsgesellschaft, in anticipation of the new German Private Equity/Venture Capital Companies Act (Gesetz über Unternehmensbeteiligungsgesellschaften/"UBGG"). The rationale behind the formation of the Company and later the Act itself was to make organised capital markets accessible to unlisted small and medium-sized companies and thus to enable a broader range of public investors to acquire an indirect equity interest in these companies.

In December 1985, DBAG went public and was listed on the Frankfurt Stock Exchange and the Düsseldorf Stock Exchange.

As at 31 October 2003, the DBAG Group held interests in 43 Portfolio Companies with acquisition costs totalling approximately EUR 300 million. Based on acquisition cost at 31 October 2003, just under two-thirds (65.2 percent) of the DBAG Group's funds were invested domestically and in other German-speaking countries. The majority of the portfolio volume invested outside German-speaking countries involved investments in the USA (27.1 percent based on acquisition cost). In order to spread its risk, the Company invests in a broad range of industries. Portfolio structure as at 31 October 2003, based on acquisition cost and industries, was as follows: Construction (17.6 percent), Trade (15.4 percent), Machine and Plant Construction (14.3 percent), Consumer Goods (13.1 percent), Industrial Services and Logistics (11.0 percent), Printing, Media, Packaging (9.7 percent), Chemicals (6.6 percent), Automotive Supplies (6.2 percent), and Others (6.1 percent). Portfolio Companies held indirectly through other funds are included in this classification by industry.

The portfolio volume managed (for third parties as well) by DBAG Group totalled approximately EUR 494.7 million at 31 October 2003, based on acquisition cost.

The proceeds from the capital increase serve to strengthen the Company's equity capital base and thus primarily the financing of potential acquisitions in future. The companies of the DBAG Group principally finance their investments through a combination of equity and debt capital. Strengthening the equity capital increases the DBAG Group's financing capacity and thus its investment options.

## **2.2 Summary of Key Financial Data**

DBAG's financial year begins on 1 November and ends on 31 October of the following year.

The following figures for financial years 2000/2001, 2001/2002 and 2002/2003 are based on DBAG's audited consolidated financial statements prepared in accordance with the principles of the German Commercial Code (Handelsgesetzbuch/"HGB"). At present, the Company does not prepare any financial statements based on international accounting standards.

|  | 2000/2001 | 2001/2002 | 2002/2003 |
|--|-----------|-----------|-----------|
|  | (€ '000s) | (€ '000s) | (€ '000s) |
| Income from investments*   | 29,935    | 11,767    | 9,289     |
| Gains from investment disposals*   | 9,748     | 15,463    | 13,910    |
| Other operating income*  | 9,568     | 10,366    | 19,945    |
| Result of ordinary activity  | 6,397     | -15,905   | 4,386     |
| Net income/loss  | 9,166     | -15,840   | 3,096     |
| Earnings per share in Euros based on subscribed capital according to HGB | 0.65      | -1.13     | 0.22      |
| Subscribed capital   | 36,400    | 36,400    | 36,400    |
| Equity capital   | 178,789   | 155,423   | 158,737   |
| Provisions   | 25,369    | 16,832    | 18,639    |
| Liabilities  | 125,761   | 134,513   | 113,528   |
| Total assets   | 329,924   | 306,770   | 291,948   |
| Number of employees at 31 October 2003                                   | 50        | 51        | 50        |

\* Due to the fact that the Company is an investment company, it does not generate sales in the normal sense, but rather income from investments, gains from investment disposals, as well as other operating income.

As at 31 October 2002, the Company determined for the first time the “fair value” per share, which is composed of the equity capital per share and the valuation reserves of the investment portfolio per share. The valuation reserves are calculated from the difference of the fair value of the investment portfolio according to International Accounting Standards or International Financial Reporting Standards (“IFRS/IAS”) and the book value of the investment portfolio according to the German Commercial Code. This value is determined on a semi-annual basis and, in relation to the subscribed capital of the Company, amounted to EUR 12.95 per share at 31 October 2002 and EUR 12.48 per share at 31 October 2003.

The Company generally aims to pay its shareholders dividends in future financial years. This is, however, subject to the Company recording consolidated net income, a consolidated balance sheet profit, and a distributable balance sheet profit for the respective financial year. The Company cannot guarantee that the requirements for paying dividends will in fact be satisfied in the financial years to come. Certain factors affecting the distribution of dividends include profitability, financial position, capital requirements, business prospects, as well as the general economic environment for the Company or the DBAG Group as a whole. Dividends distributed in the past are not indicative for the amount or extent of any dividend distributions paid in the future.

## 2.3 Overview of the Offering

### RIGHTS OFFERING

Based on the authorisation pursuant to § 5 (3) of DBAG’s Articles of Association, the Company’s Management Board resolved on 24 February 2004, with the consent of the Supervisory Board dated 25 February 2004, to increase the Company’s registered capital by EUR 12,133,334.20 from EUR 36,400,000 to EUR 48,533,334.20, by issuing 4,666,667 new ordinary bearer shares with no-par value (no-par shares), each with a current calculated nominal value of EUR 2.60 and carrying full dividend rights from 1 November 2003 (“**New Shares**”).

The Syndicate Banks have underwritten the 4,666,667 New Shares and are under an obligation to offer them (with the exception of a fractional amount of one New Share) to the Company's shareholders for subscription in a ratio of 3:1 and at the Subscription Price.

|                                    |  |
|------------------------------------|--|
| SUBSCRIPTION PRICE                 | The Subscription Price is EUR 11.00.   |
| EXERCISE OF<br>SUBSCRIPTION RIGHTS | <p>In the Rights Offering published on 2 March 2004, shareholders will be invited to exercise their Subscription Rights in order to avoid exemption in the period from 3 March 2004 up to and including 17 March 2004.</p> <p>For every 3 DBAG Shares, 1 New Share may be subscribed at the Subscription Price.</p>  |
| SUBSCRIPTION RIGHTS<br>TRADING     | The Subscription Rights (ISIN DE000A0AHTV9) will be traded on the Frankfurt Stock Exchange from 3 March 2004 up to and including 15 March 2004.  |
| SECONDARY PLACEMENT                | Fractional shares, which cannot be subscribed for, and any New Shares not subscribed for pursuant to the Rights Offering will be sold by the Syndicate Banks at the best possible price, however for no less than the Subscription Price.  |
| LEAD MANAGERS                      | Oppenheim and Cazenove   |
| SYNDICATE BANKS                    | Oppenheim, Cazenove and LBBW   |
| LISTING                            | Official Market (Amtlicher Markt) of the Frankfurt Stock Exchange in the segment of the Official Market of the Frankfurt Stock Exchange with additional listing obligations (Prime Standard), and the Official Market of the Düsseldorf Stock Exchange.  |
| VOTING RIGHTS                      | Each ordinary share carries one vote.  |
| USE OF ISSUE PROCEEDS              | The net proceeds from the issue will serve to strengthen the equity capital base and thus primarily the financing of potential acquisitions in future. The Company and the companies of the DBAG Group principally finance their investments through a combination of equity and debt capital. Increasing the equity capital increases the Company or the DBAG Group's financing capacity and thus its investment options. |

|                       |   |
|-----------------------|---|
| ADMISSION TO TRADING  | <p>Admission of the New Shares to trading on the Official Market of the Frankfurt Stock Exchange and concurrent admission to the segment of the Official Market of the Frankfurt Stock Exchange with additional listing obligations (Prime Standard) and the Düsseldorf Stock Exchange was filed for on 17 February 2004. The listing orders of the Frankfurt Stock Exchange and the Düsseldorf Stock Exchange are expected on 8 March 2004.</p> <p>Quotation of the New Shares on the Frankfurt Stock Exchange and the Düsseldorf Stock Exchange is expected to commence on 23 March 2004.</p> |
| DESIGNATED SPONSORS   | <p>Deutsche Bank AG,<br/>Lang &amp; Schwarz Wertpapierhandel AG</p>   |
| STOCK EXCHANGE SYMBOL | <p>DBA.ETR</p>  |

## 3 The Offering

### 3.1 Subject Matter of the Offering Circular

The subject matter of this Prospectus as a **Offering Circular** are:

4,666,667 ordinary bearer shares with no-par value (no-par shares), each with a current calculated nominal value of EUR 2.60, issued pursuant to a cash capital increase from authorised capital, including shareholders' Subscription Rights (with exception of the fractional amount of one New Share), which was resolved by the Management Board on 24 February 2004, with the consent of the Supervisory Board on 25 February 2004, based on an authorisation granted by the Company's Shareholders' Meeting on 20 March 2002; the capital increase is expected to be recorded in the commercial register (Handelsregister) on 5 March 2004.

### 3.2 The Offering, Timetable, and Rights Offering

#### 3.2.1 The Offering

The offering includes a total of 4,666,667 New Shares and a Rights Offering to the shareholders of DBAG (except for the fractional amount of one New Share) (the "**Offering**").

The capital increase from authorised capital is scheduled to be recorded in the commercial register on 5 March 2004. The Offering is subject to the condition precedent that the capital increase will be recorded in the commercial register.

The Syndicate Banks reserve the right to rescind the underwriting agreement with the Company under certain circumstances. Specifically, these include material adverse changes of the economic situation of DBAG or DBAG Group where not stated in this Prospectus, or significant changes of the basic domestic or international financial, (safety) political, economic or legal conditions have occurred or are likely to occur, which could have material adverse effects on the financial markets.

In the event that the underwriting agreement is rescinded before the capital increase is recorded in the commercial register, the Subscription Rights will lapse. In that case, the agents brokering the trades in the Subscription Rights will not reverse any such trade transactions, and any investors, who purchase these rights on the stock market, would incur a loss accordingly.

After the cash capital increase from authorised capital, which was resolved by the Management Board on 24 February 2004 with the consent of the Supervisory Board of 25 February 2004, has been recorded in the commercial register, the Company's registered capital will total EUR 48,533,334.20, divided into 18,666,667 ordinary bearer shares with no-par value (no-par shares).

### **3.2.2 Timetable**

The timetable for the Offering is as follows:

|                  |  |
|------------------|--|
| 27 February 2004 | Approval of the Offering Circular by the Frankfurt Stock Exchange  |
| 2 March 2004     | Publication of the Rights Offering and announcement with reference to the published Offering Circular                      |
| 3 March 2004     | Subscription Rights locked in based on the shareholders' register as of the evening of 2 March 2004                        |
| 3 March 2004     | Start of Subscription Period   |
| 8 March 2004     | Listing orders from the Frankfurt Stock Exchange and the Düsseldorf Stock Exchange   |
| 15 March 2004    | Close of Subscription Rights trading   |
| 17 March 2004    | End of Subscription Period   |
| 23 March 2004    | Payment of Subscription Price  |
| 23 March 2004    | Inclusion of shares from the capital increase in trading on the Frankfurt Stock Exchange and the Düsseldorf Stock Exchange |

### **3.2.3 Rights Offering**

Based on the authorisation pursuant to § 5 (3) of DBAG's Articles of Association, the Company's Management Board resolved on 24 February 2004, with the consent of the Supervisory Board dated 25 February 2004, to increase the Company's registered capital by EUR 12,133,334.20 from EUR 36,400,000 to EUR 48,533,334.20, by issuing 4,666,667 new ordinary bearer shares with no-par value (no-par shares), each with a current calculated nominal value of EUR 2.60 and carrying full dividend rights from 1 November 2003.

The Syndicate Banks have underwritten the 4,666,667 New Shares and are under an obligation to offer them (with the exception of the fractional amount of one New share) to the shareholders for subscription in a ratio of 3:1 at the Subscription Price.

In the Rights Offering published on 2 March 2004, shareholders will be invited, in order to avoid exemption, to exercise their Subscription Rights in the period from 3 March 2004 up to and including 17 March 2004.

For every 3 DBAG Shares, 1 New Share may be subscribed for at a Subscription Price of EUR 11.00, which is due and payable by subscribers no later than 23 March 2004.

The Subscription Rights (ISIN DE000A0AHTV9) will be traded on the Frankfurt Stock Exchange from 3 March 2004 up to and including 15 March 2004.

### **3.2.4 Sale of Shares not having been subscribed for**

The fractional share, which cannot be subscribed for, and any New Shares not subscribed for pursuant to the Rights Offering will be sold by the Syndicate Banks at the best possible price, however for no less than the Subscription Price.

## **3.3 Information about the Shares**

### **3.3.1 Listing**

The New Shares are expected to be admitted under exemption from the prospectus requirement to trading on the Official Market of the Frankfurt Stock Exchange in the sector of the Official Market of the Frankfurt Stock Exchange with additional listing obligations (Prime Standard) and on the Düsseldorf Stock Exchange on 8 March 2004.

### **3.3.2 Settlement**

The Subscription Price to be paid by subscribers, plus the securities commission, is expected to become due and payable on 23 March 2004. It is expected that Clearstream Banking AG, Frankfurt am Main, will deliver the shares by book-entry transfer on this date.

### **3.3.3 Identification Codes**

German Securities Identification Code (WKN): A0A HTU

ISIN Code: DE000A0AHTU1

Stock Exchange Symbol: DBA.ETR

Upon listing, due to different divided rights, the New Shares will bear the WKN A0A HTU. The New Shares will be delivered after the Company's Shareholders' Meeting on 18 March 2004 and will accordingly have at delivery the same divided rights as the existing shares. Accordingly, the New Shares will, at the time of delivery, bear WKN 550 810 (ISIN DE0005508105), the same WKN as the existing shares.

### **3.3.4 Certification**

The shares are certificated in one or more global certificates, which is/are deposited at Clearstream Banking AG, Frankfurt am Main.

The Management Board, with the consent of the Supervisory Board, shall determine the form of the share certificates and the dividend and renewal coupons. Global certificates may be issued. The shareholders are not entitled to individual share certificates.

### **3.3.5 Lock-up, Transferability**

Neither DBAG's listed shares nor the New Shares offered pursuant to the capital increase are subject to any lock-up provisions or other legal restrictions on transferability. All shares are freely transferable.

### **3.3.6 Stabilisation, Over-allotment Option**

In connection with the Rights Offering, the Syndicate Banks may, for a period of a maximum of 30 days after allotment, take measures in accordance with standard market practice and within the parameters of the relevant statutory provisions to stabilise the market price of the shares or the Subscription Rights, or to maintain it at a level that would not otherwise result. There is no obligation to implement such measures. Stabilisation measures may be discontinued at any time.

This capital market transaction does not involve any over-allotment option.

### **3.3.7 Designated Sponsors**

The Company has commissioned Deutsche Bank AG and Lang & Schwarz Wertpapierhandel AG to act as its designated sponsors.

### **3.3.8 Use of Issue Proceeds**

The net proceeds from the issue of approximately EUR 48.7 million (assuming that all the New Shares are subscribed or sold at the Subscription Price and less the expected issue costs incurred by the Company of approximately EUR 2.6 million, which includes Syndicate Bank's fee attributable to the Company of approximately EUR 2.25 million) will serve to strengthen the equity capital base and thus primarily the financing of potential acquisitions in future. The Company and the companies of the DBAG Group principally finance their investments through a combination of equity and debt capital. Increasing the equity capital increases the Company's or the DBAG Group's financing capacity and thus its investment options.

### **3.3.9 Notices, Paying and Depositary Agent**

Company notices relating to the shares and required under provisions of corporate law shall be published in the electronic version of the Federal Gazette (elektronischer Bundesanzeiger) in accordance with the Company's Articles of Association. Notices shall also be published in at least one statutorily prescribed national publication of the Frankfurt Stock Exchange, to the extent that this is required by statutory provisions governing German stock exchanges.

The Company will appoint and announce at least one credit institution resident at the Stock Exchange in Frankfurt am Main as paying and depositary agent where all transactions involving the shares may be effected. At present, Deutsche Bank AG has been commissioned to act as paying and depositary agent.

## 4 Risk Factors and Investment Considerations

*In addition to the other information contained in this Prospectus, potential investors in the offered shares should carefully consider the risk factors and investment considerations described below when evaluating the Company and its business activities. Several of the statements made in this Prospectus relate to the future and contain forecasts, which are by its very nature, carry risks and uncertainties. This applies, in particular, to the description of the conditions forming the basis of the Company's plans and goals and with respect to other forward-looking statements contained in this Prospectus. These statements, which reflect the Management Board's current expectations, are influenced by a variety of factors that could lead to substantially different results than those described in the forward-looking statements. Several of the factors that could lead to such substantially different results than those described in the forward-looking statements, are described in greater detail within the context of the following risk factors.*

### 4.1 Company-Specific Risks

#### 4.1.1 The Company's Dependency on Economic Influences and the Financial Markets

The economic success of DBAG and its affiliated Group Companies as a private equity undertaking primarily depends on the price at which it or the DBAG Group acquires the Investments, the positive business development of the businesses, in which it has invested, and the potentially attainable proceeds from a sale of such businesses.

A negative economic development of one, several or all Portfolio Companies can be affected by various external or internal factors, over which the Company and/or the DBAG Group may not have any influence. These factors may be general economic developments, developments or influences which affect specific industries, and developments or influences, which have a specific adverse effect on one or more Portfolio Companies. Moreover, the Company has only a limited influence over the price it can obtain when it sells an Investment held in a Portfolio Company. In addition to company-specific factors, prices are, to a considerable extent, affected by external circumstances such as general economic developments, industry-specific factors and the conditions on the financial markets. The same applies to the price determination when purchasing Investments in a Portfolio Company.

Thus, DBAG's and/or the DBAG Group's economic performance depends, to a great extent, on general economic developments, developments within industries in which the companies of the DBAG Group have invested, and developments in the financial markets. This applies to all three levels of its business operations: the purchase of Investments in Portfolio Companies, the development of the Portfolio Companies, and the sale of these Investments.

For purposes of risk minimisation, DBAG and its Group Companies seek to diversify their investment portfolio, with a view to reducing the economic cyclical risks faced by the individual Portfolio Companies, industries or regions. However, a diversification of the investment portfolio only can reduce risks relating to certain industries or regions. But, economic developments and developments within the financial markets as a whole increasingly take place in a manner that spans industries and regions. Consequently, diversification may minimise risks which are limited to certain industries or regions only. Economic trends and the development of the financial markets, however, takes increasingly place spanning various industries and regions. By

way of diversification, the risks stemming from economic influences and the influence of the financial markets on the business performance of the DBAG Group can therefore be minimised to a limited extent only. It can thus not be ruled out that with future investments of the DBAG Group an overweighting of certain regions and/or industries evolves, which in turn could lead to a greater concentration of regional and/or industry risks.

The dependency on economic factors and on the financial markets manifests itself, in particular, in the following respects:

#### **(i) Timing of Disposals and Attainable Sale Proceeds**

The economic environment and the state of the capital markets at the time when a Portfolio Company is sold have significant influence on the possibility of such a sale, the proceeds and consequently, the attainable return. In the event of poor economic and/or industry conditions and/or weak financial markets, it may either not be possible to sell an Investment or such a sale could be subject to significant price reductions. This applies, in particular, to the Company's Investments in enterprises listed on the stock exchange, which represent about 13.6 percent of the book value as at 31 October 2003 of the DBAG Group's entire portfolio.

As a general practice, DBAG Group Companies acquire Investments for periods of three to seven years, with an objective of subsequently selling such Investments and generating a profit from the sale. To this end, the Investments are sold primarily to strategic investors or financial investors or placed on capital markets (see "Business of the Issuer – DBAG's Business Concept – Acquiring, Holding and Disposing of Investments"). Nevertheless, the successful sale of an Investment is, in principle, possible only within certain time-frames: if the targeted appreciated value of the Portfolio Company has been achieved and this coincides with a favourable economic and industry environment and a favourable environment on the financial markets. Even if the Portfolio Companies have undergone favourable development, there is still a risk that no reasonable disposal proceeds can be achieved because of a negative economic, industry and/or capital market environment. In such a case, the Company or the DBAG Group must either postpone the planned sale or accept a lower price.

The postponement of a planned sale of an Investment would have a material adverse effect on the financial position and results of the Company's operations and/or those of DBAG Group in the financial year, in which the sale has been postponed. Also, if the sale of an Investment is postponed, it is uncertain whether the targeted price can be achieved during a subsequent sale process (see below "Development of the Portfolio Companies" as well as "Uncertainty Concerning the Economic Development of Individual Portfolio Companies").

After balancing the risks and rewards of continuing to hold the Investment in light of the expectations for the economy, industry and financial markets, the DBAG Group may decide – or be compelled – to sell the Investment despite a negative market environment at significant discount. There are several reasons for a necessity to sell an Investment in a poor business environment (e.g., due to the Company's liquidity needs). A lower marked-down price on the sale of an Investment may have material adverse effects on the net assets, financial position and results of operation of the Company and of the DBAG Group.

## **(ii) Development of the Portfolio Companies**

As a rule, the successful development of a Portfolio Company leading up to its disposal depends, directly and indirectly, on general business developments within the industry and the overall economy.

In their investment strategy, private equity companies such as DBAG put a special focus on enhancing the performance of their Portfolio Companies. DBAG's business model and that of its affiliated Group Companies presupposes that they will be successful in assisting the management in the further development of the respective Portfolio Company during the period of their Investment, thereby contributing to the increase in the value of the Portfolio Company. In a poor economic environment, a successful improvement in earnings performance and the enhancement of the value of the Portfolio Companies is possible only to a limited extent. Weak conditions in the economy and/or the relevant industry already place high demands on the management of the Portfolio Company, even to maintain its current market position and performance level. Even qualified and experienced management teams are sometimes unable to prevent a negative economic environment from having an adverse effect on the Portfolio Company's performance and value. Indeed, there is a risk that in a weak economy and/or industry, operating results will deteriorate so greatly that the very existence of the Portfolio Company will become threatened. Such a development could push the Portfolio Company into insolvency and consequently lead to the Company and/or the DBAG Group losing its entire Investment.

When there has been a negative development within one or several Portfolio Companies, DBAG or the DBAG Group may decide or be compelled – in order to limit the loss in value or to prevent a complete loss of the Investment – to provide the Portfolio Company with a previously not budgeted supplementary financial support. This increases the risk to which DBAG is exposed in the case of the Portfolio Companies concerned and could have a material adverse effect on the return on the capital invested by the DBAG Group.

If a poor economic environment should trigger a decline in the earnings of the Portfolio Companies, such a development would also have a significant influence on the capability of these Portfolio Companies to distribute profits to the DBAG Group and/or to reduce an existing level of debt as scheduled. Income generated by the Portfolio Companies represents a substantial part of the DBAG Group's income (approximately 22 percent in financial year 2002/2003). The reduction in existing debt, which is frequently assumed in order to finance acquisitions, particularly in connection with holdings acquired as part of a management buyout, often constitutes a material component for increasing the value of the Portfolio Company. Should a Portfolio Company default in paying down its debt, such a default could also represent a breach of obligations under loan agreements concluded with outside lenders. In such a case the lenders may be entitled, for example, to terminate the loan agreements and proceed against any collateral provided.

A reduction in value, the realisation of losses in value or the complete loss of Investments, subsequent additional financial assistance as well as the loss or reduction in profit distributions, the inability or limited ability to reduce existing levels of debt would have, and the breach by a Portfolio Company of obligations under loan agreements could have, significant material adverse effects on the net assets, financial position and results of operation of the Company and of the DBAG Group.

### **(iii) Purchase of Portfolio Companies**

DBAG's purchase of Portfolio Companies depends on the economic environment, too. The purchase price, which DBAG has to pay for the Investment will be determined to a considerable extent by, among other things, the conditions in the economy and/or on the financial markets at the time of the purchase.

During overall economic and/or industry-specific peak times, particularly when optimistic moods prevail in the financial markets, there is a risk that Investments will be purchased at a price level, which hardly allows for any further appreciations in value. Investments purchased in such an environment run the increasing risk that in a future sale the expected appreciation in value will not be realised or that the only achievable sale proceeds will be less than the purchase price. This would have corresponding adverse effects on the net assets, financial position and results of operations of the Company and of the DBAG Group.

In a weak financial market environment it may not be possible, or only possible to a limited extent, for the Company or the DBAG Group to obtain debt capital financing (in particular financing from banks) to supplement its own resources and the funds deriving from Parallel Funds in order to purchase Investments. In this case, the Company would, by virtue of its greater equity investment, have to accept a reduction in its targeted return or forego the purchase. This could have material adverse effects on the general business development and the net assets, financial position and results of operations of the Company and of the DBAG Group.

#### **4.1.2 Loss of Parallel Funds as Co-Investors**

In the normal course of business, DBAG and its Group Companies acquire Investments in German-speaking countries together with Parallel Funds (see "Business of the Issuer – DBAG's Business Concept"), which DBAG has initiated and the businesses of which are directly or indirectly managed by DBAG. To be able to draw upon the resources of these Parallel Funds is a requirement for the current business model of the Company and of the DBAG Group. In the event that the Parallel Funds do not participate as co-investors, the investment capacities available for Investment acquisitions, according to estimates of the Company, would be at least halved.

The Company's ability to launch Parallel Funds is in part dependent on whether investors have on the capital markets other attractive investment opportunities, which carry a lower risk. The "Private-Equity" investment category, which is offered by the Company and the Parallel Funds, could suffer a general loss of confidence as a result of facts, tendencies or developments, over which the Company has no influence. Such a development could significantly reduce the volume of funding commitments for the Parallel Funds.

The Parallel Funds invest exclusively in the same Portfolio Companies as the DBAG Group. Consequently, the economic risks in connection with and/or stemming from the Portfolio Companies affect the Parallel Funds in the same manner as the DBAG Group. Lower returns could significantly restrict the willingness of investors to invest in Parallel Funds, which might be launched in the future. In this case, the Company's ability to launch new Parallel Funds would be fundamentally called into question.

Furthermore, potential investors might prefer other fund managers or investment forms for other reasons such as negative experiences with other fund promoters, who operate in the same market segments as the Company and its Group Companies or the departure of important key employees of the DBAG Group (see “Dependency on Persons in Key Positions”), and such a preference would similarly restrict the Company’s ability to launch Parallel Funds.

The loss of the Parallel Funds as co-investors could result in the DBAG Group no longer being able to acquire a number of Investments in the form of management buyouts in accordance with the strategy, and could mean that the management compensation paid by the Parallel Funds would cease. This would lead to a significant adjustment in the strategy pursued by DBAG and could have a significant material adverse effect on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### **4.1.3 Income Volatility – Impact of IFRS/IAS**

The income reported in the DBAG Group’s annual financial statements and quarterly reports include mostly the gains realised on the sale of Portfolio Companies and the annual profit distributions made by the Portfolio Companies. Since the performance of the DBAG Group is significantly dependent on a few disposals of Investments per year, which vary in proceeds and timing (see above “Timing of Sales and Attainable Sale Proceeds”), the income and results of the DBAG Group will often fluctuate dramatically from quarter to quarter and from financial year to financial year. A very small delay in the sale of an Investment can mean that the sale and the subsequent booking of the disposal proceeds in the Company’s financial statements might fall in a subsequent accounting period (quarter and/or financial year) (record date principle). Complex transactions, such as the sale of a company or an initial public offering, cannot always be completed in a specific financial year and/or quarter. Delays could also occur unexpectedly as a result of changes in the conditions of the financial markets or for other reasons.

Given the special features of the DBAG Group’s business, the Company is of the opinion that earnings will continue to fluctuate heavily. Due to the difficulty of predicting future developments, the level of earnings in any particular quarter and/or financial year are uncertain, and can be projected, if at all, for the immediate near-term only. Consequently, for the aforementioned reasons, it does not make sense, in the Company’s opinion, to compare the results of one period with those of another, and to use this comparison as an indicator of future performance.

The Company currently prepares its financial statements and consolidated financial statements in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch or “HGB”). It is anticipated that from financial year 2005/2006 onwards, the Company will be obligated to convert its consolidated financial statements to international accounting standards (see “General Information on the Company – Presentation of the Net Assets, Financial Condition and Results of Operations pursuant to the HGB – Financial Statements not Currently Prepared in Accordance with International Accounting Principles”). The “fair value principle” under the IFRS/IAS leads to a situation where even short-term changes in the value – including exchange rate fluctuations for Investments acquired in foreign currencies and market rates fluctuations of publicly listed shares in the portfolio of the DBAG-Group – of an equity interest portfolio must be reported as income or expenses, even if such gains or losses have not yet been realised by means of a sale. This could lead to significant fluctuations in reported results, which are greater in scope than the fluctuations in results under accounting provisions of the HGB.

Due to the aforementioned factors it cannot be ruled out that in future quarters and financial years, the results of the DBAG Group will also fail to meet the expectations of market analysts and investors, which could have an adverse effect on the Company's share price.

#### **4.1.4 Financing Risks**

Depending on their cash position at any given point in time, DBAG and their Group Companies fund their Investments with short-term bank loans. As at 31 October 2003, such short-term liabilities to banks amounted to approximately EUR 75.8 million. Due to the short-term nature of this funding, DBAG and its Group Companies are exposed to the risk of interest rate changes when new short-term debt is assumed, which could in some cases lead to a decline in earnings. Although the relationships between the DBAG Group and the financing credit institutions have already existed for more than five years, it cannot, however, be ruled out that these credit institutions will become less inclined to grant DBAG and its Group Companies such short-term financing because of negative developments in the financial markets, changes in provisions, laws, regulatory directives and other aspects of banking supervision regarding the granting of credit, unfavourable developments within DBAG and/or its Group Companies or for other reasons. This could have material adverse effects on the net assets, financial position and results of operations of the Company and of the DBAG Group as a whole.

#### **4.1.5 Uncertainty Concerning the Economic Development of Individual Portfolio Companies**

The primary focus of private equity companies is to increase the value of their Portfolio Companies by unleashing the enhanced earnings potential inherent in the respective companies. DBAG's business concept seeks to assist management in the continued development of the respective Portfolio Company during the entire period of the Investment. This includes next to the achievement of certain goals for the Portfolio Company, such as to reduce its levels of debt, also to increase earnings. However, the realisation of these objectives depends on a number of circumstances. In addition to a favourable economic environment and favourable conditions in the respective industries, the successful development of a Portfolio Company presupposes, above all, that its management is in a position to achieve the planned goals. Consequently, the success of DBAG and its Group Companies depend, to a considerable extent, on the competence of the Portfolio Company's management. Should the management of the Portfolio Companies fail to realise the potential of the respective company or should company-specific risks, including technological developments of importance to the company, manifest themselves, or should the share price of a Portfolio Company listed on a stock exchange fall or should other circumstances detrimental to the value of the Portfolio Company arise, then DBAG or the DBAG Group would not be able to realise the projected gain on the sale and would even have to accept a loss, if necessary. A change in the value of an Investment, regardless of the cause, could mean that such change would need to be recorded in the periodic reports of DBAG and/or the DBAG Group for the period during which the Investment is held (see also "Income Volatility").

Should one or more Portfolio Companies of the DBAG Group fail to develop as planned or develop negatively, this could have a corresponding material adverse effect on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### ***4.1.6 Risks Associated with Foreign Investments***

DBAG and its Group Companies have a series of foreign Investments, which are administered by local partners, on whose expertise the Company has every trust (see “Business of the Issuer – DBAG’s Business Concept – Acquiring, Holding and Disposing of Investments”). With most of these local Partners, DBAG has already been collaborating for a long time. DBAG maintains close contacts with the local partners and keeps itself regularly informed about developments within these Investments. The local partners are generally responsible for taking their own decisions with respect to the Investments. DBAG cannot rule out the possibility that the competence and/or standards of care exercised by those local partners in selecting, administering or selling the Investments will fall below those of the Company and that the local partner will make wrong decisions. It can also not rule out that it will not be informed or informed only in a delayed or incomplete manner, by local partners, regarding significant events or decisions concerning the Investments. DBAG cannot exclude the possibility that, as a result of misconduct or the inadequate quality of the local partner’s management, holdings will not develop favourably in the projected manner or will lose in their value. Such a negative development in a foreign holding would affect DBAG and/or the respective Group Company not only directly through a loss in value of that Investment held directly by it, but also indirectly through a loss in value of the respective foreign fund, through which DBAG or the DBAG Group invested in the Portfolio Company (see also “Business of the Issuer – DBAG’s Business Concept – Acquiring, Holding and Disposing of Investments”). This could have material adverse effects on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### ***4.1.7 Dependency on Regular Income from Portfolio Companies***

In addition to the proceeds realised from the sale of Investments, DBAG and its Group Companies also earn regular income from the Investments in the form of dividends, profit shares and interest payments, which are significant for the annual results of the DBAG Group. In the financial year 2002/2003, this represented approximately 22 percent of the DBAG Group’s total income. The Company does expect this form of income to decline in the long-term due to the investment strategy’s focus on management buyouts, which concentrates more on the resale of the Portfolio Companies for a gain. If, however, until that time the Portfolio Companies are not in a position to distribute profits on an ongoing basis due to economic factors or unsatisfactory profitability, this could have an accordingly adverse effect on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### ***4.1.8 Risks Relating to the Monitoring of Investments***

DBAG supports the management of the Portfolio Companies, which is being strengthened by – where necessary – additional outside management resources. Consequently, the development of a Portfolio Company presupposes, inter alia, the continued attendance of the Portfolio Company’s management (investment monitoring) (see also “Uncertainty Concerning the Economic Development of Individual Portfolio Companies”).

Although DBAG Group employees frequently sit on the Portfolio Companies' Supervisory Board committees and even though the management files regular reports, the Company cannot rule out the possibility that it will only be informed of developments and events within the Portfolio Companies in a delayed, belated or incomplete manner. Due to its outsider status, the Company is not in a position to recognise – either at all or in a timely manner – when it has been intentionally misinformed or kept in the dark about certain facts. It will then be unable – either at all or in a timely manner – to adopt the requisite counter-measures (such as replacing management), which means that the performance of the Holding or indeed its intrinsic value could be placed at risk. This could have material adverse effects on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### ***4.1.9 Risks Relating to Acquisitions***

When acquiring Investments, DBAG applies a high degree of the due care exercised by merchants (*kaufmännische Sorgfalt*) and purchases the Investments only after conducting an extensive examination. Nevertheless, the acquisition of an Investment represents a considerable commercial risk. It cannot be ruled out that risks in a Portfolio Company will not be identified or will be wrongly assessed and that, following the acquisition, it will emerge that the competence of the Portfolio Company's management was incorrectly appraised and fails to meet DBAG's expectations or that DBAG had incorrectly assessed the Portfolio Company's market position, its earnings potential, its profitability, its growth opportunities or other significant factors. Incorrect appraisals of this kind could also relate to the capability of implementing the strategies, which had been the underlying basis of the respective acquisitions (e.g. where the implementation depends on further acquisitions or the sale of parts of the Portfolio Company). In this situation, not only the return on investment targeted by DBAG but also the value of the actual Investment would be significantly threatened. Such a development could have a corresponding material adverse effect on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole, and could also have far-reaching negative consequences for the Parallel Fund (see "Loss of Parallel Funds as Co-investors").

#### ***4.1.10 Restrictions on the Sale of Minority Investments***

As at 31 October 2003, the DBAG Group held fifteen minority interests in Portfolio Companies, in which it does not have a majority stake even together with other financial investors, including the Parallel Funds. As at 31 October 2003, the book value of these minority interests equalled approximately EUR 104 million and thus constituted a 40.8 percent share of the overall portfolio. These minority interests can ordinarily be sold only with the approval of and/or together with the principal shareholder. Thus, it cannot be ruled out that such Investments cannot be sold at all, not at the targeted time or not for the expected price, (see also "Timing of Sales and Attainable Sale Proceeds") which would have corresponding material adverse effects on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### ***4.1.11 Dependency on the Availability of and Access to Attractive Investments – Competition***

An important element in DBAG's and/or the DBAG Group's business is the availability of a sufficient number of attractive investment opportunities. The DBAG Group aims – together with the Company's launched Parallel Funds as co-investors – to acquire companies, groups of companies or business units of industrial groups.

This presupposes, that enterprise groups and other majority shareholders are willing to sell their equity holdings. It is, furthermore, of great importance for the Company that it becomes aware of such investment opportunities. In this context, the Company relies primarily on existing contacts (see “Business of the Issuer – DBAG’s Business Concept – Acquiring, Holding and Disposing of Investments”). At present, the Company considers itself to be well-positioned in its target market – the market for management buyouts of medium-size companies. However, in this market the Company competes for attractive Investments with both strategic and financial investors. The number of financial investors in the German market has risen dramatically in recent years. Some of these financial investors have markedly greater financial resources at their disposal than the DBAG Group has. For the Company and/or the DBAG Group, this could intensify the competition on their target market. If DBAG and/or the DBAG Group have to compete with a competitor for an Investment, then such competition could result in DBAG or a DBAG Group Company having to pay a higher purchase price for the Investment or being unable to acquire it.

If the number of available investment opportunities or DBAG’s and/or DBAG Group’s access to such investment opportunities changes for the worse or should such opportunities not develop in the manner anticipated by the Company or should DBAG and/or the DBAG Group be compelled to pay higher purchase prices because of the competition for the Investments, this could have an adverse effect on the general business activities and on the future growth of the Company and of the DBAG Group, and could cause profitability to sink, which would have corresponding material adverse effects on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### **4.1.12 Liability for Investments Sold**

In connection with the disposal of Investments, DBAG and its Group Companies – acting as sellers – typically grant to the purchaser or purchasers sometimes extensive warranties with respect to the Portfolio Company and, possibly, provide an indemnity on taxes due retroactively for the period during which DBAG held the Investment. At the same time, DBAG or the DBAG Group can also be compelled to provide indemnity against certain risks specific to the Portfolio Company. DBAG or the DBAG Group endeavours to limit liability under such warranties and indemnities to a specific percentage of the purchase price. This may not be achievable in certain cases, however. In such a situation, the DBAG Group Companies will, if necessary, reduce in the period of the sale the capital gain realised on the sale by an amount corresponding to their assessment of the extent of the financial risk and the probability that warranty and indemnity claims will arise.

In the normal course of business, tax indemnification cannot be limited in terms of time and amount. DBAG believes, however, that the Portfolio Companies in general comply with their tax obligations and that risks arising from having to indemnify purchasers for taxes outstanding are of minor significance. DBAG cannot, however, rule out the possibility that in individual cases, a tax indemnification could result in a distinctly higher risk and that in individual cases it will not be in a position to agree on a limitation of liability.

Should liabilities under warranties, tax indemnification or other indemnification duties arise and exceed the amounts already taken into account, this could – even in the case of liabilities limited to a certain amount – have material adverse effects on the net assets, financial position and results of operation of the Company and of the DBAG Group.

#### **4.1.13 Liability as Initiator of Funds and Reputational Risk**

The Company also acts as an initiator of Parallel Funds, whose administration it assumes and with which it makes joint investments in Portfolio Companies (see "Business of the Issuer – DBAG's Business Concept"). For example in 2003, the Company closed Fund IV as well as Fund III GmbH prior thereto. As a fund initiator, the Company is obliged to compensate investors, if it makes in connection with the fund incorrect, incomplete or misleading statements, which are material for the investors' decisions to invest, provided that the Company did act at least negligently. The Company believes that in its capacity as an initiator of investment funds, it neither has made any statements, which were incorrect, incomplete or misleading with regard to any significant fact in the past nor will it make any statements, which are incorrect, incomplete or misleading with regard to any significant fact in the future. The Company is also proceeding on the assumption that it has exercised due care in disclosing information. It cannot, however, be ruled out that the Company may have unknowingly made factually incorrect, incomplete or misleading statements, which could result, in the liability to pay damages to the investors in the investment funds. A successful damages claim by fund investors would not only injure the Company's reputation – possibly to a significant extent – but it could also have a material adverse effect on the net assets, financial position and results of operations of the Company and of the DBAG Group as a whole.

#### **4.1.14 Currency Risks**

The DBAG Group currently holds interests in various Portfolio Companies, including private equity funds, for which it paid purchase prices denominated in foreign currencies (see also "Business of the Issuer – Portfolio Structure – Geographic Distribution of the Portfolio"). When valuing these Investments for the purpose of preparing the financial statements of the Company and the DBAG Group, exchange rate fluctuations may need to be taken into account. In addition, DBAG expects that when these Investments are sold, the respective purchase price will also be paid in a foreign currency. As at 31 October 2003, the DBAG Group held Investments with an aggregate book value of approximately EUR 71.8 million, which was converted into Euros on the basis of an average Euro/USD exchange rate of 1:1.038. In addition, as at 31 October 2003, the Company held Investments at an aggregate book value of approximately EUR 0.4 million, which were acquired in Euros on the basis of an average Euro/GBP exchange rate of 1:0.71. The equity interests held in foreign currencies correspond to approximately 28.2 percent of the book value of the DBAG Group's entire portfolio of Investments. The conversion rates for the US dollar and the British pound are subject to constant market rate fluctuations. Depending on the timing of the investment and the sale of the same Investment, the DBAG Group Companies will realise either a currency translation gain or loss on such Investments in addition to a gain or loss generated from the sale.

It cannot be ruled out that a detrimental change in the exchange rate will lower or undo any gains on the sale of Investments held in foreign currencies or will further increase a loss on such a sale and could, in turn, have an accordingly negative effect on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### **4.1.15 *Dependency on Persons in Key Positions***

Members of DBAG's executive management team have extensive know-how and important personal connections with investors, credit institutions, other institutions and individuals. The Company's success thus depends fundamentally on these individuals. Moreover, investors in the Parallel Fund IV (see "Business of the Issuer – DBAG's Business Concept – Co-investments alongside Fund IV") have the right following the launch of the fund to terminate the investment period prematurely, in the event that two out of four key persons (namely Messrs von Hodenberg, Löffler, Grede and Irle) leave the Company. Following the launch of this fund, one key person – Mr. Irle – retired from office. Should investors exercise the aforementioned right upon the retirement from office of another key person, then the DBAG Group would – at least on a temporary basis – have to reduce its investment activities and/or modify its strategy (see "Loss of Parallel Funds as Co-Investors").

The retirement from office of current members of the Management Board or of one or more individuals from DBAG's executive management team could possibly have a material adverse effect on the general business operations and the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### **4.1.16 *Dependency on the Recruitment of Qualified Personnel***

The economic success of the DBAG Group has, until now, been due largely to the capabilities and special commitment of its employees. The Company's economic success will also depend in the future, inter alia, on having qualified employees at its disposal. DBAG's Management Board attempts to recognise the importance of qualified employees for DBAG's and the DBAG Group's success, inter alia, by providing an appropriate compensation structure with performance-related components, granting share options and/or employee shares, creating programmes, promoting recognition within the Company, and organising continuing education and training events. It proceeds on the assumption that it can thereby guard itself against an undesired turnover in personnel. It cannot, however, be ruled out that in the future the Company will not succeed in recruiting and retaining qualified personnel. In such a case, this would have a material adverse effect on the general business operations and the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### **4.1.17 *Cancellation of Recognition as Private Equity/Venture Capital Company***

Since 1987, the Company is qualified as a private equity company within the meaning of the UBGG. This qualification is tied to various requirements, which are described in greater detail in the section entitled "Business of the Issuer – Regulatory Framework" and its principal consequence is the fact that the Company is exempt from trade tax. Should the Company cease to fulfil the requirements for qualification as a private equity/venture capital company, or should it be deprived of its status as a private equity/venture capital company due to other reasons or should the legislation change, so that the advantages accruing to the Company from its status as a private equity/venture capital company would also cease to apply (even on a retroactive basis), this would have a material adverse effect on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

#### **4.1.18 Litigation**

An acquiring company, which DBAG interposed as an “acquisition vehicle” upon the acquisition of a Portfolio Company (Acquiring Company), is currently a party to several legal disputes in connection with the acquisition and the resale of parts of this Portfolio Company in 1997. The defendant Acquiring Company has so far obtained three judgements in its favour, although they have not yet been declared final and absolute. One action is still partially pending and evidence is currently being heard. The Acquiring Company is also a plaintiff in an action, which has since been appealed to the Federal Supreme Court (see also “Business of the Issuer – Legal Disputes”). The Acquiring Company and its legal advisers are proceeding on the assumption that the still partially pending action could also conclude in a manner favourable to the Acquiring Company. The case pending before the Federal Supreme Court involves a so-called “Nichtzulassungsbeschwerde” (appeal on a decision refusing leave to appeal). In order to make allowances for the remaining risks of losing the case, the Acquiring Company has created what it believes are reasonable provisions, which have been certified by its auditors. If the Acquiring Company is unable to judicially enforce its asserted claims or if, contrary to expectations, other claims are successfully asserted against the Acquiring Company, then such developments could have material adverse effects on the Acquiring Company’s net assets, financial position and results of operation and consequently on that of the Company and of the DBAG Group as a whole.

#### **4.1.19 Tax Situation**

The Company has been assessed for the period up to and including 1994. The tax audit is currently being conducted for the period covering the years 1995 to 1999. Audit result are not yet available and are not expected for several weeks, or possibly several months. The Company’s Management Board believes that the Company’s tax expenses and tax provisions reported in the annual financial statements for the period ending 31 October 2003 are in compliance with the applicable legal provisions and therefore does not expect any decisions imposing substantial additional tax payments on the Company. Management Board believes that the provision of EUR 2.7 million in the consolidated annual financial statements per 31 October 2003 is also adequate. Nevertheless, back tax demands could be made ex post facto as a result of differing approaches taken by the tax authorities in Germany regarding the facts and circumstances, which would have an accordingly material adverse effect on the net assets, financial position and results of operation of the Company and of the DBAG Group as a whole.

Neither are pending tax proceedings or appeals relating to filed and assessed tax returns being currently conducted by DBAG Group Companies, nor are any such proceedings threatened.

The financial position and results of operation of the Company and of the DBAG Group depend not only on German tax policies, but – in view of the foreign Investments held by DBAG Group – also on international tax terms and international treaties. For example, it is of great significance for the earnings situation of the DBAG Group Companies that gains on the sale of shares in corporations are subject to only negligible taxation in Germany because in financial year 2002/2003, for example, approximately 32 percent of its earnings were generated from such sales. Should future legislation impose a heavier tax on gains from the sale of equity interests, this would have a material adverse effect on the net assets, financial position and results of operation of the company and of the DBAG Group.

This section should be read in conjunction with section 11, "Taxation in the Federal Republic of Germany".

#### **4.1.20 Accounting in Accordance with the German Commercial Code**

DBAG prepares its financial statements and the consolidated financial statements of the DBAG Group in accordance with the provisions of German commercial law and the generally accepted principles of German accounting. In this Prospectus, DBAG has not reconciled its annual financial statements to international accounting standards (IFRS/IAS). There could be significant discrepancies between the results of the business operations, cash flow and financial position, which are reported pursuant to the provisions of German commercial law and the generally accepted principles of German accounting, on the one hand, and the corresponding information reported under IFRS/IAS, on the other hand (see "General Information on the Company – Presentation of the Net Assets, Financial Condition and Results of Operation").

DBAG anticipates that it will have to prepare consolidated accounts beginning in financial year 2005/2006 pursuant to IFRS/IAS. Although the DBAG Group is currently introducing systems and procedures, which could enable it to commence accounting in accordance with IFRS/IAS before the date legally stipulated, there is no guaranty that such financial statements will be available before financial year 2005/2006.

Accounting under IFRS/IAS together with the disclosure requirements connected therewith could represent a disadvantage for the Company, since the majority of its competitors are not listed on any stock exchange – and consequently are not required to disclose as much information about their Investments – and are less exposed to the risk of revealing confidential information to the general public via the statutory inspection rights held by a large number of shareholders. The Company assumes that the application of IFRS/IAS could lead to higher volatility in recorded earnings. In addition, greater demands are made on the Portfolio Companies' accounting systems since some of these firms may need to be consolidated. For this reason, less effort is involved for Portfolio Companies if a holding acquires the investment, which does not prepare its accounts according to IFRS/IAS.

## **4.2 Risks Relating to Investment in Shares and the Offering**

### **4.2.1 Future Capital Requirements and Risks arising from Debt Financing**

According to the Company's plans, the future business activities and growth of the Company and that of the DBAG Group require a comprehensive commitment of funds and resources. The Company believes that on the basis of the funds already at its disposal together with the net proceeds from the capital increase, it will be endowed with sufficient equity capital. However, the business activities of the Company and/or of the DBAG Group, in particular the acquisition of Investments in additional Portfolio Companies, regularly require additional funds, which the Company and/or the DBAG Group have to tap from public or private financing sources. Any additional acquisitions of equity capital, particularly when new shares are issued and shareholders' Subscription Rights are excluded, could result in a dilution of shareholders' interests. Debt financing could also subject the Company to restrictions with regard to dividend distributions or other courses of action, which could have an adverse effect on the Company's business operations.

Both debt and equity financing also alter the risk associated with the Company's shares. There is also a risk that adequate funding – whether through the financial markets or other sources – will not become available in time or will not become available on acceptable terms. In the absence of necessary additional funding, it cannot be ruled out that the DBAG Group Companies would be compelled to restrict their business operations with respect to future acquisitions of Investments in Portfolio Companies.

#### ***4.2.2 Major Shareholders/Future Share Sales and Exercise of Options***

Since the major shareholders (see "General Information on the Company – Ownership Structure – Shareholder Structure") are not subject to any contractual obligation to refrain from selling the shares held by them, they are permitted to sell their shares in the stock markets. Such a sale could have an adverse effect on the market price of DBAG's shares.

Furthermore, in connection with its stock option plan, the Company has issued stock options and also intends to issue additional stock options in the future. These options may be exercised during certain periods (see "General Information on the Company – Employee Participation Plan – Stock Option Plan"). Should the parties entitled to exercise the respective options sell the shares, which they purchased under the option, directly following the receipt of the shares, this could have an adverse effect on the market price of the Company's shares.

#### ***4.2.3 Extensive Discretion in Using the Proceeds from the Issue***

The Company intends to use its net proceeds from the issue specifically to strengthen its equity capital structure and therefore its financing power for purposes of acquiring additional Investments (see "The Offering – Information on the Shares – Use of Issue Proceeds"). However, the net proceeds from the issue have not been allocated for any special intended purpose. Accordingly, the Company's Management Board has a broad range of discretion with regard to these funds.

#### ***4.2.4 Fluctuation in Share Prices***

The developments in share prices in recent years have shown that the stock prices of even well-established, longstanding companies and even where their business is developing favourably may nevertheless take a negative development. Negative reports on individual companies can have a significant negative effect on the overall level of prices and thus also on the share prices of successful companies. Developments of this type cannot be ruled out in the future and could therefore have a material adverse effect on the price developments of the Company's shares.

#### ***4.2.5 Insufficient Trading in Subscription Rights/Volatile Market Prices for Subscription Rights***

The Company cannot guarantee that trading in Subscription Rights will develop or that in the event such a trading in Subscription Rights does develop, such rights will not be subject to greater price volatility than the Company's shares.

The Company intends to register the Subscription Rights from the capital increase for listing on the Official Market (Amtlicher Markt) of the Frankfurt Stock Exchange in the period between 3 March 2004 and 15 March 2004 (inclusive in each case). The Company does not intend to file an application for trading the Subscription Rights on another stock exchange. It cannot be guaranteed that active trading in the Subscription Rights will develop on the Frankfurt Stock Exchange in this period and that there will be sufficient liquidity on hand during the period of trading in Subscription Rights. The market price for Subscription Rights also depends, inter alia, on share price movements, but it can be subject to markedly greater price volatility than the stock exchange price of the shares.

#### ***4.2.6 Volatility of Share Prices***

The Company's share prices are subject to stock market fluctuations. These fluctuations are attributable in part to the great volatility of securities markets in general and, in addition, to developments, which affect the net assets, financial position and results of operation of DBAG and the DBAG Group as well as their business prospects. In addition to the net assets, financial position and results of operation of the Company and of the DBAG Group, the following factors could also affect the Company's share prices: the market's expectations concerning the performance and capital adequacy of companies in general; investors' assessments as well as the actual performance of other companies; investors' assessments with regard to the success and outcome of this Offering and of the strategy described in this Prospectus; a change in DBAG's credit rating; obstacles to the prospects of relying on the capital markets to raise funds; potential legal proceedings or regulatory actions, which pertain to DBAG and/or its Group Companies or to industries, which influence DBAG or the DBAG Group; public notices concerning insolvencies or similar restructuring measures; and investigations into the accounting practice of other companies.

#### ***4.2.7 Reliability of Opinions and Forecasts***

The assumptions, opinions and forecasts reproduced in this Prospectus are exclusively the opinions and projections of the Company's Management Board. Opinions and projections are statements containing expressions such as "expects", "believes", "proceeds from the assumption", "is of the opinion", "based on information" and similar formulations. They reflect the Management Board's current opinions with regard to future events, which are, of course, still uncertain and therefore exposed to risks. A multitude of factors can cause the actual events to deviate substantially from the anticipated events. Consequently, neither the Company nor its management can vouch for the accuracy of the forward-looking opinions and forecasts represented in this Prospectus, or for the actual occurrence of the anticipated or projected developments.

## 5 Business of the Issuer

### 5.1 Introduction

The Company or the DBAG Group acquires Holdings in other companies and provides these Portfolio Companies, where appropriate, with related funding such as silent participations or shareholder loans. In this respect, the Company's objective is to enhance the development of these Portfolio Companies, thus increasing their value, in order to subsequently dispose of them, if possible, at a gain. In addition, the Company or the DBAG Group also takes over managerial functions for Parallel Funds which focus on investments in German-speaking countries and whose objective is also to acquire, hold and dispose of Investments. These Parallel Funds typically co-invest alongside the DBAG Group in the same Portfolio Companies jointly and on the same terms with the DBAG Group. This gives the Company or the DBAG Group the opportunity to execute larger transactions and to gain access to a larger number of transactions. The Company or the DBAG Group also receives compensation in the form of a management fee to cover administrative expenses.

In accordance with its current strategy, the Company, or one of its Group Companies, acquires Holdings jointly with Parallel Funds and, where appropriate, with additional co-investors, by way of management buyouts. A management buyout is in essence characterized by the fact that, alongside the DBAG Group, the Parallel Funds and, if applicable, co-investors, the management team of the respective Portfolio Company also acquires a stake in it. The management team of the Portfolio Company typically acquires only a small proportion of the shareholding – usually between 5 and 15 percent. The majority is held by financial investors. Since the DBAG Group is generally not acting as sole investor but jointly with Parallel Funds and, where appropriate, co-investors, it does not hold the majority in the holdings. Nevertheless, it has the possibility, jointly with the Parallel Funds and the co-investors, to influence the Portfolio Company as if it were a majority shareholder.

In German-speaking countries, DBAG itself seeks and structures its Investments. In other important private equity markets, the Company invests in private equity funds which pursue a comparable investment strategy to that of the Company, i.e. focus in the same way, in principle, on management buyouts. Through these funds, the Company or the DBAG Group also invests via these funds indirectly in Portfolio Companies in foreign non-German-speaking countries. Partially, these funds also grant DBAG or the DBAG Group co-investment rights. In other words, DBAG or the DBAG Group can also invest directly in those Portfolio Companies in which the foreign funds have invested and in which DBAG or the DBAG Group has an indirect holding via the foreign funds.

In the past, the Company or the DBAG Group also acquired Holdings other than in the form of management buyouts. In these cases, the Company or the DBAG Group aimed to acquire minority Investments with the objective of accompanying the growth of the respective Portfolio Company. Such expansion financing is now only provided by the Company or the DBAG Group in individual cases, although the foreign private equity funds in which the Company or the DBAG Group has a stake can continue to invest primarily in Expansion Financing.

## 5.2 The Market and Competition

The market for investments in enterprises which are not listed on the stock exchange can be divided into several different segments. Typically, one distinguishing feature is the funding phase of the respective company.

The definitions of individual funding phases are not uniform. These vary, for example, from country to country. In principle, however, what these do have in common is the division into "early stage business" and "later stage business". In Germany the early stage business or "venture capital" is understood to mean equity capital investments which facilitate the founding of an enterprise or which are intended to secure the early development of the business. Because the equity capital investments are made at a time when there is no previous experience with regard to the business model of the enterprise, a relatively high degree of risk is usually associated with these investments. It is DBAG and the DBAG Group's business principle not to make such investments.

The DBAG Group is active in the later stage business which is commonly referred to as "private equity" in Germany. This later stage business, which describes equity capital investments in enterprises which are already established, comprises several phases. In accordance with the distinctions drawn by the European association in this field, the European Private Equity and Venture Capital Association (source: EVCA Yearbook, pages 136 and 290 et seq.), there are three distinct phases: "expansion", "replacement capital" and "buyout". "Expansion" is understood to mean funding for growth. "Replacement capital" means the purchase of shares in an enterprise from another private equity investor. "Buyout" comprises those transactions in which an enterprise is acquired by a financial investor who is acting jointly with the management of the enterprise. Common to all three stages is that the funds are invested into or used to acquire relatively mature enterprises that are established in their markets.

In pursuit of its present strategy, DBAG and its Group Companies currently invest primarily in buyout transactions, but, in individual cases, in expansion financing as well.

In the year 2002, German private equity companies invested a total of approximately EUR 1.1 billion in buyouts in Germany and internationally. This corresponds to approximately 46 percent of the total market for investment capital (investments) of German private equity companies amounting to approximately EUR 2.5 billion. (Source: Bundesverband deutscher Kapitalbeteiligungsgesellschaften – German Venture Capital Association e.V. – "BVK" Statistics 2002, page 13, table A7).

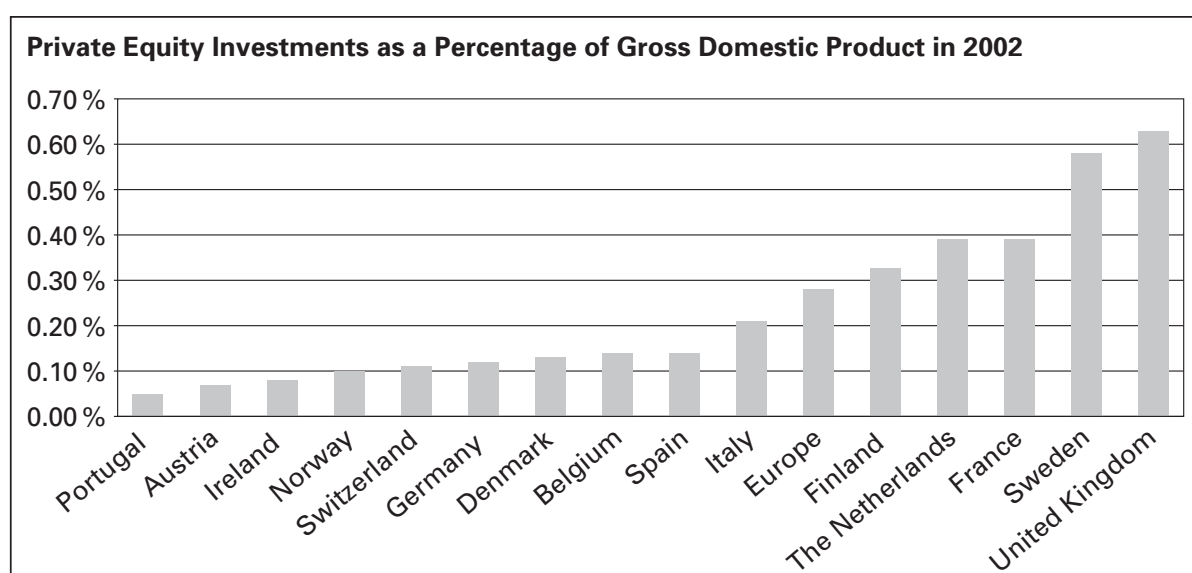
It should be noted that not all German private equity companies are members of the BVK and it cannot be ruled out that not all members of the BVK have notified all their investments to the BVK. Therefore it can be presumed that the amount of the capital actually invested is higher.

When looking at the market, another distinguishing feature is the transaction size which, usually, depends on the size of the enterprise acquired as per revenue/income. Thus the buyout business can be broken down into seven orders of transaction size: Transactions where the value of the enterprise acquired is less than EUR 5 million, between EUR 5–10 million, EUR 10–25 million, EUR 25–50 million, EUR 50–100 million, EUR 100–250 million and larger than EUR 250 million (source: 2003 Review, page 94). The Company generally invests in enterprises where the value of the transaction is EUR 50–250 million, thus in the "mid-market" segment. In Germany, the volume of transactions, i.e. investments in German enterprises in this mid-market segment, amounted to approximately EUR 1.4 billion in the year 2002 (Review 2003, page 94). The expression 'transaction volume' is, however, not defined in the study.

In the 2002/2003 financial year, companies belonging to the DBAG Group invested EUR 30.8 million in new or existing holdings, of which EUR 18.5 million was invested in Germany and EUR 12.3 million in foreign countries. Of this amount, EUR 1.7 million was invested in foreign countries in Europe, EUR 7.9 million in the US and EUR 2.7 million in other foreign countries. Around 95 percent of this amount is attributable to buyout transactions or to investments in foreign funds, which themselves invest in buyouts.

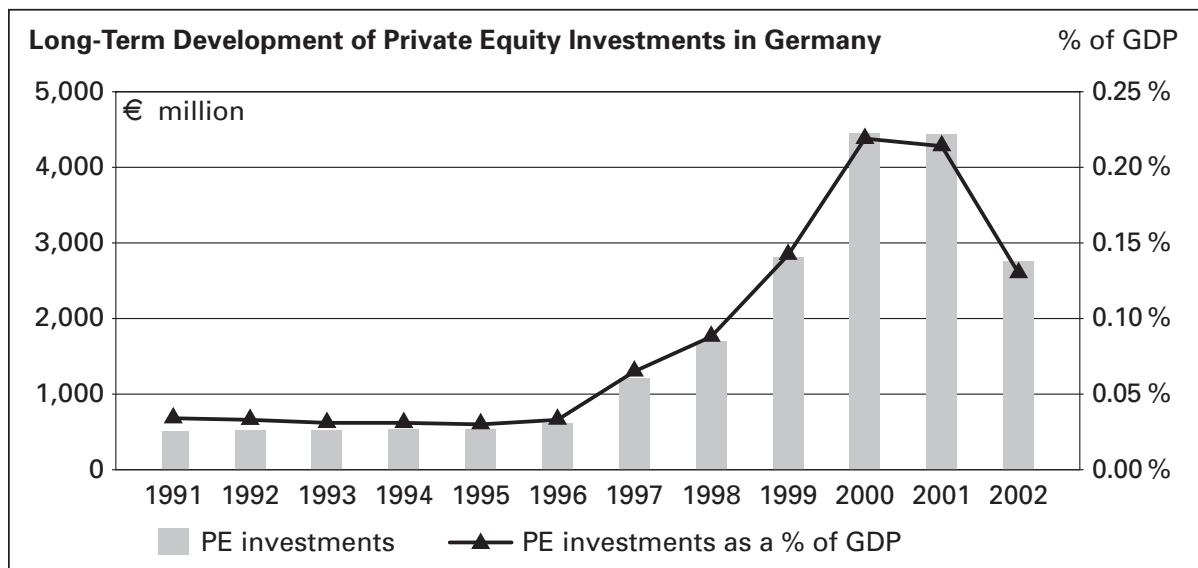
### 5.2.1 General Conditions for Private Equity in Germany

Overall, the private equity market in Germany is currently immature and relatively small compared to other European countries. While in the year 2002 the new investments of private equity firms in Germany amounted to 0.12 percent of the gross domestic product, this compares to 0.63 percent in the UK, 0.58 percent in Sweden, 0.39 percent in France and 0.21 percent in Italy. The European average (based on 21 countries), amounts to 0.28 percent (source: EVCA Yearbook 2003, page 51).



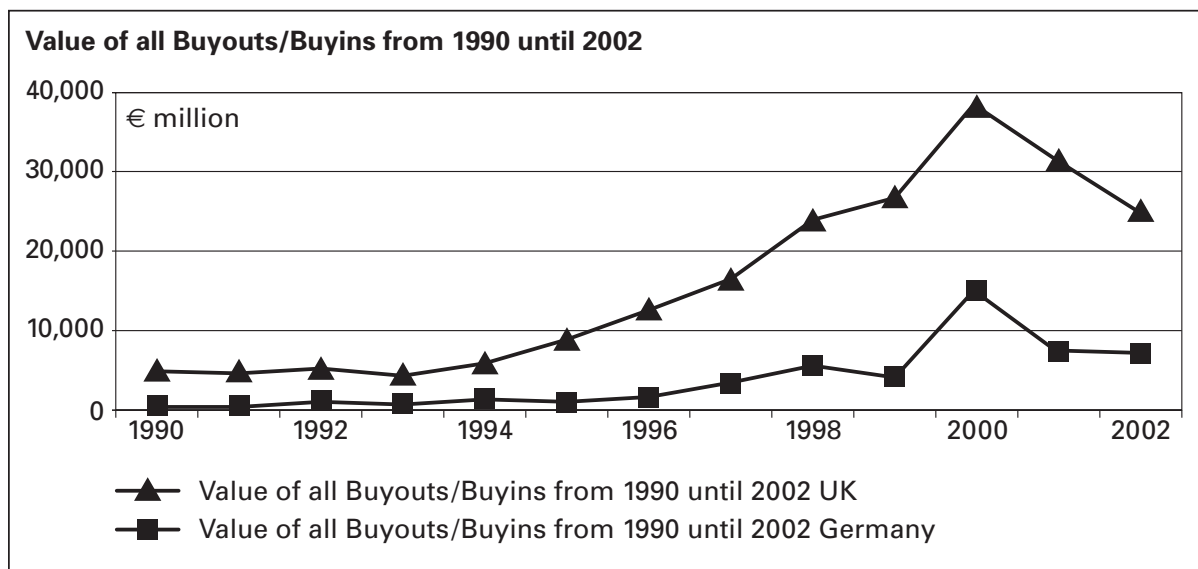
Source: EVCA

Hence, the Company believes that there is significant growth potential in the German private equity market compared to many other European markets, although it is true that private equity investments as a percentage of gross domestic product has continuously risen in past years (source: BVK Statistics, page 51, table D1; Federal Bureau of Statistics; share calculated by the Company). The decline in the year 2002 can primarily be attributed to the collapse of investments in the field of venture capital, a field in which the DBAG Group does generally not operate. However, this has not interrupted the long-term growth trend, as shown by interim market data for the year 2003 (source: BVK Statistics 3rd quarter of 2003).



Source: BVK, Federal Bureau of Statistics and calculations of the Company

A comparison between the development of the buyout market in Germany and the United Kingdom shows that, for example, the annual value of all buyouts in Germany in 2001 and 2002 corresponded to the level which had already been reached in the United Kingdom in 1995.



Source: BVK, Federal Bureau of Statistics and calculations of the Company

### 5.2.2 Investment Opportunities

It is anticipated for the year 2003 that there was an overall decline in the development of the German private equity market. This is shown by the figures currently available for the first three quarters of 2003 (source: BVK Statistics). As in the previous year, the decline in investments by private equity companies was once again attributable to developments outside the market segment in which DBAG or the DBAG Group operates. Once again, in the first three quarters of 2003, more investments were made in buyouts than in the corresponding period in 2002. The statistics of the BVK show that in the first three quarters of the year 2002, close to EUR 600 million were invested in buyouts by the members of the association in Germany, compared to more than EUR 850 million for the first three quarters of 2003.

According to the Company's own calculations based on publicly available information, the volume of buyout transactions in Germany in the mid-market segment also actually rose in the year 2003 by at least one third compared to the previous year. For the year 2003, the Company prepared a market review on the basis of publicly available information generally available (source: 2003 Review, page 94). Where the volume of the transaction in certain cases was not published, the Company estimated the amount using standard valuation techniques based on the information available. Given industry practice not to disclose every transaction, it cannot be ruled out that, in both 2002 and 2003, some transactions were not disclosed and that the estimates of the Company could differ significantly from the actual figures.

In Germany, throughout the entire year 2002, ten management buyouts were registered in the mid-market segment, i.e. target companies where revenues and the value of the transaction were in the range of EUR 50–250 million (source: 2003 Review, page 94). As far as the Company is aware, there were 13 transactions in 2003. Based on the Company's own calculations, the volume of transactions in this mid-market segment rose from approximately EUR 1.4 billion in 2002 to approximately EUR 1.8 billion in 2003. For 2003, the Company prepared a market review on the basis of published information generally available. Where the transaction size was not published, it was estimated using standard evaluation techniques based on the information available. The Company assumes that not all transactions have been disclosed. It cannot, therefore, be ruled out that in both 2002 and 2003, other transactions took place which have not been made public. In three of these 13 transactions in 2003, the DBAG Group was involved as buyer. In two of the ten transactions in 2002, DBAG was involved once as indirect seller and once as buyer.

The sellers of the Portfolio Companies come from different backgrounds. At present, the Company is noticing that portfolio restructurings of large corporations have become the most important source of investment opportunities. The Company is noticing that large corporations are increasingly focusing on their core activities. They are streamlining their portfolios and disposing of non-core businesses. In the Company's view, it can be presumed that this development will continue in the years to come, thus ensuring a corresponding supply of investment opportunities in the future (BVK draws the same conclusion). The vast majority of management buyouts in the year 2003 result from such spin-offs by larger corporations. Thus the five largest management buyouts in the first half of 2003 all stem from large corporations (source: European Review, page 25 et seq.). In addition, seven of the 13 transactions registered in the mid-market segment in 2003 stemmed from large corporations.

The Company has observed that financing aspects such as liquidity are of particular importance when subsidiaries or individual business units are disposed of. For example, the Company acquired Babcock Borsig Service GmbH during the insolvency of Babcock Borsig AG from the administrator. In addition, further investment opportunities were offered to the Company where the potential seller faced liquidity problems which were intended to be alleviated by the disposal of holdings.

Three out of the 13 registered transactions in the year 2003 were secondary buyouts. In the Company's view, such transactions therefore are a further source of investment opportunities in this market segment. This assessment by the Company is supported by remarks made by an investment bank: The investment bank, JP Morgan, reported at the beginning of January 2004 that it was preparing 50 percent more of these types of transactions than it had been one year before ("Bankers reckon with wave of Mergers", Handelsblatt online on 5 January 2004). For 2004, the bank expects financial investors to play a "prominent role" in the M&A business.

The change in the lending policy of banks, was partially triggered by the announcement of new capital requirement and adequacy guidelines for banks ("Basle II"). In the Company's view these guidelines give rise to a new situation, especially as far as small and medium-sized companies are concerned. The Company believes that this development, together with the issue of corporate succession, will further increase the need for private equity capital in the mid-term.

Currently the stock exchange is only available to a limited extent as a source of funding for growing companies. In the opinion of the Company, the private equity market is benefiting from these additional investment opportunities. A failed attempt to secure additional equity capital by means of a part-sale through an initial public offering can lead to the disposal of the complete business by way of a management buyout.

### **5.2.3 Conditions in International Markets Relevant for the Company**

Currently, the Company has invested around 61 percent and thus the majority of its capital (based on acquisition cost) in Germany. Based on acquisition cost, the US accounts for the second largest share of investments (27 percent).

The private equity market in the US is more developed than the German market. For example, private equity investments in the US in 2002 amounted to 0.58 percent of gross domestic product, in comparison with 0.12 percent in Germany (EVCA Yearbook; page 51, Global Private Equity 2003). Moreover, the market in the US was recently in good shape. In the first half of 2003, private equity investments of USD 41.5 billion were nearly twice as high as in the same period the year before (USD 22 billion). In particular, there are positive developments in the buyout market in which the US partner of DBAG, Harvest Partners Inc., operates and in which DBAG and its Group Companies have made co-investments in the past. Buyout investments were higher in the first half of 2003, the last period for which statistics are available, than in any half-year period since 1998.

### **5.2.4 Competition**

DBAG is essentially only active in one segment of the private equity market. The Company focuses on management buyouts, i.e. the joint acquisition of already established companies together with the management of these companies. Normally this market is classified by geography and range of transaction size. The Company differentiates between three market segments for the purpose of its investments:

- transactions with a value of less than EUR 50 million (lower market segment)
- transactions with a value between EUR 50 million and EUR 250 million (mid-market segment)
- transactions with a value over EUR 250 million (upper market segment)

The Company primarily operates in Germany with its core business in the mid-market segment. Most of the enterprises which the Company regards as competitors in this segment of the German market are not stock exchange listed. However, there are also a number of German and international competitors which are listed.

Alpha Beteiligungsberatung GmbH & Co. KG, Arcadia GmbH, Capiton AG, Equita Management GmbH, Halder Beteiligungsberatungs GmbH, Odewald & Cie. GmbH, Quadriga Capital GmbH and Triton Beteiligungsberatungs GmbH are among comparable German private equity companies in the mid-market segment that are not quoted.

Among others, Indus Holding AG, Gesco AG and UCA AG are listed companies which are likewise engaged in the private equity business. The first two companies mentioned are investment holding companies, which concentrate on the traditional industrial sector. As far as the Company is aware, they do not pursue an exit strategy, do not get the respective management team involved in their investments and, typically, invest in companies of another order of magnitude. In the Company's view, their comparability is very limited. As far as the Company is aware, UCA AG is essentially focused on the technology sector and pursues a venture capital strategy. Therefore, as far as the Company is aware, UCA AG is no close comparable.

In Europe, the British private equity market is the most developed, with the highest number of listed private equity companies. Below is a list of such British private equity companies with a market capitalisation of more than EUR 100 million:

| Company                           | Stock Market Value (EUR in million) |
|-----------------------------------|-------------------------------------|
| 3i Group                          | 5,719                               |
| Permira                           | 740                                 |
| Electra Partners Europe           | 654                                 |
| Candover Investments              | 428                                 |
| Graphite Enterprise               | 303                                 |
| Standard Life Euro private equity | 194                                 |
| JZ Equity Partners                | 178                                 |
| Pantheon International            | 153                                 |
| Dunedin Enterprise                | 121                                 |
| HgCapital Trust                   | 119                                 |
| Rutland Trust                     | 101                                 |

As at 27 January 2004

Source: Selected enterprises from the Cazenove Research Report. Market capitalisation and currency exchange rates taken from Bloomberg as at 27 January 2004.

As far as the Company is aware, of the listed companies, 3i, Permira, Electra, Candover and HgCapital have a significant presence in the German market. As far as the Company is aware, Permira and Candover particularly focus on transactions which can be categorised in the upper market segment and are therefore not really comparable with DBAG. 3i, Electra and HgCapital tend to also invest inter alia in enterprises in the mid-market segment. In the Company's view, these three companies are the closest comparables. Furthermore, in the mid-market segment there is a number of international companies which are not listed, among which, are Advent International GmbH, Bridgepoint Capital GmbH and EQT Partners Beteiligungsberatung GmbH.

## **5.3 DBAG's Business Concept**

### ***5.3.1 Acquiring, Holding and Disposing of Investments***

#### **(i) Access to Portfolio Companies**

With regard to gaining access to potential Portfolio Companies, the Company relies primarily on its network of contacts which it continuously fosters and broadens. The Company has built up numerous contacts with potential sellers, as well as banks, consultants, other institutions and individuals by virtue of DBAG's presence in the investment market over a long period of time. These contacts are key to investment opportunities. Longstanding, good contacts with Deutsche Bank AG also provide a source of deals.

In certain cases, the Company succeeds in gaining access to investment opportunities at an early stage through its network and expertise in the industry, acquired over many years of experience. This enables the Company to gain exclusive access to investment offers outside of auctions. In this way, the Company can also use its resources there where the probability of closing a deal is, in the experience of the Company, higher than in an auction. However, in certain cases, the company looks at potential investment opportunities that are being disposed by way of an auction. In many cases the Company has gained access to the Company early in the process. This has often proved to be an advantage over other bidders in an auction.

#### **(ii) Selection of Portfolio Companies**

The investment activity of the Company is focused on small and medium-sized companies in German-speaking countries. In this respect, the Company concentrates on the so-called "mid-market segment". The value of the transaction in which the Company is involved usually ranges between EUR 50 million and EUR 250 million depending on the industry in which the Portfolio Company operates, its size and earnings situation. Typically, these companies generate annual revenues of between EUR 50 million and EUR 500 million.

In principle, the Company invests in established enterprises with a proven business model. Generally, this does not include investments in companies with high operating restructuring requirements (so-called "turnaround investments").

With regard to risk diversification, the Company aims to balance its Investments across a broad range of industries. The Company's investment portfolio reflects those industries which are traditionally established in Germany, such as automotive supplies, machine and plant construction, trade, industrial services and logistics, printing, media and packaging, as well as measurement and automation technology. Nevertheless, the Company does have investment cumulations. For example, as at 31 October 2003, approximately 14 percent of all Investments (based on acquisition cost) were in the machine and plant construction industry.

In order to reduce dependence on economic developments in various regions, the investment portfolio is diversified regionally. The objective of the Company is to invest one-third of the investment portfolio internationally. As at 31 October 2003, the proportion of foreign Investments amounted to 38.9 percent based on acquisition cost. Of these, Portfolio Companies which are domiciled outside Europe account for 31.0 percent.

In non-German-speaking foreign countries, DBAG and its Group Companies invest in private equity funds, launched by partners, which pursue an investment policy which largely compares

to that of the Company. In certain cases, the Company or a Group Company also invests as a co-investor directly in Portfolio Companies in these regions alongside the private equity partner funds.

Important criteria in the selection of Portfolio Companies are typically their positioning in the respective market segment, their management and their potential for profit growth.

#### **(a) Positioning of the Portfolio Company in the respective market segment**

The Company concentrates on established enterprises which, in its view, have a strong position in their respective market segment. In the Company's view, the industries in which the Company or the DBAG Group invests, comprise many German medium-sized companies that have a strong market position which is based on attractive products, sophisticated distribution strategies, continuous research and development and other important factors which contribute to their success.

#### **(b) Management of the Portfolio Company**

Key to the selection process of any investment is that the management is competent and experienced in the business the Portfolio Company is operating in. The Company aims to involve the existing management in order to secure their detailed knowledge and experience, which outsiders, in general, do not possess to the same degree. This policy has been implemented for management buyouts of the Company or the DBAG Group since 1997.

The Company therefore expects the respective management team to make its own financial commitment. This is intended to motivate the board members or directors of the Portfolio Companies to commit themselves to the success of the Portfolio Companies. Through equity participation the Company provides the management team, with an opportunity to share the economic success of the Portfolio Company, especially in the event of a disposal.

#### **(c) Profit growth potential of the Portfolio Companies**

The income prospects of a company also is an important criterion for the Company's decision on whether to invest. Profitability and visible profit potential should generally be existent. DBAG's objective is to sell its Investments at a profit. In this respect, DBAG aims to acquire Holdings where, at the beginning of the Investment, it can in principle be expected to realize a gross internal rate of return of at least 25 percent per annum – i.e. before deduction of costs, charges, preference shares in profits etc. – on the equity invested by the Company or the DBAG Group.

#### **(iii) Investment procedure**

As part of the investment procedure and following the first investigation of the investment opportunity on offer, the Company regularly produces an initial short report on the potential Portfolio Company, based on the aforementioned selection criteria (see "Acquiring, Holding and Disposing of Investments – Selection of Portfolio Companies"). On this basis, the Company's Management Board decides if the investment opportunity should be pursued further. If the investment opportunity is pursued, the Company puts together a project team that, usually, is made up of a member of the Management Board, a co-consultant at Management Board level, and usually two to four other members of staff.

In such a case, the Company submits an indicative offer to the potential seller in the form of a so-called letter of intent. On this basis, the Company regularly carries out a review of the enterprise (due diligence). The Company usually engages external consultants from various disciplines to assist in the due diligence.

If the due diligence did not reveal any facts or circumstances which may oppose to proceeding with the investment, the Company normally submits an offer to the potential sellers to acquire the Holding which, in general, is conditional on the consent of the Company's Management Board and is also subject to financing and, where appropriate, further provisos specifically related to the target. The decision whether to proceed with the Investment is to be made by unanimous resolution of the Company's Management Board. If the investment commitment of the Company or one of its Group Companies exceeds the sum of EUR 20 million (excluding the investment made by the Parallel Funds and co-investors), the consent of the Company's Supervisory Board is also required. In the case of investments exceeding EUR 10 million, the Supervisory Board is to be informed immediately after the decision has been made by the Management Board.

With regard to investments in private equity funds abroad, the investment decision is generally taken by the respective managers of the foreign investment companies. In case of the Company or one of its Group Companies making a direct foreign investment as a co-investor, the Company's Management Board has the final decision. In this respect, it generally relies on the results of the due diligence undertaken by the foreign partner.

#### **(iv) Typical investment structure**

The following section describes how Investments are structured based on the current strategy of the Company. The current portfolio reflects this investment structure only to a limited extent since it is shaped by investment decisions from previous years which were not governed by the current strategy (see "Business of the Issuer – Corporate Objectives and Strategy").

In accordance with its current strategy, the Company or the DBAG Group acquires Holdings primarily structured as management buyouts. In addition to this, the Company or the DBAG Group intends in individual cases to invest in companies for the purposes of Expansion Financing and to acquire Holdings in international private equity funds.

In the case of management buyouts, the Company intends to acquire Holdings, usually jointly with Parallel Funds managed by it and, where appropriate, other co-investors, to obtain control of the respective Portfolio Companies. This is generally structured such that the shares in the Portfolio Company are acquired by an acquisition vehicle which holds these shares directly. A company of the DBAG Group typically acquires a holding of up to 30 percent in this acquisition vehicle with the remaining shares being held by the Parallel Fund and, if applicable, co-investors, to the extent not acquired by the management of the Portfolio Company. Typically, the management of the Portfolio Company will hold between 5 and 15 percent of the shares in the acquisition vehicle in management buyouts by the Company. In this respect, the acquisition of the Portfolio Company by the acquisition vehicle will typically be partly funded by debt. For the last five Investments of this kind, the ratio of equity capital to the total funding of the acquisition amounted to between approximately 40 and 65 percent, depending on the specific circumstances of the respective Portfolio Company.

In individual cases, companies of the DBAG Group also acquire Holdings as part of an Expansion Financing strategy. Typically, the Group Companies, together with a Parallel Fund and, where appropriate, co-investors, acquire direct minority interests. The essential difference between these transactions and management buyouts is that the Company or one of the companies of the DBAG Group, together with the Parallel Funds and, if applicable, co-investors, does not acquire the majority stake in the Portfolio Company.

For reasons of portfolio diversification, the DBAG Group generally invests less than EUR 20 million of its own capital per Investment, regardless of whether for management buyouts or for Expansion Financing. The remaining capital required in order to acquire the Holding is provided by Parallel Funds and, if applicable, co-investors, and is further financed, if necessary, through debt. Depending on the general tax situation and the specific transaction structure, the equity capital share in the acquisition vehicle comprises common equity as well as equity type capital such as silent participations, profit-sharing rights, convertible loans and shareholder loans.

The rights and obligations of the DBAG Group Company that is making the investment and the other investors involved, including the management team, are generally stipulated in shareholder agreements or equity investment agreements which may contain inter alia provisions concerning the exercise of voting rights, rights and obligations on disposal, distribution of profits, supplementary financing and duties of disclosure.

In non-German-speaking foreign countries, DBAG and its Group Companies invest in closed private equity funds subject to a limited investment period of usually six years at maximum. In general, after the sale of the holdings which were financed by the capital invested in these funds, this capital, together with the gains made, is repaid to the fund investors and not re-invested. The only Holding that is structured differently is the Austrian company UIAG. Furthermore, in certain cases, the companies of the DBAG Group also invest directly in Portfolio Companies in these regions as co-investors alongside these international funds. In most cases these are management buyout investments.

#### **(v) Investment phase**

As early as in the negotiation phase of an acquisition, the Company, together with the management team of the potential Portfolio Company, determine the future strategy and the way this strategy is put into practice through a business plan. This procedure regularly aims at increasing the future profit of the Portfolio Company. The Company regards the achievement of this objective as the basis for an increase in the value, which it intends to realise when the Portfolio Company is disposed of at a later date.

Typically the management of the Portfolio Company shares the profits resulting from the implementation of the business plan as shareholder. In this respect, the Company expects the management of the Portfolio Company (see also "Typical investment structure") to make their own financial commitment by purchasing shares in the acquisition vehicle.

The management team of the Portfolio Company is responsible for implementing the business plan determined for the Portfolio Company. If the Company considers it appropriate for the implementation of the business plan, the management team of the Portfolio Company can also be strengthened by additions.

Over the course of the investment phase, the project team put in place by the Company monitors the implementation of the business plan. For this purpose, the management of the Portfolio Company prepares regular reports, usually on a monthly but at least on a quarterly basis, which contain inter alia the profit and loss account, the balance sheet together with details of incoming orders and a budget comparison. The data contained in the report is evaluated by the Company's project team and also by its controlling department.

In most cases, the Company is represented through members of the project team in the supervising bodies of the Portfolio Company. In certain cases, such as acquisitions by the Portfolio Company or crisis situations, the responsible project team of the Company supports the management of the Portfolio Company in a consultative capacity.

During the holding phase, there may be need for additional capital for the Portfolio Company. For instance, this could be due to acquisitions by the Portfolio Company, the realisation of an expansion program or the need to cover losses. In such cases, the project team analyses the situation and the planned course of action. If appropriate, external consultants are being brought in and proposals are being prepared, which the Company's Management Board uses as the basis for its decision on whether to increase its commitment or not.

The fact that the Company supports the management of the Portfolio Company is not only based on the objective of increasing its value but also done with a view to reducing or avoiding risks. The measures and decisions in this regard are initiated through the appropriate bodies of the Portfolio Company.

With regard to the investments of the international private equity funds, reporting generally occurs on a quarterly basis. The managers of the private equity funds in the US, France, Austria and Eastern Europe have been long-standing partners with whom DBAG also keeps in close contact. In the majority of cases, DBAG is also represented on the executive bodies and as such has an extensive insight into the workings of the partner organisation.

The Company leaves the administration of its international direct investments up to its local partners on whose expertise it relies on. The Company keeps in regular close contact with these local partners and is kept informed on the development of the Holdings on a continuing basis.

#### **(vi) Disposal of the Investment**

In the experience of the Company, it generally takes between three to seven years before the business plan is implemented, the Portfolio Company's targeted increase in income is achieved, and the Investment can be disposed of for the targeted return. Portfolio Companies may, however, be disposed of earlier where, in the Company's view, an attractive profit on disposal can be achieved. The period can also be longer, in particular, if expectations have not been met or a suitable window for a successful disposal has not opened up.

In principle, the Company uses three disposal options:

- sale to strategic investors
- sale to financial investors
- sale via the stock exchange

For Expansion Financing, where the Company – also jointly with Parallel Funds and possibly co-investors – only holds a minority stake, it may also be possible to sell to the principal shareholder of the Portfolio Company.

In the past, the Company primarily sold its Investments to strategic investors, i.e. to other businesses which, by acquiring the Portfolio Company, could, for example, extend their range of products, their regional presence, or the value chain. This type of disposal is also expected to remain the main exit channel in the future.

In order to prepare for the disposal of a Portfolio Company to a strategic investor or to a financial investor or by way of a stock exchange listing, an investment bank or an M&A consultant is normally appointed to approach potential purchasers and to co-ordinate the disposal process.

Where disposals via the stock exchange are contemplated, these usually take place by way of an initial public offering and a subsequent secondary offering of the shares, taking into consideration the capital market situation at the time.

The timing of the disposal depends not only on the implementation of the business plan and the period the Company planned to hold the Investment, but also, above all, on the economic situation in the respective industry, economic conditions in general, the political environment together with the situation on financial markets and the private equity market, technological change and progress and a number of other factors. These factors can significantly restrict a disposal at the desired terms.

### **5.3.2 Management Activities for Parallel Funds**

In the past, the Company or the DBAG Group acquired the vast majority of its Investments in enterprises by way of joint investments with Parallel Funds, for which the Company or the DBAG Group also took over management functions. Typically the Company also intends in the future to invest jointly with Parallel Funds managed by it.

During the investment phase, the management for these Parallel Funds includes the search for suitable Portfolio Companies and support for the Parallel Funds in the analysis and evaluation of potential Portfolio Companies, as well as assistance in structuring, preparing and implementing the acquisition. This includes the preparation of a proposal for the executive body of the Parallel Fund and the procurement of refinancing capital. The investment proposals always envisage that the Parallel Fund shall invest jointly with the Company or one of its Group Companies in the respective Portfolio Company.

In addition, the Company takes over the administration of the Parallel Funds' Investments, giving both advice and support, and, in particular, assuming responsibility for ongoing reporting on business development and the exercise/fulfilment of shareholder rights and obligations. Moreover, the Company is in charge of handling the remaining business transactions of the respective Parallel Fund, including administration, bookkeeping work and drafting the annual financial statements.

Typically, the Parallel Funds only invest in Portfolio Companies during a period of time stipulated beforehand. After the expiry of this investment phase, the Parallel Fund acquires no new equity investments. The objective is then to dispose of the Investments. Where the Parallel Fund is in this divestiture phase, the Company takes on the search for appropriate buyers for the Holdings of the Parallel Fund and also assumes responsibility for structuring, preparing and implementing the disposal of the Holdings. This also includes the preparation of a proposal for the executive body of the Parallel Fund, which regularly includes the simultaneous sale of the DBAG Group's Holding.

The Company has agreed fees for tasks performed for the existing Parallel Funds which depend on volume and performance. In the mid-term, the Company's objective is to cover a high proportion of its running costs with the volume-dependent proceeds from its management activities.

As at 31 October 2003, the portfolio volume managed by the Company for third parties amounted to EUR 195 million, based on the acquisition cost of the Investments. This amount is invested in enterprises and international private equity funds. Details of the funds are given below:

|                                    | Volume           |
|------------------------------------|------------------|
| Fonds I KG .....                   | EUR 36.1 million |
| Fonds III GmbH .....               | EUR 99.1 million |
| DBG Osteuropa-Holding GmbH * ..... | EUR 12.1 million |
| Fund IV .....                      | EUR 47.7 million |

\* The current fee for this fund is insignificant and is therefore not described separately below

At 31 October 2003, the volume of DBAG Group's own portfolio amounted to approximately EUR 299.7 million based on acquisition cost.

Thus at 31 October 2003, the portfolio volume managed by the DBAG Group amounted in total to approximately EUR 494.7 million based on acquisition cost. This amount was invested in 51 enterprises and international private equity funds.

**(i) Fonds I KG**

Up until the year 1997, the Company co-invested alongside Deutsche Beteiligungsgesellschaft mbH & Co. Fonds I KG ("Fonds I KG"), which was founded in the year 1970. The shareholders of Fonds I KG are Deutsche Bank AG as majority shareholder and SchmidtBank AG. Investments in Portfolio Companies in the 1990's were usually structured in such way that Fonds I KG and the Company invested their capital in Portfolio Companies in fixed proportions where it was possible for DBAG to do so under the UBGG. Fonds I KG ceased its investment activities in 1998 and since then has been in the divestiture phase.

The Company performs/performed management functions for Fonds I KG on the basis of service contracts.

DBAG receives a fee for the work performed for Fonds I KG. This fee depends on the capital made available. In addition, DBAG receives from Fonds I KG a share of the total profits earned by Fonds I KG over its lifespan (total profits). In this respect, total profits are made up of the accumulated annual net profits/losses generated by Fonds I KG since 1 November 1998.

In the 2002/2003 financial year, the Company earned approximately EUR 1.36 million from providing these services. Since Fonds I KG is in the divestiture phase, this sort of income is expected to decrease.

## **(ii) Fonds III GmbH**

From January 1998 to October 2001, the DBAG Group co-invested alongside Deutsche Beteiligungsgesellschaft Fonds III GmbH ("**Fonds III GmbH**") in the same Portfolio Companies on a 50:50 basis. The shareholders are Deutsche Bank AG, the Gerling-Konzern Lebensversicherungs-AG and Mr. Wilhelm von Finck Jr., each holding an equal share in Fonds III GmbH. Fonds III GmbH is now also in the divestiture phase.

As with the Fonds I KG, the Company also performs/performed management functions at Fonds III GmbH on the basis of a service contract.

DBAG receives a fee for the work done for Fonds III GmbH. This fee is dependent on the capital invested. In addition, DBAG receives from Fonds III GmbH a share of the total profits earned by Fonds III GmbH during its lifespan (total profits). In this respect, total profits are the accumulated annual net profits/losses generated by Fonds III GmbH since its inception.

In the 2002/2003 financial year, the Company earned in total around EUR 2.3 million from providing these services. Since Fonds III GmbH is in the divestiture phase, this sort of income is expected to decrease.

## **(iii) Fund IV**

For future co-investments, the Company has launched a new Parallel Fund ("Fund IV") (see "DBAG's Business Concept – Co-investments alongside Fund IV").

The Company has a stake in DBAG Fund IV GmbH & Co. KG ("**DBAG Fund IV KG**") and in DBAG Fund IV International GmbH & Co. KG ("**DBAG Fund IV International KG**"), in each case indirectly via DBG Fund Management GmbH & Co. KG as the so-called administrative general partner (without an equity interest) and via DBG Advisors GmbH & Co. KG as the so-called equity general partner (equity interest in DBG Advisors GmbH & Co. KG of 33.33 percent).

Pursuant to the partnership agreements of DBAG Fund IV KG and DBAG Fund IV International KG, the administrative general partner takes over all current executive management functions of DBAG Fund IV KG and DBAG Fund IV International KG. However, the decision of acquiring and realising Investments in Portfolio Companies is incumbent on the equity general partner. The right of the administrative general partner to object to the dealings of the equity general partner in accordance with § 115 (1) German Commercial Code ("HGB") and the right of the limited partners to object to the conduct/dealings of both the equity and the administrative general partner in accordance with § 164 HGB are excluded.

The administrative general partner receives a volume-based fee in form of an interim profit. During the investment period, the annual interim profit depends on the committed capital of DBAG Fund IV KG and the DBAG Fund IV International KG. After expiry of the investment period, the interim profit is calculated based on the acquisition cost of all Investments made by DBAG Fund IV KG and DBAG Fund IV International KG. In the 2002/2003 financial year, the fee received amounted to around EUR 4.2 million.

The operating profit of DBAG Fund IV KG and DBAG Fund IV International KG is generally distributed such that 20 percent goes to the equity general partner and 80 percent to the investors in proportion to their investment commitments, provided that operating profits representing an actual return of 8 percent p.a. have been distributed to the investors in proportion to their investment commitments since the DBAG Fund IV KG and the DBAG Fund IV International KG were launched.

### **5.3.3 Co-investments alongside Fund IV**

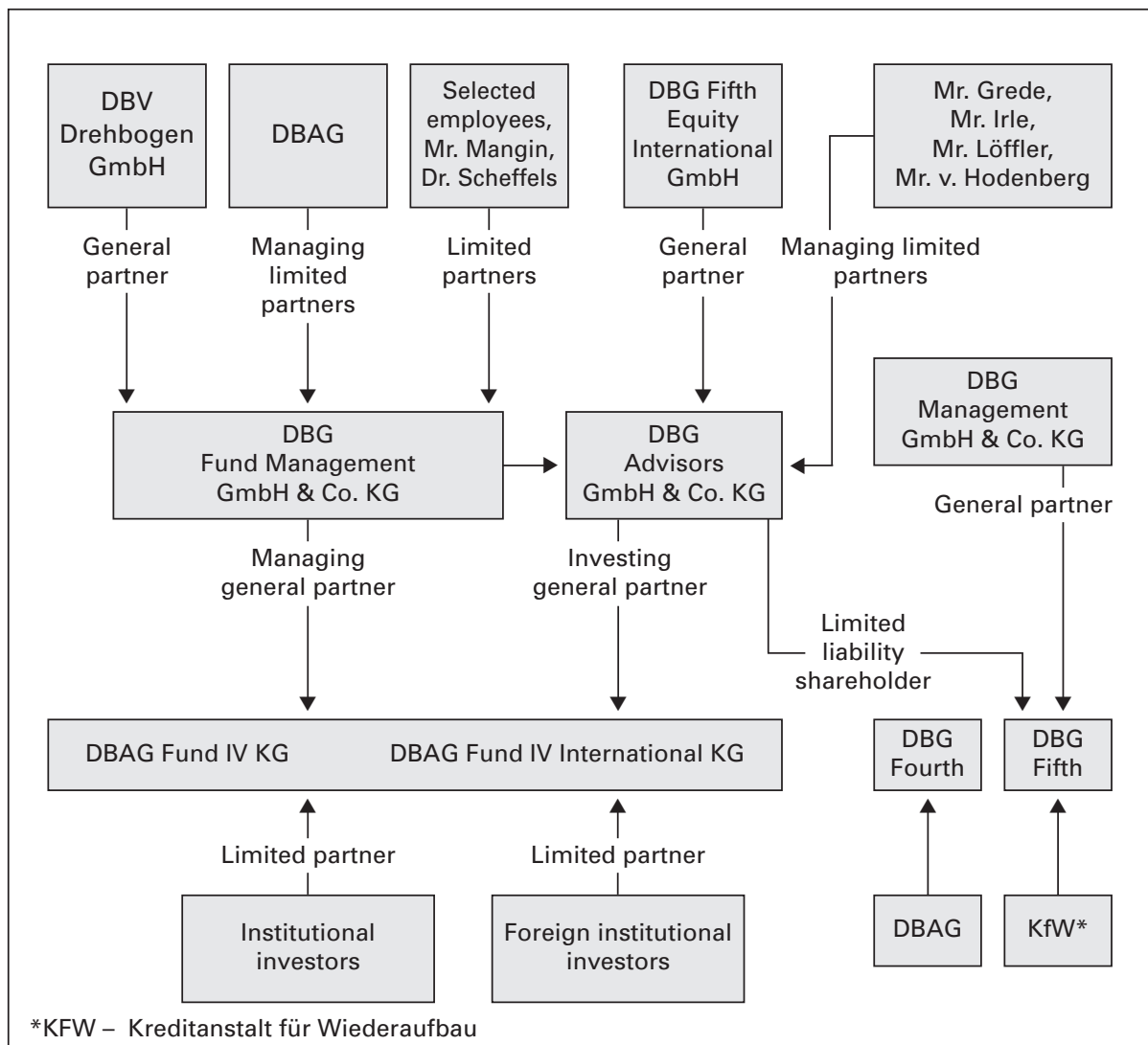
Part of DBAG's business concept is to co-invest alongside Parallel Funds in Portfolio Companies in Germany (see also "DBAG's Business Concept – Acquiring, Holding and Disposing of Investments – Typical investment structure").

The Company has launched Fund IV for future co-investments. This fund comprises DBAG Fund IV KG, DBAG Fund IV International KG and DBG Fifth Equity Team GmbH & Co. KGaA ("**DBG Fifth**"). Investors domiciled in Germany have invested as limited partners in Fund IV through DBAG Fund IV KG, and international institutional investors and family offices have invested as limited partners in Fund IV through DBAG Fund IV International KG. The "Kreditanstalt für Wiederaufbau" (a government-owned investment trust) also provides funds to Fund IV through DBG Fifth. Until 14 September 2003, the investors have agreed to invest a total of up to EUR 228 million in Fund IV. Fund IV's capital is to be primarily invested in direct holdings in German-speaking countries.

Through DBAG Fund Management & Co. KG, the Company holds an indirect interest in both DBAG Fund IV KG and DBAG Fund IV International KG as the so-called administrative general partner, and through DBG Advisors GmbH & Co. KG as the so-called equity general partner it holds an indirect interest in the above entities (see also "DBAG's Business Concept – Management Activities for Parallel Funds"). The Company conducts its co-investments with Fund IV through DBG Fourth Equity Team GmbH & Co. KGaA ("**DBG Fourth**", a wholly-owned indirect subsidiary of the Company) pursuant to a co-investment agreement between DBG Advisors GmbH & Co. KG, DBAG Fund IV KG, DBAG Fund IV International KG and DBG Fourth.

Pursuant to the terms of the co-investment agreement, DBG Fourth is under an obligation to DBAG Fund IV KG and DBAG Fund IV International KG to invest in all of Holdings acquired by them on the same terms. In this respect, the capital invested by DBAG Fund IV KG and DBAG Fund IV International KG should amount to twice the capital invested by the Company via DBG Fourth (ratio of 2:1). DBAG Fund IV KG, DBAG Fund IV International KG and DBG Fourth agree to sell investments acquired pursuant to the co-investment agreement, either in whole or in part, only at the same time and on the same terms.

Pursuant to a master agreement entered into between DBAG Fund IV KG, DBAG Fund IV International KG, DBG Advisors GmbH & Co. KG, DBG Fifth, the Kreditanstalt für Wiederaufbau and other companies, the Kreditanstalt für Wiederaufbau provides debt capital to DBG Fifth for the purposes of financing Fund IV's investments. DBG Fifth participates in selected investments made by DBAG Fund IV KG, DBAG Fund IV International KG and DBG Fourth.



The members of the Company's Management Board and selected employees co-invest as limited partners of the equity or the administrative general partner in the investments made by Fund IV and DBG Fourth.

Fund IV's period for investment commenced on 15 September 2002 and will expire on 14 September 2008. During the investment period, the limited partners are required to provide DBAG Fund IV KG and DBAG Fund IV International KG the portions of their investment commitment which are declared due in each case by the administrative general partner. The investment contributions are intended to procure liquid funds for DBAG Fund IV KG and DBAG Fund IV International KG so that they are able to invest in Portfolio Companies, to cover their expenses and liabilities, or to disburse the interim profit to the administrative general partner.

Under certain conditions, such as where 80 percent of the total capital is invested, the administrative general partner may prematurely terminate the investment period. Moreover, limited partners holding a majority of 75 percent of the total fixed capital held by the limited partners as a group may resolve to prematurely terminate the investment period if two of the four natural persons entrusted with managerial positions at the equity general partner – namely Mr. Grede, Mr. von Hodenberg, Mr. Irle and Mr. Löffler – cease working for the Company, or work for the Company to an extent which is not just marginally less than the extent to which they

worked at the equity general partner. Prior to adopting a resolution to terminate the investment period, the administrative general partner must be allowed six months within which to nominate the limited partners, in mutual agreement with the Company in order to find suitable candidates who would be willing to succeed the resigning individuals. Furthermore, the limited partners may at any time resolve to prematurely terminate the investment phase, provided that they hold a majority of 90 percent of the total capital held by all of the limited partners.

After finalisation of the investment period, the administrative general partner may request further investment contributions, but only in order to pay for the expenses and liabilities of DBAG Fund IV KG or DBAG Fund IV International KG, to pay the interim profit to the administrative general partner, to wind-up investments commenced by DBAG Fund IV KG or DBAG Fund IV International KG prior to the expiry of the investment period, or to make subsequent investments in Portfolio Companies in which DBAG Fund IV KG and DBAG Fund IV International KG have already invested.

Pursuant to the partnership agreements of DBAG Fund IV KG and DBAG Fund IV International KG, both partnerships will end on 15 September 2012. The administrative general partner may extend the term of the partnership twice, by one year in each case. In this respect, the second extension is subject to the consent of the limited partners.

The administrative general partner generally bears the costs of the ongoing administration of DBAG Fund IV KG and DBAG Fund IV International KG. However, DBAG Fund IV KG and DBAG Fund IV International KG bear, among other things, the directly attributable costs of acquiring, holding, monitoring and selling Portfolio Companies. This includes the costs of external consultants as well as agent's commission and appraisal fees. According to the co-investment agreement, the costs of an investment are apportioned among DBAG Fund IV KG, DBAG Fund IV International KG and DBG Fourth in proportion to their respective equity interests.

#### **5.3.4 Financing the Business**

The Company finances part of its financial investments by means of bank loans. The Company holds lines of credit totalling approximately EUR 130 million with various credit institutions for this purpose. Deutsche Beteiligungsgesellschaft mbH can also access these funds as it is fully liable for repayment. At 31 October 2003, the Company had drawn approximately EUR 38 million of the lines of credit and Deutsche Beteiligungsgesellschaft mbH had also drawn approximately EUR 38 million.

#### **5.3.5 Trust Agreements**

Deutsche Beteiligungsgesellschaft mbH, a subsidiary of DBAG, was to a significant extent involved as a trustee for private equity funds and to a lesser extent also acted for third parties. The scale of these activities is expected to decline even further in the future. At 31 October 2003, the DBAG Group's trustee claims amounted to EUR 10.3 million. Such claims are offset by trustee liabilities of the same amount. The trust beneficiaries bear the financial risks and opportunities associated with the Investments held on trust.

## 5.4 Principal Holdings of DBAG and the Group Companies

The following table shows the principal Portfolio Companies of the DBAG Group (at 31 October 2003):

| Name  | Domicile                                     | Industry                          | Business - field | Year of acquisition | Book value in € '000s | Share of portfolio DBAG | DBAG Group interest (%) <sup>5)</sup> | Parallel Fund interest (%) |
|---|--|-----------------------------------|------------------|---------------------|-----------------------|-------------------------|---------------------------------------|----------------------------|
| Bauer AG  | Schrobenhausen                               | Construction                      | Expansion        | 1996                | 27,594                | 10.8 %                  | 41.2 %                                | –                          |
| Lignum Technologie AG<br>(in future Homag Group AG)   | Schopfloch                                   | Machine and plant construction    | Expansion        | 1997                | 22,583                | 8.8 %                   | 21.4 %                                | –                          |
| schlott gruppe AG                                     | Freudenstadt                                 | Printing, media, packaging        | MBO              | 2000                | 17,392                | 6.8 %                   | 14.0 %                                | 7.7 %                      |
| Harvest Partners III <sup>4)</sup>                    | New York (USA)                               |                                   | Fund             | 1997                | 16,201                | 6.3 %                   | 6.9 %                                 | 6.9 %                      |
| Hörmann GmbH & Co. Beteiligungs KG                    | Kirchseeon                                   | Industrial services and logistics | Expansion        | 1997                | 13,749                | 5.4 %                   | 28.0 %                                | –                          |
| Harvest Partners IV <sup>4)</sup>                     | New York (USA)                               |                                   | Fund             | 2001                | 12,589                | 4.9 %                   | 11.7 %                                | –                          |
| Casco Surfaces Holding GmbH                           | Düsseldorf                                   | Chemicals                         | MBO              | 2003                | 12,376                | 4.8 %                   | 19.0 %                                | 27.1 %                     |
| AKsys Beteiligungs GmbH                               | Worms  | Automotive supplies               | MBO              | 2001                | 12,095                | 4.7 %                   | 10.1 %                                | 20.1 %                     |
| Lund International Holdings, Inc. <sup>1)</sup>       | Duluth (USA)                                 | Consumer goods                    | MBO              | 1997                | 11,176                | 4.4 %                   | 10.1 %                                | –                          |
| Bowa Beteiligungsgesellschaft mbH & Co. KG (Hucke AG) | Bielefeld (Lübbecke)                         | Consumer goods                    | Expansion        | 1995                | 8,360                 | 3.3 %                   | 29.5 % <sup>3)</sup>                  | –                          |
| HKL Baumaschinen GmbH                                 | Hamburg                                      | Construction                      | Expansion        | 1995                | 8,241                 | 3.2 %                   | – <sup>2)</sup>                       | –                          |
| Home Care Supply, Inc. <sup>1)</sup>                  | Beaumont (USA)                               | Trade                             | MBO              | 1998                | 7,410                 | 2.9 %                   | 5.9 %                                 | 5.9 %                      |
| Unternehmens Invest AG                                | Vienna (A)                                   |                                   | Fund             | 1999                | 7,409                 | 2.9 %                   | 12.6 %                                | 12.6 %                     |
| DS Technologie Holding GmbH                           | Mönchengladbach                              | Machine and plant construction    | MBO              | 1998                | 7,163                 | 2.8 %                   | 39.6 %                                | 39.6 %                     |
| Edgen Corp. <sup>1)</sup>                             | Baton Rouge (USA)                            | Trade                             | MBO              | 1996                | 6,495                 | 2.5 %                   | 16.4 %                                | –                          |
| Quartus Capital Partners I                            | Paris (F)                                    |                                   | Fund             | 1998                | 6,452                 | 2.5 %                   | 15.5 %                                | 15.5 %                     |
| Hochtemperatur Engineering GmbH                       | Mainz-Kastel                                 | Machine and plant construction    | MBO              | 2002                | 6,218                 | 2.4 %                   | 32.6 %                                | 65.2 %                     |
| Vogler-Gruppe <sup>1)</sup>                           | Bad Homburg                                  | Trade                             | Expansion        | 1985                | 5,546                 | 2.2 %                   | – <sup>2)</sup>                       | 30.0 %                     |
| Otto Sauer Achsenfabrik Keilberg KG                   | Bessenbach-Keilberg                          | Automotive supplies               | Expansion        | 1997                | 5,138                 | 2.0 %                   | – <sup>2)</sup>                       | –                          |
| The HSBC Private Equity Fund 2 Ltd.                   | Hongkong<br>(The people's Republic of China) |                                   | Fund             | 1997                | 4,974                 | 1.9 %                   | 1.9 %                                 | –                          |
| VICTORVOX AG  | Krefeld                                      | Trade                             | Expansion        | 1999                | 4,663                 | 1.8 %                   | 14.1 %                                | 14.1 %                     |
| IRMC Holdings, Inc.                                   | Columbus (USA)                               | Industrial services and logistics | MBO              | 1998                | 3,917                 | 1.5 %                   | 5.5 %                                 | 5.5 %                      |
| JCK Holding GmbH                                      |  |                                   |                  |                     |                       |                         |                                       |                            |
| Textil KG   | Quakenbrück                                  | Consumer goods                    | Expansion        | 1992                | 3,601                 | 1.4 %                   | 3.6 %                                 | 14.4 %                     |
|   |  |                                   |                  |                     | <u>231,342</u>        | <u>90.2 %</u>           |                                       |                            |

1) Collective name of holding, as investment is in several individual enterprises.

2) Silent participation.

3) Indirect share in Hucke AG.

4) General description for a private equity fund

5) Some of the interests are stated as rounded percentage figures.

The table shows that the ten largest Holdings based on book value comprise approximately 60 percent of the investment portfolio. The Company's earnings are therefore particularly dependent on the performance of these enterprises.

The Investment in Victorvox AG was sold after 31 October 2003.

The following table shows the Holdings that were acquired after 31 October 2003.

| Name  | Domicile   | Industry            | Business field | Year of acquisition | Book value in € '000s | Share of portfolio DBAG | DBAG Group interest (%) | Parallel Fund interest (%) |
|---|--|---------------------|----------------|---------------------|-----------------------|-------------------------|-------------------------|----------------------------|
| DBG Kappa GmbH<br>(in the future: Deutsche Kraftwerks-Service GmbH) | Frankfurt am Main<br>(in the future: Oberhausen) | Trade and services  | MBO            | 2003                | 8,529                 | –                       | 27.5 %                  | 68.9 %                     |
| Preh GmbH   | Bad Neustadt a. d. Saale                         | Automotive supplies | MBO            | 2003                | 12,829                | –                       | 22.8 %                  | 57.6 %                     |

## 5.5 Portfolio Structure

The following description of the portfolio structure is generally based on historical acquisition costs. The Company believes that this presentation is adequate for the purposes of analysing the breakdown of investments made and DBAG Group's portfolio of Investments.

Accordingly, the write-downs on individual Investments accounted for in the book values of the Investments are not taken into account in the table.

### 5.5.1 Risk Diversification within the Investment Portfolio

The DBAG Group's investment portfolio seeks to invest in both a balanced range of industries and a diversified geographic area. Its investment portfolio is based on industries traditionally domiciled in Germany. Nevertheless, to a certain extent the Company also has investment cumulations. In order to reduce dependence on economic cycles in the various regions, the investment portfolio was diversified to cover a broader geographic area. The Company's goal is to have about one third of the investment portfolio invested internationally. In addition, for reasons of risk diversification, the Company seeks to restrict each new single Investment not to exceed 10 percent of all financial investments (= book value) at the time of the Investment. Currently, the largest investment is the Holding in Bauer AG (book value of EUR 27.6 million). Due to the decrease in the volume of financial investments in the two preceding financial years, the book value of this interest represented 10.7 percent of the book value of the entire portfolio as at 31 October 2003.

### 5.5.2 Portfolio Breakdown by Business Areas

Based on acquisition cost, the share of the Company's portfolio represented by each business area changed last financial year in accordance with the Company's new strategy. As at 31 October 2003, expansion financing (39.1 percent) dropped compared to the previous year (40.3 percent). Majority holdings in the form of management buyouts, which reflect the focus of the Company's current investment strategy, comprised 38.7 percent of the investment portfolio at 31 October 2003 (based on acquisition cost).

|                                   | Volume | Number |
|-----------------------------------|--------|--------|
| Management buyouts .....          | 38.7 % | 16     |
| Investments in buyout funds ..... | 22.2 % | 12     |
| Expansion financings .....        | 39.1 % | 15     |

The current portfolio therefore reflects the Company's current investment strategy only to a limited extent, as it is influenced by investment decisions from previous years, which were not yet based on the current strategy. However, based on its current strategy, the Company anticipates that the share of management buyouts will increase and the share of expansion financings will decrease accordingly.

### 5.5.3 Portfolio Volume

At 31 October 2003, the DBAG Group's portfolio volume at acquisition cost was approximately EUR 300 million and was invested in 43 enterprises (31 October 2002: approximately EUR 313 million invested in 49 enterprises). The average acquisition cost of each Investment has further increased from approximately EUR 6.39 million to approximately EUR 6.97 million. The average acquisition cost of each Investment in German-speaking countries was approximately EUR 7.81 million (previous year: approximately EUR 7.26 million), and the average acquisition cost of each foreign Investment was approximately EUR 5.81 million (previous year: EUR 5.56 million).

### 5.5.4 Portfolio Breakdown by Investment Size

Based on acquisition cost, at 31 October 2003 individual Investments of more than EUR 5 million accounted for approximately 86 percent of the Company's portfolio (previous year: approximately 85 percent). Investments with an acquisition cost exceeding EUR 10 million accounted for almost 60 percent of the Company's portfolio of Investments (previous year: approximately 55 percent).

|                                | Volume<br>acquisition cost | Number |
|--------------------------------|----------------------------|--------|
| Up to EUR 2.5 million .....    | 6.6 %                      | 16     |
| EUR 2.5 to 5 million .....     | 7.2 %                      | 5      |
| EUR 5 to 10 million .....      | 26.9 %                     | 11     |
| EUR 10 to 15 million .....     | 29.5 %                     | 7      |
| More than EUR 15 million ..... | 29.8 %                     | 4      |

### 5.5.5 Geographic Spread of the Portfolio

Based on acquisition cost, almost two thirds (approximately 65.2 percent) of the Company's capital was invested in Germany and in other German-speaking countries at 31 October 2003 (previous year: approximately 64.4 percent). Commitments in the USA accounted for the largest share of international portfolio investments (approximately 27.1 percent; previous year: approximately 28.3 percent).

|  | Volume | Number |
|--|--------|--------|
| Germany .....  | 61.1 % | 21     |
| International .....                                  | 38.9 % | 22     |
| thereof  |        |        |
| • German-speaking countries .....                    | 4.1 %  | 4      |
| • USA .....  | 27.1 % | 10     |
| • Europe (not incl. German-speaking countries) ..... | 3.9 %  | 3      |
| • other countries .....                              | 3.9 %  | 5      |

### **5.5.6 Portfolio Breakdown by Industry**

For the purpose of risk diversification, the Company aims to invest in a broad range of industries. For simplification purposes, the portfolio companies of the principal fund Investments held by the Company have also been classified under the relevant industry in the following table. Smaller fund Investments are listed as "Others". The following table shows Investments broken down according to industry based on acquisition costs (at 31 October 2003).

| Industry                                | Share of Portfolio |
|---|--------------------|
| Construction .....                      | 17.6 %             |
| Trade .....                             | 15.4 %             |
| Machine and plant construction .....    | 14.3 %             |
| Consumer goods .....                    | 13.1 %             |
| Industrial services and logistics ..... | 11.0 %             |
| Printing, media, packaging .....        | 9.7 %              |
| Chemicals .....                         | 6.6 %              |
| Automotive supplies .....               | 6.2 %              |
| Others .....                            | 6.1 %              |

### **5.5.7 Fund Investments**

Through its partnerships with foreign private equity companies, the Company aims to diversify its portfolio and improve its competitive position.

As at 31 October 2003, the DBAG Group had invested approximately EUR 66.4 million (previous year: approximately EUR 61.4 million) in Investments of this nature, which represents approximately 22.2 percent of the entire portfolio (previous year: approximately 19.6 percent).

In the USA, to date the Company has invested as lead investor in all of the funds launched since 1990 by its partner, Harvest Partners Inc. The private equity fund, Harvest Partners IV, is currently in the investment phase. The Company committed Investments totalling USD 65 million to this fund, and this is expected to be invested in the next four years. At 31 October 2003, approximately USD 12.3 million had been drawn. The Company not only invests in funds itself, but also invests as co-investor directly in enterprises domiciled in the USA in which the funds have invested.

In France, the Company is the biggest investor in the Quartus Capital Partners I fund launched by its partner, Quartus Gestion S.A. The Company committed Investments totalling approximately EUR 17.2 million, of which approximately EUR 7.7 million has already been drawn. DBAG has not acquired any direct holdings in France.

Together with Fonds III GmbH, the Company acquired an interest of approximately 25.1 percent in the Austrian private equity company, Unternehmens Invest AG (DBAG's share approximately 12.5 percent). Together, Fonds III GmbH and the Company are also the biggest co-investors in the Uninvest AG fund, which was launched by Unternehmens Invest AG in the year 2000.

The following table lists the DBAG Group's outstanding investment obligations to external funds at 31 October 2003.

|  | € '000s |
|--|---------|
| Harvest Partners IV GmbH & Co. KG .....      | 45,207  |
| DBG Eastern Europe II L.P. ....              | 9,500   |
| Quartus Capital Partners I .....             | 9,486   |
| The HSBC Technology Fund Ltd. ....           | 2,623   |
| Harvest Partners III, L.P. ....              | 1,984   |
| The HSBC Private-Equity India Fund Ltd. .... | 384     |

In addition, the Company made minor investments in various private equity funds in other countries, such as Eastern Europe, Italy and Asia.

### **5.5.8 Development of the Portfolio**

The following table shows the acquisition and disposal of Portfolio Companies and follow-on Investments since 31 October 2000, together with acquisition cost figures in million of EUR.

|                                     | Financial year<br>2000/2001 | Financial year<br>2001/2002 | Financial year<br>2002/2003 |
|-------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Portfolio value at 1 November ..... | 323.8                       | 310.8                       | 313.1                       |
| New Investments .....               | 13.3                        | 14.2                        | 12.4                        |
| Follow-on Investments .....         | 18.1                        | 14.5                        | 18.4                        |
| Total Investments .....             | 31.4                        | 28.7                        | 30.8                        |
| Disposals .....                     | 32.8                        | 18.4                        | 31.7                        |
| Partial disposals .....             | 11.6                        | 8.0                         | 12.5                        |
| Total disposals .....               | 44.4                        | 26.4                        | 44.2                        |
| Portfolio value at 31 October ..... | 310.8                       | 313.1                       | 299.7                       |

## **5.6 Corporate Objectives and Strategy**

DBAG aims to generate an above average long-term return on the capital invested by DBAG's Group Companies by means of private equity investments. The Company has formulated a strategy for this purpose based on its experience and resources. The strategy involves both DBAG and its Group Companies investing their own capital in private equity transactions, and it also involves managing Parallel Funds, which co-invest in the same Portfolio Companies as the DBAG Group and are financially backed by capital commitments from other investors.

DBAG focuses on management buyouts of established, medium-sized enterprises in German-speaking countries. This is a selected segment of the private equity market. Overall, the DBAG Group has had positive experience over the last few years in that market segment. In order to expand its investment opportunities and diversify its portfolio and thereby to reduce risk, DBAG and its Group Companies also invest with assistance of international partners in similar transactions in countries outside German-speaking regions. The aim is to have around one third of the DBAG Group's total portfolio invested internationally. In this respect, DBAG currently focuses on the US. The Co-operation with the management team of Harvest Partners, Inc., has been in place for several years. A similar partnership exists in France. DBAG holds an Investment in the management company, Quartus Gestion S.A., and is the biggest investor in

its fund, Quartus Capital Partners I. In addition, the Company holds an interest in the Austrian private equity company, Unternehmens Invest AG (see also “Portfolio Companies – Fund Investments”).

Given its long track record in minority investments in growth situations and in cases of changes in ownership, the Company does not rule out the option of taking advantage of investment opportunities arising in this field.

The objectives of the Company’s fund management operations are to generate additional revenues in order to cover a substantial share of DBAG’s ongoing costs, and to tap additional sources of capital. The capital commitments of the Parallel Fund, Fund IV, allow DBAG to structure, if applicable with co-investors, transactions worth up to EUR 250 million in German-speaking countries. In order to realise these objectives, DBAG initiates private equity funds, which co-invest alongside the DBAG Group in the same transactions in the German-speaking countries.

DBAG’s current strategy has emerged over the course of the time based on its experience with private equity investments. In previous years, DBAG pursued a broader investment strategy and, in particular, acquired minority holdings in growth companies to a noteworthy extent. The DBAG Group’s current portfolio therefore still has a different structure to that which would be expected according to the current strategy. DBAG’s Management Board expects that in the future, as mature holdings will be disposed, the portfolio structure will more clearly reflect the strategy described above.

## **5.7 Regulatory Framework**

Subject to any provisions to the contrary in Part 2 of the German Private Equity/Venture Capital Companies Act (“UBGG”), DBAG’s company object is exclusively limited to acquiring, holding, managing and selling private equity/venture capital investments.

The Company has been recognised as a venture capital company within the meaning of the UBGG since 1987 and is thus exempt from trade tax pursuant to § 3 no. 23 of the German Trade Tax Act (Gewerbsteuergesetz).

The aim of the UBGG is to facilitate access to equity capital for unlisted small and medium-sized companies and to enable private investors to invest indirectly in small and medium-sized companies. Private equity/venture capital companies may take the legal form of a public limited company (“AG”), a private limited company (“GmbH”), a limited partnership (“KG”) and a partnership limited by shares (“KGaA”). The object of such companies must be exclusively limited to acquiring, holding, administering and selling private equity/venture capital investments. The registered or nominal capital must be at least EUR 1 million.

As “private equity/venture capital investments”, the UBGG recognises and allows investments in shares of either (public) limited companies or private limited companies, investments either as a general or limited partner or as a silent partner, as well as investments in participation certificates. A private equity/venture capital company may also make private equity/venture capital investments to a restricted extent in foreign companies. Private equity/venture capital companies are precluded from acquiring real property unless for the purpose of procuring business premises, and are also precluded from investing in derivatives and similar innovative financial products, general partnerships (“OHG”), partnerships under the German Civil Code (“GbR”), partnerships or European special-interest associations.

The acquisition costs plus the existing book value of a single venture capital investment must not exceed 30 percent of the private equity/venture capital company's total assets at the time of the investment. In this respect, investments in affiliated companies are aggregated.

A further group of investment limitations is designed to ensure that the private equity/venture capital company's investment does in fact qualify as a private equity/venture capital investment. As a guideline, minority investments in small and medium-sized enterprises may be for a limited term only. Private equity/venture capital companies may acquire interests in listed companies only if the acquisition cost of the interest plus the existing book value of interests in listed companies (if any) does not exceed 30 percent of the private equity/venture capital company's total assets. Private equity/venture capital companies are not permitted to acquire shares in listed companies with total assets of more than EUR 250 million. In relation to investments in unlisted companies, the UBGG does not stipulate any limitations on quantum. Apart from the foregoing, private equity/venture capital companies may make private equity/venture capital investments in enterprises domiciled or having their headquarters outside the European Union or another signatory state to the Agreement on the European Economic Area only up to an amount equivalent to 30 percent of the private equity/venture capital company's total assets.

Furthermore, private equity/venture capital companies are limited in their ability to make long-term investments. Private equity/venture capital investments may only be held for more than 12 years if their book value does not exceed 30 percent of the private equity/venture capital company's total assets.

## **5.8 Employees**

In financial year 2002/2003, the Company's average number of employees was 48. 38 of these employees are employed on a full-time basis and seven on a part-time basis. Three employees are on parent leave. The Company is also currently training three apprentices. In financial year 2001/2002, as well as in financial year 2000/2001, the average number of employees was 47. The other DBAG Group Companies have no employees of their own.

DBAG's success is crucially dependent on a qualified and highly motivated team of employees. In financial year 2001/2002, the Management Board and a selected group of investment team staff were asked to co-invest in direct investments. The managerial team of the Company thus shares in both the upside and downside of investments, ensuring that the interests of the management team and those of the Company coincide (see "Business of the Issuer – DBAG's Business Concept – Co-investments alongside Fund IV").

To create an incentive to enhance share performance on a sustained basis, it was resolved at the 2001 Shareholders' Meeting to also create a stock option plan (see also "General Information on the Company – Employee Participation Plan – Stock Option Plan"). Since then, 70,000 stock options for one share each of DBAG have been granted in every financial year after the Shareholders' Meeting to a select group of employees who are in a position to contribute positively towards the stock's performance. 70,000 further stock options were granted to the members of the Management Board. An appreciation is achieved if the performance of the shares of DBAG exceeds that of the SDAX. The options are exercisable no earlier than three years after the date of grant. At the balance sheet date, an intrinsic value was only attached to the stock options granted in 2003. At 31 October 2003, the option value amounted to EUR 3.20 per share.

Beyond that, the Company offers what it believes to be a motivating work environment characterised by lean reporting lines, teamwork-based project organisation and early assignment of responsibility and authority.

In the Company's view, the factors described are conducive to retaining key staff. The Company's management team currently boast an average of nine years of service.

## **5.9 Intellectual Property, Trademarks and Domain Names**

Intellectual property, trademarks and domain names are of secondary importance to DBAG.

The Deutsche Beteiligungs AG trademark (word and picture mark) is registered internationally.

The Company uses the following internet domain names: [www.deutsche-beteiligung.de](http://www.deutsche-beteiligung.de); [www.deutschebeteiligungs.de](http://www.deutschebeteiligungs.de); [www.deutschebeteiligung.de](http://www.deutschebeteiligung.de); [www.deutsche-beteiligung.com](http://www.deutsche-beteiligung.com); [www.deutschebeteiligungs.com](http://www.deutschebeteiligungs.com); [www.deutsche-beteiligungs.com](http://www.deutsche-beteiligungs.com); [www.deutsche-beteiligungs.de](http://www.deutsche-beteiligungs.de); [www.deutschebeteiligung.com](http://www.deutschebeteiligung.com). [www.deutsche-beteiligungs-ag.de](http://www.deutsche-beteiligungs-ag.de) is reserved as an Internet domain name.

## **5.10 Industrial Premises and Real Property**

The Company owns no real property.

DBAG has a lease in respect of the Company's business premises at Kleine Wiesenau 1 in Frankfurt am Main until 31 August 2011. The Company may request two 5-year extensions of the lease by giving unilateral written notice. The floor space covers approximately 1,696 square meters in total. The annual rent amounts to approximately EUR 790 thousand.

## **5.11 Legal Disputes**

In 1997, DBAG acquired Schoeller & Hoesch GmbH & Co. KG, Gernsbach, through an acquisition vehicle. In addition to the family shareholders, the sellers included two companies, which at the time were involved in composition proceedings and later became insolvent. After comprehensive restructuring and debt reduction measures had been taken, parts of Schoeller & Hoesch GmbH & Co. KG were sold on a profit in the very same year. The former trustee in the composition proceedings and subsequent receiver in bankruptcy ("receiver") challenged the sale to the acquisition vehicle and sued the acquisition vehicle for a payment of approximately EUR 77 million, which constituted a substantial portion of the sales proceeds. In further proceedings, the receiver brought actions in connection with the acquisition vehicle's sale of parts of Schoeller & Hoesch GmbH & Co. KG. The actions were based on rights assigned by the family shareholders, who had also sold their shares. The amount claimed in the second proceedings is approximately EUR 54 million. A third set of proceedings was also commenced, in which a different part of the family sued the acquisition vehicle for approximately EUR 24 million in connection with the same subject matter. The claims asserted in the second and third proceedings are based exclusively on contract and torts law. The first proceedings are based in addition to that on a claim to challenge the acquisition by DBAG's acquisition vehicle based on violation of insolvency law.

On 23 December 2003, the first action in the amount of about EUR 77 million was dismissed to the extent it was based on contract and tort law by means of a partial judgement. No judgment has been handed down yet in relation to the claim based on violation of insolvency law. The action for approximately EUR 24 million, which was brought by some of the family shareholders themselves, was dismissed at first instance on 2 September 2003. The receiver's claim for approximately EUR 54 million based on rights assigned by the family shareholders was dismissed at first instance on 14 October 2003. All three judgments may still be appealed. The opposing party has since filed appeals against the judgements dated 2 September 2003 and 14 October 2003. The acquiring entity is itself suing the receiver for the repayment/release of an instalment of the purchase price paid by it in 1997 (approximately EUR 447,000). The basis of this action is a claim for breach of warranty against the sellers. The acquisition vehicle now has an application pending before the Federal Supreme Court (Bundesgerichtshof) challenging the refusal to grant leave to appeal on points of law. It is not clear when a decision will be handed down in relation to this application.

In the last two years, the Company has also been the defendant in litigation in which the purchaser of an Investment sold by a DBAG Group Company sued for breach of warranty. The amount claimed was EUR 1,845,000. The parties settled the proceedings out of court for approximately EUR 358,000. A fund managed by the Company was also the defendant in arbitration proceedings before the International Arbitration Court of the Austrian Chamber of Commerce in Vienna. The subject matter of the proceedings was a claim for an additional payment in satisfaction of the purchase price on the part of a seller from whom the fund had acquired an investment. The amount claimed was approximately USD 36 million. The action was dismissed on 19 November 2003 and the judgement can no longer be appealed.

With the exception of those stated above, neither DBAG nor the Group Companies are a party to any judicial, administrative, arbitration or similar proceedings that could have a material impact on the financial condition of the Company or of the DBAG Group, nor is the Company aware that there are any such proceedings threatened or to be expected. In the last two financial years, no additional proceedings that could have a material impact on the financial condition of the Company or the DBA Group have been pending.

## **5.12 Insurance**

The Company has taken out directors and officers insurance (D&O insurance) for the members of its governing bodies. The policy covers EUR 10 million per claim per insurance year. The total benefit payable for all claims in any insurance year is limited to the insured amount agreed per claim. A deductible of USD 100,000, payable by the Company, was only agreed in the case of claims in respect of which the Company indemnifies the insured board members concerned. The annual premium is EUR 77,024.

## 6 General Information on the Company

### 6.1 History of the Company

The Company was founded in December 1984 by Deutsche Bank AG, Frankfurt am Main and Bankgeschäft Karl Schmidt, Hof, under the name Deutsche Beteiligungs AG Unternehmensbeteiligungsgesellschaft, in anticipation of the new German Private Equity/Venture Capital Companies Act. The underlying intention leading to the formation of the Company and to the law itself, was to make organised capital markets indirectly accessible to unlisted mid-sized companies and thus to enable a broader investor base to acquire an indirect equity interest in these companies (see also, “Business of the Issuer – Regulatory Framework”).

In 1985, the Company acquired Investments in 12 companies from the portfolio of Deutsche Beteiligungsgesellschaft mbH, a company founded in 1965, at a purchase price estimating to a total of approximately DEM 42 million (approximately EUR 22 million). Deutsche Beteiligungsgesellschaft mbH acted as a company providing management services for DBAG based on a management service agreement. Since 1 November 1996, the Company has had a staff of its own and manages its Investments itself. Deutsche Beteiligungsgesellschaft mbH operates within the DBAG Group as an intermediate holding company primarily for foreign equity holdings.

DBAG’s stock began trading on both the Frankfurt Stock Exchange and the Düsseldorf Stock Exchange in December 1985. The non-voting preferred shares were listed at a price of DEM 140 (which corresponds to EUR 7.16 on the present-day no-par share).

For the investor, the stock was an attractive investment option essentially due to the dividend yield paid from income from minority equity holdings. At that time, majority takeovers with the goal of achieving significant capital gains had not been actively pursued in Germany.

In 1990 the Company raised approximately DEM 45 million (approximately EUR 23 million) in proceeds from a capital increase. These proceeds were used to finance corporate growth, given the fact that there were more investment opportunities than before. The size of the portfolio was, expressed in Euro, EUR 48 million and was invested in 29 companies.

In 1996, the Company decided to focus in the future on investing in larger companies only and conducting a portion of these investments in the form of management buyouts which at that time had become common in the market, where financial investors held the majority of the voting rights in the holdings. The strategy was adjusted based on knowledge gained from prior experience: (i) companies with annual sales of over EUR 50 million have a lower risk profile; (ii) management buyouts give the investor the opportunity to (a) solve problems in a targeted manner and (b) make better use of potential exit opportunities. This strategy, which focuses on investments in mid-market companies in Germany and Austria, has thus led to 24 Investments in these two countries.

The offering proceeds of approximately DEM 52.5 million (approximately EUR 26.8 million) from another capital increase in 1997 were used for the focused implementation of this new strategy, i.e. for financing investments in larger Holdings.

Since January 1998, 45 percent of the Company's shares are in the hands of three major shareholders. Deutsche Bank AG, the Gerling Konzern Lebensversicherung AG, and Mr. Wilhelm von Finck Jr. each hold 15 percent of the shares. The withdrawal of DBG Vermögensverwaltungsgesellschaft mbH, which had held a 26.25 percent share of the registered capital, made it possible to create a new shareholder structure. Deutsche Bank reduced its share in conjunction with this restructuring from 20 percent to 15 percent.

In 2000, the Company earned proceeds of approximately EUR 58 million from a capital increase, which were used to refinance interim growth of the investment volume. The size of the portfolio, based on acquisition costs, amounted to EUR 324 million (Euro equivalent) and were invested in 50 companies.

In 2001, the Company changed its name from Deutsche Beteiligungs AG Unternehmensbeteiligungsgesellschaft to Deutsche Beteiligungs AG in order to simplify the use of the corporate name particularly in written correspondence.

All the shares in the Company held by Schmidt Bank KGaA were sold to institutional investors in a private placement in the fall of 2003.

As at 31 October 2003, the Company held investments in 43 Portfolio Companies at acquisition costs of approximately EUR 300 million.

## **6.2 Formation, Registered Office, Term and Financial Year**

The Company, with its registered office in Königstein im Taunus, was founded by an agreement dated 10 December 1984. The Company was listed in the commercial register of the Local Court (Amtsgericht) of Königstein im Taunus on 27 December 1984 under the number HRB 2527.

By resolution of the Shareholders' Meeting held on 27 March 2001, the Company's registered office was transferred from Königstein im Taunus to Frankfurt am Main. The change in location of the Company's registered office was recorded in the commercial register of the Local Court of Frankfurt am Main on 22 June 2001 under the number HRB 52491.

The Company is established for an indefinite term.

The financial year begins on 1 November and ends on 31 October of the following year.

## **6.3 Object of the Enterprise**

Under § 2 of the Articles of Association in the version dated 28 March 2003, the object of the enterprise of the Company, subject to provisions of the second section of the UBGG to the contrary, is exclusively the acquisition, holding, management and sale of private equity/venture capital investments.

The Company may not conduct any banking transactions within the meaning of § 1 of the German Banking Act (Kreditwesengesetz), in particular it may not purchase or sell securities for others (securities transactions), hold or manage securities for others (custodial services), or conduct any transactions described in § 1 of the German Capital Investment Companies Act (Gesetz für Kapitalanlagegesellschaften) (investment business).

The Company has the right to establish branch offices.

## 6.4 Ownership Structure

### 6.4.1 Shareholder Structure

The following table shows the holdings of the Company's shareholders prior to the implementation of the Offering, as far as the Company is aware and on the basis of notices received pursuant to § 21 (1) of the German Securities Trading Act ("WpHG"). It cannot be ruled out that the current shareholdings are different from those which have been reported to the Company, since § 21 (1) WpHG requires shareholders to report their holdings, if, due to the sale, acquisition or other reasons, when their voting rights reach, exceed, or fall below 5 percent, 10 percent, 25 percent, 50 percent or 75 percent, respectively.

|  | prior to capital increase |
|--|---------------------------|
| Deutsche Bank AG .....                     | 15.00 %                   |
| Gerling Group .....                        | 15.00 %                   |
| Vermögensverwaltung Wilhelm v. Finck ..... | 15.00 %                   |
| Kreissparkasse Biberach .....              | 5.08 %                    |
| Free float .....                           | 49.92 %                   |

Deutsche Bank AG, Frankfurt am Main, informed the Company on 28 November 2002 that its subsidiary, DB Value GmbH, Norderfriedrichskoog, held 15 percent of the voting rights in the Company after 25 November 2002. These voting rights are attributable to Deutsche Bank AG under § 22 (1) no. 1 WpHG.

Pursuant to § 21 WpHG, Gerling Gesellschaft für Vermögens-Management mbH informed the Company on 30 April 2002 that Gerling-Konzern Lebensversicherungs-AG, Gereonshof, held a 15 percent voting interest in the Company as at 1 April 2002.

Mr. Wilhelm von Finck Jr., Grasbrunn, notified the Company on 23 October 2002 that from 22 October 2002, VAGO Dreißigste Vermögensverwaltungs GmbH (VAGO), Düsseldorf, held 15 percent of the voting rights in the Company. These voting rights are held directly by VAGO and are attributable to Mr. von Finck Jr. under § 22 (1) no. 1 WpHG.

Kreissparkasse Biberach, Biberach, informed the Company on 9 September 2002, that it held a 5.08 percent voting share in the Company from 6 September 2002.

Upon implementation of the capital increase, the Company's shareholder structure will depend on the degree to which the existing shareholders have exercised their Subscription Rights. Vis-à-vis the Syndicate Banks, DB Value GmbH and Kreissparkasse Biberach undertook to fully exercise their Subscription Rights.

### 6.4.2 Holdings of the Management Board and the Supervisory Board

Members of the Company's Management Board hold a total of 662 shares. Former member of the Management Board, Mr. Irle, held 242 shares as at 31 October 2003.

As at 31 October 2003, no members of the Supervisory Board held any shares in the Company.

## **6.5 Employee Participation Plan**

### **6.5.1 Stock Option Plan**

Based on an authorisation granted by the Company's Shareholders' Meeting held on 27 March 2001 for the issue of option rights, the Company instituted a stock option plan in order to create an additional performance incentive for the Management Board and selected employees to increase corporate value. In line with this stock option plan, the Company has since 2001 issued a tranche of 140,000 option rights each year after the general Shareholders' Meeting. Of that amount, members of the Management Board having been appointed on the relevant issue date received 70,000 option rights, and other executives received the remaining 70,000 option rights. The plan provides for five tranches in total.

Each tranche has a total term of five years, which is comprised of a three-year waiting period followed by a two-year exercise period. During the exercise period, the participant may exercise the option rights, provided the corresponding performance criteria (Performance Index) have been satisfied – however only within a period of four weeks after an ordinary Shareholders' Meeting or after the publication of a semi-annual report. These rights may be limited or modified in connection with capital measures or the publication of important notices by the Company.

Eligible parties have the right to purchase one new no-par bearer share of the Company at the exercise price for each option right, provided that the performance criteria have been met.

Option rights may only be exercised if the price of the Company's stock (the price in the closing auction of XETRA or a comparable quotation on the Frankfurt Stock Exchange) in the period from the date of the issuing of option rights until the last exchange trading day prior to the start of the exercise period (benchmark period) has outperformed the share index in which the stock was included at the time the option rights were issued, which thus far has been SDAX. In each case the mean stock prices or index values over the ten exchange trading days prior to the issue date or prior to the first day of the exercise period will be taken as the benchmark. The mean price of the stock prior to the start of the exercise period will be increased by the net amount of the dividends distributed within the benchmark period and the values of the Subscription Rights granted in this period; the value of a given subscription right will be the average of the single price quotation of the subscription right on the Frankfurt Stock Exchange on all the days of trading in the Subscription Rights.

The exercise price is the average exchange price of Deutsche Beteiligungs AG's stock (the price in the closing auction of XETRA or comparable quotation) over ten exchange days prior to the start of the exercise period divided by a performance coefficient. In the exercise period after an ordinary Shareholders' Meeting, the exercise price is less the net dividends distributed. The performance coefficient is derived by dividing the stock's relative price performance by the relative performance of the share index during the benchmark period. § 9 (1) of the German Stock Corporation Act (Aktiengesetz) shall remain unaffected.

For purposes of granting the option rights, the Company's registered capital was conditionally increased pursuant to a resolution passed by the Shareholders' Meeting on 27 March 2001 by up to EUR 1,820,000 divided into up to 700,000 bearer shares with no-par value (no-par shares). The conditional capital increase will only be implemented to the extent that the holders of option rights, which will be issued by DBAG based on the authorisation by the Shareholders' Meeting of 27 March 2001 until 24 March 2006, exercise their rights. The New Shares shall carry dividend rights beginning with the start of the financial year in which the shares are created as a result of the option rights being exercised.

Thus far, three tranches have been issued. The key data of the individual tranches for the members of the Management Board are compiled in the following chart:

**Tranche 1: 2001/2006**

(Issue date: April 2001)

|                                 |           |          |
|---------------------------------|-----------|----------|
|                                 | DBAG      | SDAX     |
| 10-day average value upon issue | EUR 31.39 | 2,926.74 |

**Tranche 2: 2002/2007**

(Issue date: April 2002)

|                                 |           |          |
|---------------------------------|-----------|----------|
|                                 | DBAG      | SDAX     |
| 10-day average value upon issue | EUR 20.26 | 2,456.50 |

**Tranche 3: 2003/2008**

(Issue date: April 2003)

|                                 |          |          |
|---------------------------------|----------|----------|
|                                 | DBAG     | SDAX     |
| 10-day average value upon issue | EUR 6.72 | 1,742.84 |

Thus far a total of 210,000 options have been issued to employees having been employed on the relevant issue dates, of which 11,500 have lapsed. A total of 210,000 options have thus far been issued to members of the Management Board having been appointed on the relevant issue dates as well.

### **6.5.2 Additional Employee Participation Plan**

Since 1998, the Company has offered its employees once a year as a means of profit participation the opportunity to purchase employee shares at a preference price. Eligible parties in this regard are employees (including part-time) employed by the Company and who have not received any notice of termination as at the respective effective date. Company retirees are also eligible to acquire a portion of the offering.

The Company will purchase the shares required to issue to the employees on the stock market and will offer them to eligible parties for a preference price, which in the past has been approximately 30 percent below that of the market price. The number of shares offered to each employee will be calculated according to the applicable statutory tax exemption (presently EUR 154) divided by the capital gain which the employee earns on each share. Pursuant to statutory provisions, in order to claim the tax benefit, the shares may not be sold until a waiting period of six years has expired.

## **6.6 Presentation of the Net Assets, Financial Condition and Results of Operations pursuant to HGB – Financial Statements not Currently Prepared in Accordance with International Accounting Principles**

The Company currently prepares its financial accounts exclusively according to German accounting principles under the German Commercial Code (HGB). Consolidated financial statements have not been prepared in accordance with International Accounting Standards. As at the end of last financial year, the special provisions for investment companies, which invest in private equity holdings, had not yet been conclusively established.

According to the draft of the Accounting Law Reform Act (Draft law on the introduction of International Accounting Standards and quality assurance in financial auditing, version: December 2003 – Bilanzrechtsreformgesetz – “BilReG”), which provides for harmonising German accounting laws with the so-called IAS Regulation (EC Regulation no. 1606/2002 of the European Parliament and the Council dated 19 July 2002 regarding International Accounting Standards O.J. EC no. L243, p.1), all issuers of securities domiciled in the European Union and whose shares are traded on a regulated market, are required to prepare consolidated financial statements for all financial years beginning after 1 January 2005 in accordance with International Accounting Standards (in future: IFRS-International Financial Reporting Standards). In view of the function of individual financial accounts as a basis for measuring distributions and as a basis for determining taxable profit, the draft BilReG provides for the voluntary application of IFRS/IAS to individual accounts in order to better inform investors and other business partners. To the extent a company should elect to provide individual financial accounts under IFRS/IAS for information purposes, it would also have to prepare financial statements in conformance with HGB accounting principles for corporate and tax law purposes. To reduce the added expenses associated with this double accounting, only the IFRS/IAS financial accounts will be required to be published in the Federal Gazette. Among other things, IFRS/IAS places heavy emphasis on the notion of fair value, such that, for example, non-realised profits or losses (stock price, interest rate fluctuations, or other resulting fluctuations in value) according to HGB accounting principles, are to be recorded as affecting income in the profit and loss account.

## **6.7 Publication of the Company’s “Fair Value” under IFRS/IAS**

The Company calculates the fair value of its Investments on a semi-annual basis in accordance with a valuation guideline, which satisfies the requirements of IAS 39. To this end, the Company created an internal Valuation Committee, consisting of members of the Management Board and other employees from the controlling department. The Valuation Committee is responsible for adopting the fair value determination for the Portfolio Companies. In so doing, the difference between the fair value and the book value of all Investments is determined. The sum of such difference and the equity capital of the Company forms the “fair value” of the Company.

The Company publishes this result as “fair value” per share twice a year in the semi-annual report and the annual report. The Company calculated in reference to the subscribed capital an amount of EUR 12.95 per share as at 31 October 2002, EUR 11.39 per share as at 30 April 2003, and EUR 12.48 per share as at 31 October 2003.

Pursuant to the fair value valuation, a distinction is made between equity interests in corporate capital, fixed-income shares, silent participations, loans and fund investments. Marketable shares listed on an exchange are valued at the exchange price. Illiquid shares listed on the exchange are valued at the exchange price, unless in the Company’s view this is not a reliable valuation. In this case, just as in the case of direct investments in non-listed companies, the value will be determined using benchmark values of current comparable transactions, benchmark values of comparable listed companies, sum-of-the-parts valuations and/or based on acquisition costs. Fixed-income shares, silent participations, loans and fund investments will generally be valued based on acquisition costs. To the extent that, an impairment test shows that the discounted value of future cash inflows from the investment (recoverable amount) is below the acquisition cost, the valuation will be made using the value of the discounted cash inflows.

## 6.8 Earnings and Dividends per Share

The following table presents the earnings per share of the Company and the DBAG Group and the dividends per share for the past three financial years, shown in Euros.

|                           | Financial year<br>2000/2001 | Financial year<br>2001/2002 | Financial year<br>2002/2003 |
|---------------------------|-----------------------------|-----------------------------|-----------------------------|
| DBAG Group Earnings ..... | 0.65                        | -1.13                       | 0.22                        |
| Company Earnings .....    | 0.56                        | -0.15                       | 0.06                        |
| Dividends .....           | 0.50                        | none                        | none                        |

## 6.9 Balance Sheet Profit and Dividend Policy

To the extent that the Shareholders' Meeting does not allocate it otherwise, balance sheet profit will be distributed to the shareholders. The Shareholders' Meeting may decide to make an in-kind distribution. However, only fungible listed securities in accordance with the definition of § 3 (2) German Stock Corporation Act, are distributable.

As a rule, dividends are distributed to the shareholders in proportion to payments made on the par value of the shares and in proportion to the amount of time that has passed since the date stipulated for payment. Where new shares are issued, other dividend rights may be stipulated.

The Company paid a dividend of EUR 0.50 per share in financial year 2000/2001 and paid no dividends in financial year 2001/2002. The Management Board and the Supervisory Board have proposed to the Shareholders' Meeting that no dividends shall be paid for the financial year 2002/2003 either.

The Company's general goal is to pay its shareholders dividends in future financial years. This is however subject to the Company having annual consolidated net income, consolidated balance sheet profit, and distributable balance sheet profit for the respective financial year. The Company cannot guarantee that the requirements for paying dividends will in fact be satisfied in financial years to come. Certain factors affecting the distribution of dividends are, in particular, profitability, financial position, capital requirements, business prospects, as well as general economic conditions of the Company or the DBAG Group as a whole. Dividends distributed in the past are not necessarily indicative of the amount or extent of any dividend distributions paid in the future.

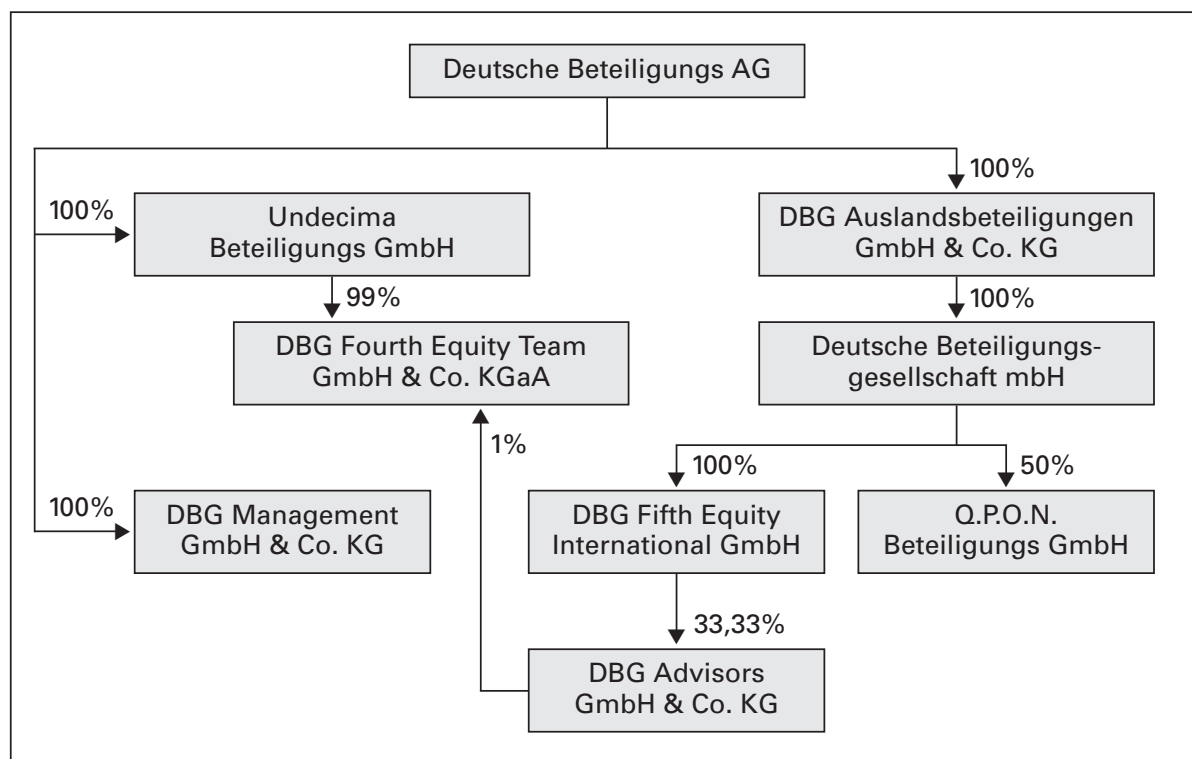
## 6.10 Auditors

The annual financial statements of the DBAG Group and the Company for the financial years 2000/2001, 2001/2002, and 2002/2003, which are printed (some in an abridged version) in this Prospectus, were audited according to the principles of the German Commercial Code by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Marie-Curie-Strasse 30, 60439 Frankfurt am Main, and each was issued an unqualified audit certificate (see "Consolidated Financial Statements of the DBAG Group for Financial Years 2002/2003, 2001/2002, and 2000/2001 (HGB) – Auditors' Reports on the Consolidated Financial Statements for Financial Years 2002/2003, 2001/2002, and 2000/2001 (HGB)" and "Annual Financial Statements of the Company for Financial Years 2002/2003, 2001/2002, and 2000/2001 (HGB) – Auditors' Reports on the Company's Annual Financial Statements for Financial Years 2002/2003, 2001/2002, and 2000/2001 (HGB)").

## 7 Principal Holdings

### 7.1 Group Structure

The following diagram shows the principal Group Companies in which DBAG directly or indirectly holds at least 50 percent of the voting shares, or may exercise control in other ways. Those companies are included in the financial statements as at 31 October 2003.



Changes in the group of consolidated companies compared to its status as at 31 October 2002 reflect the addition of DBG Management GmbH & Co. KG. DBG Management GmbH & Co. KG is for the first time no longer of minor importance, since it has assumed the role of general partner of DBG Fifth Equity Team GmbH & Co. KGaA (see also "Business of the Issuer – DBAG's Business Concept – Management Activities for Parallel Funds – Co-investments alongside Fund IV"). DBG Management GmbH & Co. KG was initially consolidated on 31 October 2003. Consequently, the profit and loss account of this company is not yet included in the consolidated financial statements as at 31 October 2003. DBG Management GmbH & Co. KG may receive fees in the future for its management activities.

The holding in Q.P.O.N. Beteiligungs GmbH is recognised in the consolidated financial statements on a pro rata basis (proportionate consolidation). Fonds III GmbH holds the remaining 50 percent of shares in Q.P.O.N. Beteiligungs GmbH. Q.P.O.N. Beteiligungs GmbH holds exclusively foreign Investments.

Despite a voting interest of less than 50 percent, DBG Advisors GmbH & Co. KG was included in the consolidated financial statements in conformity with § 290 (2) no. 2 of the German Commercial Code, since the Company has the power to appoint the managing limited partners. DBG Advisors GmbH & Co. KG is the equity limited partner of DBAG Fund IV KG and DBAG Fund IV International KG. DBG Advisors GmbH is also the limited liability shareholder of DBG Fifth and the equity limited partner of DBG Fourth (see also "Business of the Issuer – DBAG's Business Concept – Management Activities for Parallel Funds – Co-investments alongside Fund IV").

The Company co-invests alongside Fund IV through DBG Fourth (see “Business of the Issuer – DBAG’s Business Concept – Management Activities for Parallel Funds”).

DBAG’s management team co-invests through DBG Advisors GmbH & Co. KG and DBG Fund Management GmbH & Co. KG (see “Business of the Issuer – DBAG’s Business Concept – Co-investments alongside Fund IV”). DBG Fifth Equity International GmbH is the general partner of DBG Advisors GmbH & Co. KG, while the members of DBAG’s Management Board act as the managing limited partners and DBG Fund Management GmbH & Co. KG as another limited partner of DBG Advisors GmbH & Co. KG.

## 7.2 Principal Subsidiaries of DBAG

The following is a table of the Group Companies that were recognised in DBAG’s consolidated financial statements at 31 October 2003 (figures in each case stated in EUR thousands). Because the companies are engaged in the investment business, they do not generate sales in the strict sense, but rather income from investments, gains from investment disposals and other operating income.

We have not provided an individual statement for each Portfolio Company, as in accordance with DBAG’s corporate purpose the holdings are held only temporarily by the Company or by companies within the DBAG Group for investment purposes, (see “Business of the Issuer – Principal Holdings of DBAG and the Group Companies” and “Business of the Issuer – Portfolio Structure”).

### 7.2.1 DBG Auslandsbeteiligungen GmbH & Co. KG

DBG Auslandsbeteiligungen GmbH & Co. KG acts as an intermediary holding company within the DBAG Group.

|  |  |
|--|--|
| Domicile .....   | Frankfurt am Main  |
| Business (corporate purpose) .....                             | Acquiring, administering and<br>selling holdings and investments |
| Subscribed capital as at 31 October 2003 .....                 | 500  |
| Holding (%) as at 31 October 2003 .....                        | 100 %  |
| Capital still to be paid in (if any) .....                     | –  |
| Income from investments 2002/2003 .....                        | –  |
| Gains from investment disposals 2002/2003 .....                | –  |
| Other operating income 2002/2003 .....                         | –  |
| Reported reserves as at 31 October 2003 .....                  | 24,389   |
| Net income/loss 2002/2003 .....                                | –12,469  |
| Income from Investments 2002/2003 .....                        | –  |
| Book value as at 31 October 2003 .....                         | 12,445   |
| Claims (liabilities) of the issuer as at 31 October 2003 ..... | 50   |
| Temporary holdings as at 31 October 2003 .....                 | –  |

### **7.2.2 Deutsche Beteiligungsgesellschaft mbH**

Deutsche Beteiligungsgesellschaft mbH primarily holds the DBAG Group's international investments.

|   |   |
|---|---|
| Domicile  | Königstein im Taunus  |
| Business (corporate purpose)                          | Acquiring, administering and selling holdings and investments |
| Subscribed capital at 31 October 2003                 | 511   |
| Holding (%) at 31 October 2003                        | 100 %   |
| Capital still to be paid in (if any)                  | –   |
| Income from investments 2002/2003                     | 1,343   |
| Gains from investment disposals 2002/2003             | 32  |
| Other operating income 2002/2003                      | 1,105   |
| Reported reserves at 31 October 2003                  | 12,391  |
| Net income/loss 2002/2003                             | –3,809  |
| Income from Investments 2002/2003                     | –   |
| Book value at 31 October 2003                         | 12,464  |
| Claims (liabilities) of the issuer at 31 October 2003 | –7,011  |
| Temporary holdings at 31 October 2003                 | –   |

### **7.2.3 Q.P.O.N. Beteiligungs GmbH**

Q.P.O.N. Beteiligungs GmbH basically hold the DBAG Group's co-investments in the USA.

|   |   |
|---|---|
| Domicile  | Frankfurt am Main   |
| Business (corporate purpose)                          | Acquiring, administering and selling holdings and investments |
| Subscribed capital at 31 October 2003                 | 25.60   |
| Holding (%) at 31 October 2003                        | 50 %  |
| Capital still to be paid in (if any)                  | –   |
| Income from investments 2002/2003                     | –   |
| Gains from investment disposals 2002/2003             | 3,690   |
| Other operating income 2002/2003                      | 0   |
| Reported reserves at 31 October 2003                  | 37,532  |
| Net income/loss 2002/2003                             | –7,196  |
| Income from Investments 2002/2003                     | –   |
| Book value at 31 October 2003                         | 18,781  |
| Claims (liabilities) of the issuer at 31 October 2003 | 1,928   |
| Temporary holdings at 31 October 2003                 | –   |

#### **7.2.4 DBG Fourth Equity Team GmbH & Co. KGaA**

DBG Fourth Equity Team GmbH & Co. KGaA acts as DBAG's investment vehicle in connection with Fund IV.

|   |   |
|---|---|
| Domicile  | Frankfurt am Main   |
| Business (corporate purpose)                          | Acquiring, administering and selling holdings and investments |
| Subscribed capital at 31 October 2003                 | 50  |
| Holding (%) at 31 October 2003                        | 99 %  |
| Capital still to be paid in (if any)                  | –   |
| Income from investments 2002/2003                     | 171   |
| Gains from investment disposals 2002/2003             | 181   |
| Other operating income 2002/2003                      | –   |
| Reported reserves at 31 October 2003                  | 32,586  |
| Net income/loss 2002/2003                             | –2,647  |
| Income from Investments 2002/2003                     | –   |
| Book value at 31 October 2003                         | 35,773  |
| Claims (liabilities) of the issuer at 31 October 2003 | 64  |
| Temporary holdings at 31 October 2003                 | –   |

#### **7.2.5 DBG Fifth Equity International GmbH**

DBAG holds an interest in DBG Advisors GmbH & Co. KG through DBG Fifth Equity International GmbH. DBG Fifth Equity International GmbH also acts as the general partner of DBG Advisors GmbH & Co. KG.

|   |   |
|---|---|
| Domicile  | Frankfurt am Main   |
| Business (corporate purpose)                          | Acquiring, administering and selling holdings and investments |
| Subscribed capital at 31 October 2003                 | 25  |
| Holding (%) at 31 October 2003                        | 100 %   |
| Capital still to be paid in (if any)                  | –   |
| Income from investments 2002/2003                     | –   |
| Gains from investment disposals 2002/2003             | –   |
| Other operating income 2002/2003                      | 2   |
| Reported reserves at 31 October 2003                  | 157   |
| Net income/loss 2002/2003                             | 1   |
| Income from Investments 2002/2003                     | –   |
| Book value at 31 October 2003                         | 182   |
| Claims (liabilities) of the issuer at 31 October 2003 | –   |
| Temporary holdings at 31 October 2003                 | –   |

### **7.2.6 DBG Advisors GmbH & Co. KG**

DBG Advisors GmbH & Co. KG primarily acts as the investment vehicle for co-investments of the management team of Deutsche Beteiligungs AG in connection with Fund IV.

|   |  |
|---|--|
| Business (corporate purpose) . . . . .                          | Acquiring equity shares and assuming the role of a personally liable shareholder in KGs or KGaAs which acquire, administer and sell Portfolio Companies as venture capital or private equity investors, as well as advising such Portfolio Companies |
| Subscribed capital at 31 October 2003 . . . . .                 | 500  |
| Holding (%) at 31 October 2003 . . . . .                        | 33.30 %  |
| Capital still to be paid in (if any) . . . . .                  | –  |
| Income from investments 2002/2003 . . . . .                     | –  |
| Gains from investment disposals 2002/2003 . . . . .             | –  |
| Other operating income 2002/2003 . . . . .                      | –  |
| Reported reserves at 31 October 2003 . . . . .                  | –  |
| Net income/loss 2002/2003 . . . . .                             | –7   |
| Income from Investments 2002/2003 . . . . .                     | –  |
| Book value at 31 October 2003 . . . . .                         | 167  |
| Claims (liabilities) of the issuer at 31 October 2003 . . . . . | –  |
| Temporary holdings at 31 October 2003 . . . . .                 | –  |

### **7.2.7 Undecima Beteiligungs GmbH**

Undecima Beteiligungs GmbH acts as an intermediary holding company within the DBAG Group.

|   |   |
|---|---|
| Domicile . . . . .  | Frankfurt am Main   |
| Business (corporate purpose) . . . . .                          | Acquiring, administering and selling holdings and investments |
| Subscribed capital at 31 October 2003 . . . . .                 | 25.60   |
| Holding (%) at 31 October 2003 . . . . .                        | 100 %   |
| Capital still to be paid in (if any) . . . . .                  | –   |
| Income from investments 2002/2003 . . . . .                     | –   |
| Gains from investment disposals 2002/2003 . . . . .             | –   |
| Other operating income 2002/2003 . . . . .                      | –   |
| Reported reserves at 31 October 2003 . . . . .                  | 35,771  |
| Net income/loss 2002/2003 . . . . .                             | 0   |
| Income from Investments 2002/2003 . . . . .                     | –   |
| Book value at 31 October 2003 . . . . .                         | 35,798  |
| Claims (liabilities) of the issuer at 31 October 2003 . . . . . | –   |
| Temporary holdings at 31 October 2003 . . . . .                 | –   |

### 7.2.8 DBG Management GmbH & Co. KG

DBG Management GmbH & Co. KG acts as the personally liable shareholder of DBG Fifth.

|  |                                   |
|--|-----------------------------------|
| Domicile .....   | Frankfurt am Main                 |
| Business (corporate purpose) .....                             | Assuming the role of a personally |
| .....  | liable shareholder in KGs and     |
| .....  | KGaAs which acquire, administer   |
| .....  | and sell equity interests as      |
| .....  | venture capital or private equity |
| .....  | investors                         |
| Subscribed capital as at 31 October 2003 .....                 | 1                                 |
| Holding (%) as at 31 October 2003 .....                        | 100 %                             |
| Capital still to be paid in (if any) .....                     | -                                 |
| Income from investments 2002/2003 .....                        | -                                 |
| Gains from investment disposals 2002/2003 .....                | -                                 |
| Other operating income 2002/2003 .....                         | -                                 |
| Reported reserves as at 31 October 2003 .....                  | -                                 |
| Net income/loss 2002/2003 .....                                | -                                 |
| Income from Investments 2002/2003 .....                        | -                                 |
| Book value as at 31 October 2003 .....                         | 1                                 |
| Claims (liabilities) of the issuer as at 31 October 2003 ..... | 26                                |
| Temporary holdings as at 31 October 2003 .....                 | -                                 |

### 7.3 Associated Companies

As at 31 October 2003, the Company held an interest, as defined in § 313 (4) HGB, in the following associated companies.

| Name and domicile of Portfolio Company                          | Equity share (%) |
|---|------------------|
| DBG Auslandsbeteiligungen GmbH & Co. KG, Frankfurt am Main      | 100.00*          |
| Deutsche Beteiligungsgesellschaft mbH, Königstein/Taunus        | 100.00*          |
| DBG Beteiligungsgesellschaft mbH, Frankfurt am Main             | 100.00           |
| DBV Drehbogen GmbH, Frankfurt am Main                           | 100.00           |
| Duodecima Beteiligungs GmbH, Frankfurt am Main                  | 100.00           |
| DBG Second Equity Team GmbH & Co. KGaA, Frankfurt am Main       | 100.00           |
| DBG Third Equity Team GmbH & Co. KGaA, Frankfurt am Main        | 100.00           |
| DBG Fourth Equity International GmbH, Frankfurt am Main         | 100.00           |
| DBG Fifth Equity International GmbH, Frankfurt am Main          | 100.00*          |
| DBG Advisors GmbH & Co. KG, Frankfurt am Main                   | 33.33*           |
| DBG Fourth Equity Team GmbH & Co. KGaA, Frankfurt am Main       | 1.00*            |
| DBG Fifth Equity Team GmbH & Co. KGaA, Frankfurt am Main        | 100.00           |
| DBG Epsilon GmbH, Frankfurt am Main                             | 100.00           |
| DBG Lambda GmbH, Frankfurt am Main                              | 100.00           |
| DBG Zeta GmbH, Frankfurt am Main                                | 100.00           |
| UI Beteiligungs GmbH, Frankfurt am Main                         | 100.00           |
| DBG Eastern Europe Management Ltd., St. Helier, Jersey          | 50.01            |
| DBG UK Management Ltd., London, Great Britain                   | 100.00           |
| DBG Development Capital Eastern Europe Ltd., St. Helier, Jersey | 100.00           |
| DBG Management GmbH & Co. KG, Frankfurt am Main                 | 100.00*          |
| Undecima Beteiligungs GmbH, Frankfurt am Main                   | 100.00*          |
| DBG Fourth Equity Team GmbH & Co. KGaA, Frankfurt am Main       | 99.00*           |
| DBG Kappa GmbH, Frankfurt am Main                               | 100.00           |
| DBG Theta GmbH, Frankfurt am Main                               | 100.00           |
| DBG Jota GmbH, Frankfurt am Main                                | 98.80            |
| Gizeh Verpackungen Beteiligungs-GmbH, Bergneustadt              | 99.67            |

\* Fully consolidated

DBG Beteiligungsgesellschaft mbH, Frankfurt am Main, in which the Company indirectly holds 100 percent of the voting shares, was excluded from the consolidated financial statements, since the commercial risk of its business activities – and, consequently the business policy – lies with the investors in the profit-sharing rights (Genusskapital).

DBG Fifth, Frankfurt am Main, in which a subsidiary of the Company, DBG Advisors GmbH & Co. KG, holds 100 percent of the limited partner's shares, was not consolidated in the accounts, because pursuant to the master agreement concluded with KfW, significant and long-lasting restrictions exist that impair the exercise of rights in respect of this company's assets and management.

DBG Jota GmbH and DBG Kappa GmbH, in which DBG Fourth held the majority of the shares as at 31 October 2003 and which are both domiciled in Frankfurt am Main, were not consolidated financial statements, since the majority of the shares in the subsidiaries were held temporarily.

Due to their minor importance, some companies in which Deutsche Beteiligungs AG or an associated and consolidated Group Company holds voting shares of more than 50 percent were not consolidated. These largely relate to shell companies.

At-equity consolidation was not performed for Portfolio Companies in which voting rights of 20 to 50 percent are held, but no significant influence on operating policies is exercised. This also ensued from the temporary nature of these investments, as stipulated by the corporate purpose.

The following changes have occurred since 31 October 2003:

After conclusion of the transactions involving Preh GmbH and Babcock Borsig Service GmbH, DBG Fourth's equity interest in DBG Kappa GmbH decreased from 100 percent to 27.47 percent, and its equity interest in DBG Jota GmbH decreased from 98.8 percent to 22.75 percent. Consequently, these companies are no longer associated companies, but are recorded as belonging to the group of companies in which voting rights of between 20 and 50 percent are held.

DBG Zeta GmbH was sold to DBG Fourth.

Five new shell companies, all of which are 100 percent owned by Deutsche Beteiligungsgesellschaft mbH, have joined the Group namely: DBG Pi GmbH, DBG My GmbH, DBG Xi GmbH, DBG Ny GmbH and DBG Omikron GmbH. All of these companies are associated companies.

## **8 Information on the Company's Capital**

### **8.1 Registered Capital Increases**

Any increase in the Company's registered capital is generally subject to a resolution of the Shareholders' Meeting, which must be adopted by a majority of at least three-quarters of the registered capital represented when voting is conducted. In addition, the Management Board may be authorised, subject to a resolution amending the Articles of Association, to increase the Company's registered capital up to a certain nominal amount (authorised capital) through the issue of new shares. Such power may be exercised for no longer than five years after registration (in the commercial register) of the amendment to the Articles of Association. The amount of the authorised capital created by the shareholders must not exceed 50 percent of the registered capital existing at the time the authorisation is given.

In addition, the shareholders may resolve to increase the Company's registered capital, however such increase is to be implemented only to the extent that conversion or Subscription Rights that are attached to new Company shares are exercised (contingent capital). Contingent capital should only be made available for the purposes of granting conversion or Subscription Rights to holders or creditors of convertible bonds, preparing for the merger of several enterprises, and granting Subscription Rights to employees and members of the Company's management team or those of an associated company by way of a consenting or authorising resolution. The amount of the contingent capital must not exceed 50 percent of the registered capital existing at the time of the resolution approving the contingent capital increase. The amount of the contingent capital made available in order to grant Subscription Rights to employees and members of the Company's management team or those of an associated company must not exceed 10 percent of the registered capital existing at the time of the resolution approving the contingent capital increase.

Decisions to decrease the Company's registered capital are generally subject to a resolution of the Shareholders' Meeting, which must be adopted by a majority of at least three-quarters of the registered capital represented when voting is conducted.

### **8.2 Development of the Company's Share Capital**

The Company was formed in December 1984 by Deutsche Bank AG, Frankfurt am Main, and Bankgeschäft Karl Schmidt, Hof, in anticipation of the UBGG under the name Deutsche Beteiligungs AG Unternehmensbeteiligungsgesellschaft with a registered share capital of DEM 60 million. In May 1985, the Company's registered capital was reduced to DEM 30 million, divided into 600,000 ordinary shares, each with a par value of DEM 50.

By resolution of the Shareholders' Meeting held on 11 November 1985 half of the registered capital had been converted into non-voting preferred shares. The preferred shares were admitted to trading on the Frankfurt Stock Exchange and on the Düsseldorf Stock Exchange in December 1985.

By resolution of the Management Board dated 15 January 1990, the Company's registered capital was increased from authorised capital by DEM 15 million from DEM 30 million to DEM 45 million. 150,000 ordinary and 150,000 preferred shares, each with a par value of DEM 50, were issued at a subscription ratio of 4:1.

By resolution of the Company's Shareholders' Meeting held on 21 March 1986, the registered capital was redivided and the existing non-voting preferred shares were converted into ordinary shares. Thereafter, the registered capital was divided into 1,000,000 ordinary shares, each with par value of DEM 5 and 800,000 ordinary shares, each with a par value of DEM 50. Since July 1996, all the Company's shares have been quoted on the Official Market of the Frankfurt Stock Exchange and the Düsseldorf Stock Exchange.

By resolution of the Management Board dated 12 March 1997, the Company's registered capital was increased from authorised capital by DEM 15 million from DEM 45 million to DEM 60 million, by issuing 3,000,000 ordinary shares, each with a par value of DEM 5. The subscription ratio was 3:1.

By resolution of the Shareholders' Meeting held on 16 March 2000, the Company's registered capital was converted into euros and increased in order to have a round number. Thereafter, the registered capital was EUR 31,200,000, which was divided into 12,000,000 ordinary shares with no-par value (no-par shares), each with a current calculated nominal value of EUR 2.60. By resolution of the Management Board dated 18 June 2000, the registered capital was finally increased by EUR 5,200,000 to EUR 36,400,000, by issuing 2,000,000 no-par shares, which were offered to the Company's shareholders for subscription at a ratio of 6:1.

The Company's registered capital has not changed over the last three financial years.

By resolution dated 24 February 2004, the Company's Management Board resolved, with the consent of the Supervisory Board dated 25 February 2004, to increase the Company's registered capital from authorised capital, which was created by resolution of the Shareholders' Meeting held on 20 March 2002, by issuing 4,666,667 new no-par value ordinary bearer shares, each with a current calculated nominal value of EUR 2.60. The New Shares carry dividend rights from 1 November 2003. The Syndicate Banks were admitted to underwrite all 4,666,667 New Shares, subject to the obligation that they offer these to the current shareholders except for the fractional amount of one New Share for subscription in a ratio of 3:1, and that they sell the unsubscribed New Shares at the best price possible, however not less than the Subscription Price. After the capital increase has been recorded in the commercial register, which is expected to occur on 5 March 2004, the Company's registered capital will be EUR 48,533,334.20 and will be divided into 18,666,667 no-par shares (see "The Offering").

### **8.3 Shares**

All DBAG Shares are ordinary bearer shares with no-par value (no-par shares), each with a current calculated nominal value of EUR 2.60. Each ordinary share carries one vote.

The shares are certificated in one or several global certificates, which are deposited at Clearstream Banking AG, Frankfurt am Main. The Management Board, with the consent of the Supervisory Board, shall determine the form of the share certificates and the dividend and renewal coupons. Global certificates may be issued. The shareholders are not entitled to individual share certificates.

The DBAG Shares are admitted to trading on the Official Market of the Frankfurt Stock Exchange and simultaneously to the sector of the Official Market of the Frankfurt Stock Exchange with additional listing obligations (Prime Standard) and on the Düsseldorf Stock Exchange.

## 8.4 Authorised Capital

Based on a resolution by the Shareholders' Meeting held on 20 March 2002, the Management Board is authorised, with the consent of the Supervisory Board, to increase the Company's registered capital by up to a total of EUR 18,200,000, by issuing new no-par bearer shares against cash or contributions in-kind on one or several occasions until 20 March 2007 (Authorised Capital). In so doing, the shareholders are to be granted Subscription Rights. However, the Management Board is authorised, with the consent of the Supervisory Board, to exclude fractional amounts from the shareholders' Subscription Rights and to exclude Subscription Rights to the extent this is necessary in order to grant holders of warrants, option rights, convertible bonds and convertible profit-sharing rights issued by Deutsche Beteiligungs AG, rights to subscribe new shares to the extent they would be entitled to do so after exercise of said option or conversion rights. In addition, the Management Board is authorised, with the consent of the Supervisory Board, to exclude the shareholders' Subscription Rights for an amount equivalent to 10 percent of the registered capital existing at the time the resolution is passed on the use of authorised capital, provided the issue price of the new shares is not substantially below the exchange price of the shares already listed as of the date on which the issue price is finally set, which should occur as close in time as possible to the placement of the shares. Not substantially below in this regard is where the issue price is not more than 5 percent below the average exchange price of the Company's stock in the XETRA closing auction on the Frankfurt Stock Exchange over the last five exchange days prior to the date the issue price is determined by the Management Board. The Management Board is also authorised, with the consent of the Supervisory Board, to exclude the shareholders' Subscription Rights in the case of capital increases against contributions in kind for purposes of acquiring companies or equity interests in companies. The Management Board is also authorised to stipulate further details regarding the capital increase, subject to the consent of the Supervisory Board.

After Authorised Capital has been completely or partially used or after the authorisation period has expired, the Supervisory Board is authorised to amend § 5 of the Articles of Association accordingly.

After implementation of the capital increase by EUR 12,133,334.20 by issuing 4,666,667 New Shares from authorised capital, which was resolved by the Management Board on 24 February 2004 with the consent of the Supervisory Board dated 25 February 2004, the remaining authorised capital amounts to EUR 6,066,665.80.

## 8.5 Contingent Capital

By resolution of the Shareholders' Meeting held on 27 March 2001, the registered capital was conditionally increased by up to EUR 7,800,000 by issuing up to 3,000,000 new shares. The contingent capital increase will be implemented only to the extent that holders or creditors of conversion rights or warrants attaching to convertible or warrant-linked bonds to be issued by the Company or its directly or indirectly held majority affiliates before 24 March 2006 have exercised their conversion or option rights, or to the extent that holders or creditors of convertible bonds to be issued by the Company or its directly or indirectly held majority affiliates before 24 March 2006, who are obliged to exercise their conversion rights, satisfy such obligation. The new shares shall carry dividend rights beginning with the financial year in which such shares are created as a result of conversion or option rights being exercised or as a result of conversion obligations being satisfied.

Also by resolution of the Shareholders' Meeting held on 27 March 2001, the Company's registered capital was conditionally increased by up to EUR 1,820,000 divided into up to 700,000 no-par bearer shares (no-par shares). The contingent capital increase shall be implemented only to the extent that the holders of option rights issued by DBAG until 24 March 2006 based on the authorisation of the Shareholders' Meeting held on 27 March 2001, exercise their rights. The new shares carry dividend rights from the beginning of the financial year in which they are created as a result of option rights being exercised.

## **8.6 Authorisation to Purchase Own Shares**

By resolution of the Shareholders' Meeting held on 27 March 2003, the Management Board was authorised pursuant to § 71 (1) no. 8 AktG, until 26 September 2004, to purchase own shares in an amount equivalent to up to 10 percent of the current registered capital of EUR 36,400,000 for purposes other than trading in own shares. The Management Board was also authorised, with the consent of the Supervisory Board, to re-sell its own shares, which were acquired based on the authorisation pursuant to the aforementioned statutory provision and excluding the shareholders' subscription rights under certain circumstances in a manner other than through the stock exchange or through an offer to all shareholders. The Management Board was also authorised, with the consent of the Supervisory Board, to redeem all or some of the shares acquired based on the authorisation pursuant to the aforementioned statutory provision without additional resolution of the Shareholders' Meeting. All of the aforementioned authorisations may be exercised in whole or in part.

To date, the Company has not exercised this authorisation. However, it currently holds 1,776 of its own shares, which it purchased through the stock exchange in order to offer these to its employees in conjunction with the Employee Participation Plan (see, "General Information on the Company – Employee Participation Plan – Additional Employee Participation Plan").

## 9 Governing Bodies of the Company

The governing bodies of the Company are the Management Board, the Supervisory Board and the Shareholders' Meeting. The responsibilities of these bodies are governed by the German Stock Corporation Act and in the Company's Articles of Association.

### 9.1 Management Board

The Management Board has at least two members. The Supervisory Board appoints the Management Board members and determines their number. The Supervisory Board may exempt all the Management Board members or individual Management Board members generally or in individual cases from the restrictions of § 181 of the German Civil Code ("BGB"). The Supervisory Board has to date not currently exercised this right.

The Company is legally represented by two Management Board members or by one Management Board member acting together with an authorised officer (Prokurist).

Internal rules of procedure (Geschäftsordnung) exist for the Management Board, according to which certain transactions require the consent of the Supervisory Board.

Following the resignation of Mr. Helmut Irle effective 31 January 2004, the Company's Management Board currently consists of the following individuals:

#### **Wilken Freiherr von Hodenberg (Spokesman)**

Mr. von Hodenberg, born 1954, studied law in Hamburg and Lausanne. He began his career at JP Morgan Bank in New York and Frankfurt. He then worked at the Tengelmann Handelsgesellschaft, Mühlheim/Ruhr, where his last position was that of Deputy Managing Director. From 1993, he worked for five years in the position of Managing Director at Baring Brothers GmbH, Frankfurt am Main. He then changed as Managing Director to Merrill Lynch Capital Markets Bank Ltd, Frankfurt am Main branch. Mr. von Hodenberg was appointed a Management Board member of the Company by virtue of a Supervisory Board resolution dated 17 July 2000.

*He holds the following mandates on supervisory bodies of other companies:*

Unternehmens Invest AG, Vienna (Chairman)  
UNIVEST AG, Vienna (Chairman)  
Giga-Stream GmbH, Saarbrücken  
Quartus Gestion S.A., Paris  
DBG Osteuropa-Holding GmbH, Frankfurt am Main (Chairman)

#### **Torsten Grede**

Mr. Grede, born 1964, studied business administration in Cologne and St. Gallen after undergoing professional training to become a qualified bank employee. Upon concluding his studies, he commenced his professional career in 1990 at DBAG. In 1995, he was appointed a member of Management. Mr. Grede was appointed a Management Board member of the Company with effect per 1 January 2001 by virtue of a Supervisory Board resolution dated 20 December 2000.

*He holds the following mandates on supervisory bodies of other companies:*

AKsys Beteiligungs GmbH  
Hochtemperatur Engineering GmbH, Mainz-Kastel (Chairman)

Grohmann Engineering GmbH, Prüm  
Otto Sauer Achsenfabrik Keilberg, Bessenbach-Keilberg (Vice Chairman)  
Hörmann GmbH & Co. Beteiligungs KG, Kirchseeon (Vice Chairman)

### **Reinhard Löffler**

Mr. Löffler, born 1944, studied industrial engineering at the University of Karlsruhe (Institute of Technology). He has accumulated 14 years of experience in Mittelstand companies. He first worked at the Filitz-Metzler-Gruppe, Mühlacker, which is a company involved in the precise mechanical and optical industry. There, he last worked as head of controlling. He then assumed the position of financial head at Papst Motoren GmbH & Co. KG, St. Georgen, a company specialised in the electronics industry, fractional horsepower motors and mechanical ventilators. In 1985, he joined WFG Deutsche Gesellschaft für Wagniskapital mbH, Frankfurt am Main, as a member of its management. Mr. Löffler was appointed to the Management Board of the Company by virtue of a Supervisory Board resolution dated 28 August 1989.

*He holds the following mandates on supervisory bodies of other companies:*

Hucke AG, Lübbecke  
Lignum Technologie AG, Schopfloch  
schlott gruppe AG, Freudenstadt  
transtec AG, Tübingen (Vice Chairman)  
Zapf GmbH (Chairman), Bayreuth

In association with the resignation of Mr. Irle effective 31 January 2004, the Company's Supervisory Board adopted a resolution dated 25 November 2003 to appoint Mr. André Mangin and Dr. Rolf Scheffels as members of the Management Board effective 1 January 2004.

### **André Mangin**

Mr. Mangin, born 1954, commenced his professional career in 1977 as a shipping broker at Rolf H. Kersten GmbH, Hamburg following completion of his professional training as a qualified bank employee at Deutsche Bank AG, Hamburg. From 1979 to 1985, he studied law at the University of Hamburg and joined 1986 BHF-Bank AG, Frankfurt am Main. In 1996, Mr. Mangin joined Baring Brothers GmbH, Frankfurt am Main as a managing director. In 1998 he joined Merrill Lynch Capital Markets Bank Ltd., Frankfurt am Main branch as a director of investment banking. Mr. Mangin has been a member of Management since 2001, and was appointed a member of the Management Board effective 1 January 2004.

### **Dr. Rolf Scheffels**

Dr. Scheffels, born 1966, studied business administration at Johann-Wolfgang-Goethe-University, Frankfurt am Main following his professional training as an industrial clerk at Braun AG, Kronberg. After completing his studies, he commenced his professional career in 1992 at the auditing firm of C & L Deutsche Revision AG, Frankfurt am Main. In 1996, Dr. Scheffels was awarded his doctorate (Dr. rer. pol.) at Johann-Wolfgang-Goethe-University, Frankfurt am Main. In 1997, he switched to DBAG as an investment manager. He has been a member of Management since 2000 and was appointed a member of the Management Board of the Company effective 1 January 2004.

*He holds the following mandates on supervisory bodies of other companies:*

JCK Holding GmbH Textil KG, Quakenbrück  
Bauunternehmung August Mainka GmbH & Co. KG, Lingen

After resigning from the Management Board, Mr. Irle continues to be an employee of the Company, and receives the remuneration to which he is entitled pursuant to his service contract. Mr. Irle still holds an interest in DBG Advisors GmbH & Co. KG. The effect of his resignation on his stake in DBG Advisors GmbH & Co. KG is currently being reviewed.

The total remuneration for the Management Board for the 2002/2003 financial year was EUR 1,680 thousand. The remuneration included performance-based compensation of EUR 240 thousand. The remuneration did not include any amounts based on long-term incentive arrangements.

The members of the Management Board of the Company each receive fixed remuneration and variable salary components determined on a yearly basis. The variable salary components constitute a profit-sharing plan, a bonus system and a stock option plan. Moreover, pension commitments were made to the individual members. EUR 354,000 were paid to surviving dependents and former Management Board members. Pension reserves for former Management Board members in the amount of EUR 4,991,000 with regard to the Company and amount to EUR 6,732,000 with regard to DBAG Group.

The existing profit-sharing plan is linked to the annual performance of all investments in which the Company had been committed up to 31 December 2000. The profit shares are determined on the basis of the extent to which the return on equity before taxes exceeds 15 percent. In determining the profit share, equity relates only to those investments that are included in the profit-sharing plan. A new profit-sharing plan has not yet been determined.

The bonus system involves a participation in the performance of the fund management activities of DBAG. Basis therefore are the results of management activities determined in accordance with operational criteria.

As part of the stock option plan, 70,000 stock options have been granted annually to members of the Management Board since 2001. One stock option represents an entitlement to the purchase of one share of DBAG. The options are exercisable not earlier than three years and expire after a maximum period of five years after the date of grant after the date of grant. A gain from the exercise of the options is only achieved if the performance of the shares of DBAG (including dividend payments) exceeds that of the SDAX. The plan expires on 24 March 2006 (see General information on the Company – Employee Participation Plan – Stock Option Plan).

To date, the following stock options have been issued to the Management Board members:

| Issue date                      | Number of Options granted | Reference Price EUR | Reference Value SDAX |
|---------------------------------|---------------------------|---------------------|----------------------|
| 11 April 2001 .....             | 70,000                    | 31.39               | 2,926.74             |
| 16 April 2002 .....             | 70,000                    | 20.27               | 2,456.50             |
| 11 April 2003 .....             | 70,000                    | 6.72                | 1,742.84             |
| Total per 31 October 2003 ..... | 210,000                   |                     |                      |

The members of the Management Board do not receive any additional remuneration from controlled companies. Any remuneration received by members of the Management Board for their activities on supervisory bodies of Portfolio Companies will be paid over to the Company.

The Company has not given any loans to Management Board members or to closely related persons of the members of the Management Board, and the Company has not assumed any guarantees to the benefit of Management Board Members and closely related persons. The number of shares held by the Management Board is set forth in "Ownership Structure – Holdings of the Management Board and the Supervisory Board".

All Management Board members may be reached at the Company's address in Frankfurt am Main.

## **9.2 Supervisory Board**

The Supervisory Board is comprised of six members who are elected for the period until conclusion of the Shareholders' Meeting that adopts the resolution to formally approve the actions of the Supervisory Board for the fourth financial year after commencement of their term of office. The financial year in which the members of the Supervisory Board commenced office is not included in calculating this period. A shorter term of office may be determined at the election.

Should a Supervisory Board member be elected to replace a member who prematurely resigns from the Supervisory Board, the term of office of the substitute member shall be equivalent to the remaining term of office of the resigning member. However, at the election, the Shareholders' Meeting may specify a different term of office within the framework of the foregoing paragraph.

Each Supervisory Board member may resign his office subject to a one month notice period, even without good cause, in writing submitted to the Management Board.

Following any Shareholders' Meeting at which all of the Supervisory Board members to be elected by the Shareholders' Meeting are newly elected, a Supervisory Board meeting is held for which no special notice is required. At the first meeting following its election, the Supervisory Board elects from its own ranks the Chairman of the Supervisory Board and a Vice Chairman for the duration of their respective term of office. Should the Chairman of the Supervisory Board or his Vice Chairman leave the Supervisory Board during their terms of office, the Supervisory Board must elect a substitute without undue delay.

Chairman of the Supervisory Board be prevented from acting, the Vice Chairman of the Supervisory Board may exercise the Chairman's rights and obligations under statute and as stipulated in the Articles of Association,

Supervisory Board meetings are called by the Chairman or the Vice Chairman as often as legally required or the business requires. If neither the Chairman nor the Vice Chairman is available, each member of the Supervisory Board may call Supervisory Board meetings.

Supervisory Board meetings are chaired by the Chairman of the Supervisory Board or his Vice Chairman. In their absence, the oldest Supervisory Board member present will chair the respective meeting. The voting method is determined by the chairman of the meeting.

Resolutions and elections may also be held without calling a meeting by way of written, telegraphic or telephonic voting, provided no Supervisory Board member objects to this procedure.

Supervisory Board resolutions are adopted by simple majority of votes cast. In the case of a tie, the Chairman of the relevant meeting shall cast the deciding vote, including in the event of elections.

Any Supervisory Board member who does not attend the meeting may arrange for his written vote to be submitted by another Supervisory Board member.

Declarations of intent on the part of the Supervisory Board and its committees are made on behalf of the Supervisory Board by its Chairman or his Vice Chairman.

The consent of the Supervisory Board is necessary for the acquisition and sale of participations in companies (provided a threshold to be stipulated by the Supervisory Board is exceeded), for the taking out of loans having a term in excess of one year, for the acquisition of real property holdings that are intended for office space, and for the grant of commercial powers of attorney. The Supervisory Board may stipulate other transactions that require its consent.

The Company has taken out third party consequential loss insurance for the members of the Supervisory Board (D&O insurance) (see "Business of the Issuer – Insurance").

The Company's Supervisory Board currently consists of the following members:

**Prof. Dr. Dieter Feddersen (Chairman)**

Prof. Dr. Dieter Feddersen, 68, studied law in Kiel and was awarded his doctorate in 1964. He commenced his career as an attorney and was admitted as a notary in 1974. In the same year, together with colleagues he formed the law firm of Feddersen Laule et al. Today, this is part of the international organisation of White & Case. Since his resignation in 2003 as a partner in the law firm of White & Case, Feddersen, Prof. Feddersen has been working as an attorney.

*He holds the following mandates on supervisory bodies of other companies:*

Drägerwerk AG, Lübeck (Chairman)  
SAI Automotive AG, Frankfurt am Main (Chairman)  
Sauerborn Trust AG, Bad Homburg (Vice Chairman)  
Tarkett Sommer AG, Frankenthal (Chairman)  
Gesellschaft für Industriebeteiligungen Dr. Joachim Schmidt AG & Co. Holding KG, Berlin (Chairman)  
Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main (Chairman)

**Prof. Dr. h.c. Rolf-Dieter Leister (Vice Chairman)**

Prof. Dr. h.c. Rolf-Dieter Leister, 63, held a variety of domestic and international positions during the course of his 20 year career with the IBM Corporation. From 1978 to 1981, he was a member of the Management Board of IBM Deutschland GmbH. From 1981, he worked as a consultant to IT and telecommunications companies. From 1983 to 1989, he was a member of the Supervisory Board of Deutsche Bundespost, and managed the technical advisory board of the Minister for Transport, Post and Telecommunications. These positions led to his appointment as Chairman of the Supervisory Board of Deutsche Telekom AG until the IPO in 1996. Parallel to these duties, he was the Chairman of the Advisory Board of Deutsche Bahn. Today, Prof. Leister works as a freelance consultant for the international IT and telecommunications industry.

*He holds the following mandates on supervisory bodies of other companies:*

Berlinwasser Holding AG, Berlin (Chairman)  
BÖWE System AG, Augsburg  
DaimlerChrysler Services (debis) AG, Berlin  
Loewe AG, Kronach  
Südwestdeutsche Medien Holding GmbH, Stuttgart  
Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main  
(Vice Chairman)

## **Dr. Hans-Peter Binder**

Dr. Hans-Peter Binder, 64, studied law in Frankfurt am Main and Munich. After being awarded his doctorate in 1967, he commenced his professional career at Deutsche Bank in Munich working as part of the corporate client business. After two years as an assistant to the Management Board, he was appointed a co-manager of the corporate client business of the Munich branch in 1975. From 1977 to 1981, he managed the branch in Augsburg. Thereafter, until his departure in 2002, he was a member of the directorate of the Munich branch of Deutsche Bank AG.

*He holds the following mandates on supervisory bodies of other companies:*

Dierig Holding AG, Augsburg (Chairman)  
Faber-Castell AG, Stein/Nuremberg (Vice Chairman)  
Knorr-Bremse AG, Munich (Chairman)  
Knorr-Bremse Systeme für Nutzfahrzeuge GmbH, Munich  
Saint-Gobain Oberland AG, Bad Wurzach  
SCA Hygiene Products AG, Munich  
A.W. Faber-Castell Unternehmensverwaltung GmbH & Co., Stein/Nuremberg  
Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

## **Eberhard Buschmann**

Eberhard Buschmann, 53, studied law in Würzburg. He began his career at Bayern Versicherung in Munich. At Vereinte Versicherung, he was responsible for asset management. Since 1996, he has been the spokesman for the Management Board of Wilhelm von Finck AG, an asset management company in the Munich suburb of Grasbrunn.

*He holds the following mandates on supervisory bodies of other companies:*

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

## **Dr. Fritz Lehnen**

Dr. Fritz Lehnen, 60, studied economics in Bonn. After being awarded his doctorate and occupation at the University of Bonn and University Economics Seminars at Schloss Gracht – Erftstadt, he held various positions and carried out various management duties in the Rheinmetallgruppe from 1979. In 1993, he joined FAG Kugelfischer Georg Schäfer AG, Schweinfurt, as the Management Board member responsible for finance and personnel matters. From 1997 to October 2003, Dr. Lehnen worked at mg technologies ag, Frankfurt, first as the Chairman of the Management Board of Dynamit Nobel AG, Troisdorf, and from mid-2000, as the Management Board member of mg technologies ag responsible for the engineering division. Today, he works as an independent consultant.

*He holds the following mandates on supervisory bodies of other companies:*

Polymer Latex B.V., Amsterdam  
Vaillant GmbH, Remscheid  
Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main  
Peters Associates AG, Frankfurt am Main  
Leop. Kramunkel GmbH & Co. KG, Bergneustadt  
HDI Haftpflichtverband der Deutschen Industrie VVaG, Hannover

## **Walter Schmidt**

Walter Schmidt, 56, concluded his professional training in the savings bank sector in 1970 as a savings bank business administrator. Until 1975, he was a department head in the industrial credit division of Westdeutsche Landesbank Düsseldorf, giro centre. He then assumed management duties in the bank's annuities and share trading. Since 1994, Mr. Schmidt has been the Managing Director (spokesman) of Gerling Investment Kapitalanlage GmbH and, since October 2002, the Managing Director of Gerling-Konzern Gesellschaft für Vermögens-Management mbH. Moreover, he is chairman and a member of various investment committees.

*He holds the following mandates in the supervisory bodies of other companies:*

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

The Supervisory Board has an executive body (hereinafter "Presidium"), which represents the Supervisory Board in personnel matters when dealing with the Management Board. The Presidium's members are Prof. Dr. Feddersen, Prof. Dr. h.c. Leister and Dr. Binder. Moreover, an audit committee was formed. All Supervisory Board members are also members of the audit committee. The audit committee deals, in particular, with issues relating to accounting and risk management, the requisite independence of the auditor, the award of the audit contract to the auditor, the determination of focal points of the audit and the fee agreement. The audit committee advises the Supervisory Board on the aforementioned issues.

The fixed remuneration for Supervisory Board members in the 2002/2003 financial year totalled EUR 39 thousand. Due to the lack of any dividends for the 2001/2002 financial year, no variable remuneration was paid.

The Supervisory Board's remuneration will be entirely reexamined by virtue of a resolution to be adopted at the Shareholders' Meeting to be held on 18 March 2004. The Management Board and Supervisory Board will propose that a resolution be adopted to the effect that the remuneration of the members of the Supervisory Board be set at EUR 30 thousand per annum. The Chairman of the Supervisory Board will receive 1.75 times this amount while the Vice Chairman will receive 1.25 times this amount. Membership in the Presidium will attract a remuneration equivalent to 0.25 of this amount.

The members of the Supervisory Board receive no additional remuneration from controlled companies.

Prof. Dr. h.c. Rolf-Dieter Leister received remuneration of approximately EUR 137 thousand (net) for consultancy services provided via Infra Beratung GmbH in the 2002/2003 financial year.

In the 2002/2003 financial year, the law firm White & Case Feddersen received remuneration of approximately EUR 25 thousand (net).

No loans have been given by the Company to members of the Supervisory Board or persons closely related to members of the Supervisory Board.

The members of the Supervisory Board hold no shares in the Company.

All members of the Supervisory Board may be reached at the Company's address in Frankfurt am Main.

### **9.3 Shareholders' Meeting**

The Shareholders' Meeting is held at the Company's registered office or at the registered office of a German stock exchange. It is called by the Management Board or, as legally required, by the Supervisory Board.

Any Shareholders' Meeting must be called by way of an announcement in the electronic Federal Gazette at least one month prior to the last day for depositing shares. The last day for depositing of shares and the day of the announcement shall not be included in the calculation of the notice period.

Those shareholders who deposit their shares with the Company or with other offices specified in the invitation to the meeting no later than on the seventh day prior to the date of the meeting and until conclusion of the Shareholders' Meeting are allowed to attend the Shareholders' Meeting and exercise their voting rights. Shares shall also be deemed to have been duly deposited if, with the consent of a depositary institution, the shares are held on their behalf in a blocked account held at other financial institutions until conclusion of the Shareholders' Meeting. Details concerning deposit of the shares and the issue of entry tickets are to be set forth in the invitation of the meeting.

Each no-par share is entitled to one vote. The voting right accrues only upon full payment of the relevant contribution.

The Shareholders' Meeting is chaired by the Chairman of the Supervisory Board or his Vice Chairman, or by another member of the Supervisory Board. In the event that a member of the Supervisory Board does not chair a meeting, the chairman of the meeting is elected by the Shareholders' Meeting under the chairmanship of the oldest shareholder present. The chairman directs the discussions and determines the sequence in which the items on the agenda are addressed.

The chairman determines the form and additional details of any voting. The result of a given voting is determined by counting the number of votes in favour and number of votes against. The chairman also decrees the manner in which the votes are counted, e.g. by deducting the votes in favour, or votes against, plus the abstentions from the total votes to which the voters are entitled. The chairman of the meeting may permit the Shareholders' Meeting to be transmitted in sound and image. A corresponding announcement appears in the invitation to the meeting.

Resolutions of the Shareholders' Meeting are adopted by simple majority of votes cast and, if a majority of the represented capital is required, then by simple majority thereof, unless the law or the Articles of Association mandatorily require otherwise. The Supervisory Board is authorised to make amendments to the Articles of Association, which affect the wording only.

## 9.4 Corporate Governance

At the beginning of the 2003/2004 financial year, the Company made the so-called conformity declaration pursuant to § 161 of the German Stock Corporation Act. Thereunder, the Company substantially complies with the conduct recommended by the Federal Government Commission on the "German Corporate Governance Code" (hereinafter referred to as the "Code") developed by it. On 25 November 2003, the Management Board and the Supervisory Board of the Company declared that the Company complies in general with the recommendations of the Government Commission on the German Corporate Governance Code as amended per 21 May 2003. Similarly, the Company has generally complied with the recommendations of the Corporate Governance Code dated 7 November 2002 since the last conformity declaration dated 18 December 2002.

The Company has declared that it deviates from the Code's recommendations in the following respects:

- For members of the Management Board and the Supervisory Board, the D&O insurance did not and currently does not provide for a deductible (item 3.8 of the Code). Standards concerning the amount and application of a deductible have still not been developed. The Company intends to revisit this issue as soon as it believes that trends in that direction are visible.
- The Company does not intend to follow the recommendation of publishing the remuneration of members of the Management Board on an individual basis (item 4.2.4 of the Code). The Company gives priority to individual Board members' right to data privacy. The Code had previously classified this recommendation as a suggestion, which the Company had chosen not to follow for the reasons stated.
- The Code recommends that the service on Board committees accounts for the re-muneration of the Supervisory Board members (item 5.4.5 of the Code). The Company currently does not follow this recommendation and did not follow it in the past, since this would necessitate a change to the Company's Supervisory Board remuneration structure. However, the Company's Management Board and Supervisory Board will present a resolution to that effect at the next Shareholders' Meeting. This will create transparency in the remuneration paid to Supervisory Board members; however, similar to the policy for Management Board members, a separate listing of individual remuneration will not be published in the Annual Report.
- For the time being, the Company will continue to base its accounting on the principles of the German Commercial Code and not present a consolidated financial statement in conformity with international accounting standards (item 7.1.1 of the Code), which the Company had not done in the past either. The special IFRS/IAS principles that must be applied to the Company as a so-called investment company have not yet been definitively adopted at the time this Declaration was issued in November 2003. The Company wishes to avoid drawing up its financial statements on a provisional basis. In anticipation of the transition to the IFRS/IAS, however, the Company publishes every six month portfolio valuations determined in conformity with the IFRS/IAS fair-value principles already available today, thereby presenting the relevant information to its shareholders as would be disclosed by IFRS/IAS accounting. This was also the Company's policy in the past.

- The Company is endeavouring to present the consolidated financial statement within 90 days of the end of a financial year (item 7.1.2 of the Code). The consolidated financial statements for 2002/2003 were presented by the Company within this period of time. The interim reports per 30 April 2003 were the first to be publicly accessible within the required period of 45 days. The Company's goal is to achieve this availability for future interim reports as well.
- The Company will only to a limited extent comply with the recommendation of publishing a list of third-party companies in which Deutsche Beteiligungs AG holds a "material interest" (item 7.1.4 of the Code). This recommendation concerns the core of the Company's business. Frequently, confidentiality is a contractual stipulation with the Company's contracting partners. Moreover, the publicity associated with issuing the required information may, in certain instances, be detrimental to the Company's Portfolio Companies. The Company's compliance with this recommendation was subject to this reservation in the past.
- The Company does not intend to elect all the members of the Supervisory Board on one date. This ensures the continuity of Supervisory Board members' work flow. The Company will therefore continue to not follow the suggestion of scheduling elections on various dates (item 5.4.4 of the Code).

## **10 Transactions and Legal Relations with Related Persons**

Since financial year 2001/2002, members of the Management Board and another group of selected employees have been investing in form of a partnership in the same Portfolio Companies as DBAG and the DBAG Group (see here "Business of the Issuer – DBAG's Business Concept – Co-investments alongside Fund IV"). These investments are made according to a fixed ratio and in parallel with the investors of Fund IV and DBAG.

Prof. Dr. h.c. Rolf-Dieter Leister received benefits totalling approximately EUR 137 thousand (net) through Infra Beratung GmbH as consideration for his consulting services. Fees of approximately EUR 25 thousand (net) were paid for professional services provided by the law firm White & Case Feddersen.

## **11 Taxation in the Federal Republic of Germany**

The following section "Taxation in the Federal Republic of Germany" contains a short summary of certain German tax principles that are or may become relevant to the purchase, holding and transfer of shares. This summary does not, however, purport to be a comprehensive or exhaustive description of all German tax ramifications that may be relevant to shareholders. The summary is based on the German tax laws in effect as of the date of this Prospectus and on any double taxation treaties currently in force between Germany and other countries. Provisions in both areas of law may change, possibly even with retroactive effect. Prospective buyers of the shares offered herein are advised to consult with their tax advisers regarding the tax ramifications of any purchase, holding and transfer of shares, and concerning the procedures that must be followed in order to receive a refund of German Withholding Tax (Corporate Income Tax). Only a tax adviser will be in a position to fully consider the particular tax situation of any given shareholder.

### **11.1 Taxation of the Company**

German corporations are generally subject to an earnings-based trade tax, corporate income tax and a solidarity surcharge. The exact amount of the trade tax depends on (i) the profits computed in accordance with the German Corporation Tax Act (Körperschaftsteuergesetz), adjusted for any add-backs and deductions for purposes of trade tax law, and (ii) the municipalities where the corporation maintains permanent establishments. In computing the income of the corporation subject to corporate income tax, the trade tax due is deductible as a business expense. The Company qualifies as a private equity firm in accordance with the Private Equity Companies Act and is therefore exempt from trade tax.

Any profits earned by German corporations are subject to a standard tax rate of 25 percent for any distributed or retained profits. It is also subject to a solidarity surcharge equal to 5.5 percent of the corporate income tax.

Any dividend payments made by corporations to the Company are exempt from corporate income tax and trade tax. However, 5 percent of the dividends received will not be treated as non-deductible business expenses.

During a 15-financial year transitional period, if the Company distributes to its shareholders profits, which were retained prior to 2001, then the Company's income tax liability will be reduced by 1/6 of those distributed dividends up to an amount of the corporate income tax credit on retained earnings as established for the Company. Any corporate income tax credits not utilised for dividend distributions prior to the end of the 15-fiscal-year period will lapse. If certain tax-exempt earnings originating prior to 2001 are distributed during the transitional period, then such earnings shall as a rule be subject to taxation at the Company's level and at a rate of 30 percent.

## **11.2 Taxation of Dividends**

### **11.2.1 Withholding Tax**

Any corporations that are resident in Germany must generally withhold and deduct from their dividend payments a tax (withholding Tax) in an amount of 20 percent of that dividend amount plus a solidarity surcharge of 5.5 percent for the account of the shareholder. The basis for the assessment of withholding tax is the dividend declared at the Shareholders' Meeting. The taxes are withheld irrespective of whether and to what extent the dividends are tax-exempt at the shareholder level (see below "Taxation of Shareholders").

Any dividends which fall within the meaning of Article 2 of the EC Directive 90/435/EEC of the Council of 23 July 1990 (the so-called "Parent Subsidiary Directive") and which are distributed to parent corporations that are resident of a Member State of the European Union, may be fully exempt from any withholding tax upon application made at the time of the dividend distribution, provided that the additional requirements are met.

### **11.2.2 Taxation of Shareholders**

#### **(i) Resident Shareholders**

If a natural person who is an unrestricted tax resident of Germany holds shares as non-business (private) assets, then only 50 percent of the dividend will be deemed taxable investment income (the so-called "Half Income Method"). The taxable amount is subject to German progressive income tax (currently up to a maximum amount of 45 percent, and in 2005 presumably 42 percent), plus a 5.5 percent solidarity surcharge thereon. Only one-half of the expenses related to the taxable dividend income is deductible for tax purposes.

Any natural persons who hold shares as non-business (private) assets are granted a so-called "exclusion from net investment income" ("Sparerfreibetrag") in an amount of EUR 1,370 (single taxpayers) or EUR 2,740 (married couples filing jointly) on their investment income. In addition, such persons are entitled to a standard deduction of EUR 51 or EUR 102 for income-producing expenses ("Werbungskostenpauschale"), if no proof of higher income-producing expenses is furnished. If, after deducting all or one-half of the actual income-producing expenses or the standard deduction for such expenses, the dividend and other investment income exceed this net investment income exclusion, then such excess amount will be subject to taxation.

If the shares are held by a sole proprietor or a partnership as business assets, then for purposes of income taxation, only 50 percent of the dividends – if no legal entity is a shareholder – will be used in determining the income from the trade business. Only 50 percent of the business expenses, which are related directly to the dividends, will be deductible for tax purposes. With respect to partnerships, the dividends will be allocated to a standard and special earnings account and will be attributable on a pro rata basis to the partners, whereby their tax liability – including the deductibility of any expenses related thereto – will depend on their legal structure. In addition, the dividends will be fully subject to trade tax if the taxpayer does not own at least 10 percent of the registered equity capital at the beginning of the tax assessment period. As a rule, any trade tax levied at the natural person's level will be credited against that person's income tax liability.

Any dividends paid since 1 January 2002 to corporations resident in Germany – subject to certain exceptions for banks, financial services institutions, life insurance and health insurance companies – are generally exempt from corporate income tax and solidarity surcharges. No minimum percentage of ownership or minimum holding period is required. Nevertheless, dividends paid from certain tax-exempt profits may be subject to subsequent additional corporate income tax. Any business expenses directly related to the tax-exempt income are not deductible as business expenses. However, 5 percent of the dividends will not be tax deductible as business expenses. If the corporation resident in Germany holds less than 10 percent of the share capital of the corporation, then it will be subject to trade tax on the full amount of the dividends.

If profit distributions are deemed to have been made from previous capital contributions that are made by the shareholder but not subject to taxation, then such distribution will not be subject to either a withholding tax or taxation as dividend income. However, it is possible that the distribution may qualify and be taxed as a capital gain.

### **(ii) Crediting or Refund of Withholding Tax**

For shareholders resident in Germany and for non-resident shareholders who hold shares as part of the assets of a permanent establishment (including a permanent representative) or a fixed base in Germany, the tax (including solidarity surcharge) withheld and remitted will be credited towards the shareholders' income or corporate income tax liability. The remaining balance will be refunded to the shareholder.

For natural persons whose shares are held as private assets, a total or partial refund of withholding tax is also possible under certain conditions.

### **(iii) Non-Resident Shareholders**

For non-resident shareholders who did not have a permanent establishment, permanent representative or a fixed base in Germany, the German tax liability will be deemed to have been discharged through the withholding tax (also at reduced rates under applicable double taxation treaties).

If the shareholder is a natural person and his/her shares are part of the assets of a permanent establishment or fixed base in Germany or if the shares are held through an appointed permanent representative in Germany, then 50 percent of the dividends will be subject to German income tax and a solidarity surcharge. The minimum income tax is 25 percent plus the solidarity surcharge thereon. Moreover, the dividend may also be subject to trade tax.

Any dividend payments to foreign corporations – subject to certain exceptions for banks, financial institutions and other finance companies – are generally exempt from corporate income withholding tax and the solidarity surcharge, provided the shares are part of the business assets of a fixed base or permanent establishment in Germany. However, 5 percent of the dividend payments will be deemed non-deductible business expenses. For dividend payments on widely-held shares – i.e., dividends based on holdings of less than 10 percent – the entire dividend payment will be subject to trade tax.

#### **(iv) Refund of Withholding Tax by the Federal Ministry of Finance**

The dividend withholding tax rate on dividends distributed to shareholders who are resident in a country with which Germany has entered into a double taxation treaty or whose shares are not part of the assets of a permanent establishment (including a permanent representative) or a fixed base in Germany will be reduced pursuant to the double taxation treaty. In general, the withholding tax will be reduced by refunding the shareholder the total amount withheld (including the solidarity surcharge) in excess of the withholding tax actually owed under the pertinent double taxation treaty (generally 15 percent) upon the shareholder's application for a refund to the German tax authorities (Bundesamt für Finanzen [German Federal Ministry of Finance], Friedhofstraße 1, D-53221 Bonn). Application forms for the refund request can be obtained from the Bundesamt für Finanzen.

If the shares are not held as part of the assets of a permanent establishment (including a permanent representative) or a fixed base in Germany, then any dividend distributions are generally not taxable. Nevertheless, the Company will be obligated to withhold a 20 percent tax (plus the solidarity surcharge thereon) on the full amount of the dividend. The withholding tax would be refunded according to the applicable double taxation treaty and the procedure set forth thereunder.

### **11.3 Taxation of Capital Gains**

#### **11.3.1 Resident Shareholders**

Capital gains generated upon the sale of shares held as non-business (private) assets by shareholders resident in Germany are generally subject to income tax, plus the solidarity surcharge, if the shares are sold within one year of the date on which they were originally purchased. However, only 50 percent of the sales proceeds is subject to tax. If the taxpayer short-term capital gains on all private sales during a given calendar year are less than EUR 512, then such gains will be tax-exempt. The deductibility of losses from the sale of shares is subject to certain restrictions.

Fifty percent (50 percent) of all capital gains on the sale of shares held in non-business (private) assets by shareholders resident in Germany are also subject to taxation, if, after expiration of the aforementioned one-year period, the shareholder or – in the case of a purchase for no consideration, his legal predecessor – has directly or indirectly held, at any time during the five years immediately preceding the sale, at least 1 percent of the corporation's equity capital. If the shareholder as acquired the shares for no consideration, then the holding period and ownership percentages of the legal predecessors will be added and taken into account. Only 50 percent of the losses on the sale and expenses related to the sale of shares may be claimed for tax purposes, provided certain requirements are met.

Any capital gains on the sale of shares held by a shareholder resident in Germany as part of his or her business assets are taxable at regular rates. Specifically, the half income method applies to the calculation of profit at the partnership level – provided there is no corporation with an interest in the partnership – and governs natural persons.

Any capital gains realised by partnerships that are engaged in a commercial enterprise are fully subject to trade tax. Furthermore, any capital gains are part of the income of any partnership, which is subject to itemised and uniform determination of income, and then attributable to the particular partners, whereby such taxation at the partner level will depend on the legal structure or form of the partners themselves.

Any capital gain realised on the sale of shares by shareholders who are subject to corporate income tax – subject to special exceptions for banks, financial service institutions and finance companies, life insurance and health insurance companies – are generally exempted from trade tax and corporate income tax, including the solidarity surcharge. Nevertheless, 5 percent of the capital gains are deemed non-deductible business expenses.

### **11.3.2 Non-Resident Shareholders**

Capital gains on the sale of shares by non-resident shareholders are subject to taxation in Germany, if the non-resident shareholders (i) are holding the shares at a permanent establishment or fixed base, or through a permanent representative, in Germany, (ii) have held, directly or indirectly at any time during the five years immediately preceding the sale, at least 1 percent of the corporation share capital, or (iii) are subject to extended tax liability pursuant to § 2 of the Foreign Tax Act (AStG).

Capital gains on the sale of shares by a corporate shareholder which is not resident in Germany and which holds shares as assets at a permanent establishment in Germany are exempt from corporate income (withholding) tax and trade tax. Likewise, any losses from the sale of shares and expenses related to the sale of shares are no longer tax deductible. However, 5 percent of the capital gain are deemed non-deductible business expenses.

If applicable, a double taxation treaty may provide that capital gains realised upon the sale of shares are completely exempt from German taxation.

## **11.4 Special Tax Rules for Banks, Financial Service Institutions and Finance Companies**

If a bank and financial services institution holds or sells shares that are shown in a trading book (Handelsbuch) pursuant to § 1 (12) of the German Banking Act (KWG), then neither dividends nor capital gains will be subject to the half income method or to tax exemption. The same applies where the shares are purchased by a finance company within the meaning of the KWG with the aim of making short-term gains for such company's proprietary account. The same rule applies for any banks, financial service institutions or finance companies with a registered office in another Member State of the European Union or in another Contracting State to the Agreement on the European Economic Area (EEA).

## **11.5 Net Wealth Tax**

For tax assessment periods beginning 1 January 1997, no net wealth tax has been imposed in Germany.

## 11.6 Inheritance and Gift Tax

The transfers of shares to another person by way of gift or causa mortis (bequest) is subject to German gift and inheritance tax, only if

- (i) the testator, donor, heir, donee or other recipient was domiciled or had his habitual abode in Germany at the time the assets are transferred,

or

the testator, donor, heir, donee or other recipient had permanently resided as a German citizen outside of Germany for no more than five consecutive years, without having had a domicile in Germany;

or

- (ii) except in the case of (i) the shares make up part of the testator's or donor's business property, for which a permanent establishment was maintained or a permanent representative was appointed in Germany,

or

- (iii) the testator or donor, either alone or together with other closely-related persons as defined in § 1 (2) AStG in conjunction with § 121 no. 4 of the Valuation Act (Bewertungsgesetz), held, directly or indirectly, at least 10 percent of the share capital of the German corporation at the time of the testator's death or donor's gift;

or

- (iv) the testator or donor is a German citizen and is subject to extended restricted tax liability after moving away from the Federal Republic of Germany (§§ 2, 4 AStG).

The few German estate tax treaties currently in force typically provide that German estate or gift tax may be assessed only in the cases described in (i) above and, with restrictions, in the case of (ii).

## 11.7 Other German Taxes

There are no German capital transaction taxes, turnover taxes, stamp duties or other similar taxes imposed on the purchase, sale or transfer of shares. Under certain circumstances, however, it is conceivable that an enterprise may opt for turnover tax liability on sales that would otherwise be tax-exempt. The transfer or combination of at least 95 percent of the shares may trigger a land transfer tax (Grunderwerbsteuer) if the company or the companies in which the Company owns a direct or indirect interest holds or hold real property located in Germany.

## **12 Management's Discussion and Analysis of the Group's Financial Condition and Business Developments for the Period 1 November 2000 through 31 October 2003**

The following discussion and analysis of DBAG's financial condition and business development are based on the consolidated financial statements of the Company for financial years 2000/2001, 2001/2002 and 2002/2003, which were prepared in accordance with the German accounting rules. The consolidated financial statements have not yet been prepared under international accounting principles.

The discussion and analysis of the Group's financial condition and business development follows the presentation format of consolidated financial statements as prescribed under the rules of the German Commercial Code ("HGB"). In order to take into account the special circumstances of private equity companies, the Group Management Report differs from the presentation format prescribed by law (see "Group Management Report of Deutsche Beteiligungs AG"). However, the discussion below does not follow this reclassification.

### **12.1 Changes in the Consolidated Group of Enterprises**

The DBAG Group was created on 26 October 2001, a few days prior to the closing date of the consolidated financial statements on 31 October 2001. Given the short window of time between the creation of the Group and the preparation of the initial consolidated financial statements, a number of particularities have to be considered in the consolidated financial statements for the period ending 31 October 2001. These particularities are explained in the description set forth below concerning items on the profit and loss account. One more company was added to the group of companies included in the consolidated financial statements per 31 October 2003. Given this newly consolidated company's still minor significance, the increase in the number of consolidated companies does not have a material effect on the evaluation of the Group's net assets, financial position and results of operations.

### **12.2 Valuation of Investments**

The Portfolio Companies are essential for the assessment of the DBAG Group. Accordingly, the investments constitute the single largest item among the DBAG Group's assets. These holdings are recorded as investments and, in accordance with the provisions of German commercial law, are generally entered on the balance sheet at their cost of acquisition under the principle of individual asset valuation (Grundsatz der Einzelbewertung). Any anticipated decreases in the value of such assets are accounted for as non-scheduled depreciation. They have a material effect on the presentation of the net assets, financial position and results of operations for the Company and for the DBAG Group as a whole.

As part of its internal controlling system, the Company evaluates whether and to what extent the Portfolio Companies have experienced negative developments. The required data is recorded in connection with regular investment monitoring and controlling procedures. If a Portfolio Company shows a negative development, the extent of such negative development, the estimated duration of the negative variance and the general circumstances surrounding the investment will be appraised to decide whether the value of the Investment has decreased permanently. If the Company believes that the negative development is of temporary nature, no write-down will be made. If the Company is of the opinion that the negative development is of permanent nature and this development causes the Investment's value to fall below the acquisition costs or the book value, then a write-down will be made. The amount of the write-down

will depend on the extent of the decrease in value of the Investment in light of the Portfolio Company's anticipated ongoing business development. The write-down will equal 25 percent – or a multiple thereof – down to 75 percent, 50 percent, 25 percent or 0 percent of the original acquisition cost of the Investment.

If the Company believes that a Portfolio Company will after a write-down was made, then the value of the respective holding must be written-up in accordance with the legal requirement to reinstate the asset's original value (Wertaufholungsgebot). Unlike the rules under IFRS/IAS, any such asset write-up may only be made up to the original acquisition cost (see also "General Information on the Company – Publication of the Company's Fair Value under IFRS/IAS").

## 12.3 Net Income Development of the DBAG Group 2000/2001 – 2002/2003

### 12.3.1 Summary of Net Income Development of the DBAG Group 2000/2001 – 2002/2003

| In € '000s  | 2000/01 | 2001/02 | change<br>from<br>prev. yr. | % change<br>from<br>prev. yr. | 2002/03 | change<br>from<br>prev. yr. | % change<br>from<br>prev. yr. |
|---|---------|---------|-----------------------------|-------------------------------|---------|-----------------------------|-------------------------------|
| Income from investments                                 | 29,935  | 11,767  | -18,168                     | -60.7 %                       | 9,289   | -2,478                      | -21.1 %                       |
| Gains from investment disposals                         | 9,748   | 15,463  | 5,715                       | 58.6 %                        | 13,910  | -1,553                      | -10.0 %                       |
| Losses from investment disposals                        | 9,041   | 1,053   | -7,988                      | -88.4 %                       | 1,528   | 475                         | 45.1 %                        |
| Write-downs on investments and on marketable securities | 11,235  | 27,025  | 15,790                      | 140.5 %                       | 16,837  | -10,188                     | -37.7 %                       |
| Other operating income                                  | 9,568   | 10,366  | 798                         | 8.3 %                         | 19,945  | 9,579                       | 92.4 %                        |
| Personnel costs   | 8,775   | 7,571   | -1,204                      | -13.7 %                       | 7,552   | -19                         | -0.3 %                        |
| Depreciation on fixed assets and intangible assets      | 351     | 218     | -133                        | -37.9 %                       | 229     | 11                          | 5.0 %                         |
| Other operating expenses                                | 10,659  | 12,142  | 1,483                       | 13.9 %                        | 9,348   | -2,794                      | -23.0 %                       |
| Net interest  | -2,793  | -5,492  | -2,699                      | 96.6 %                        | -3,264  | 2,228                       | -40.6 %                       |
| Result of ordinary activity                             | 6,397   | -15,905 | -22,302                     |                               | 4,386   | 20,291                      |                               |
| Taxes   | -2,769  | -65     | 2,704                       |                               | 1,290   | 1,355                       |                               |
| Consolidated net income/loss                            | 9,166   | -15,840 | -25,006                     |                               | 3,096   | 18,936                      |                               |

### 12.3.2 Income from Investments

Income from investments includes dividends, income from silent participations and income from loans. This item also includes income in the form of profit distributions and special distributions, which are made in connection investment disposals. Such profit distributions occur, for example, when an intermediate company, which performs solely a holding function, transfers to its shareholders a gain, which it realises from the disposal of one of its Portfolio Companies. Special distributions by Portfolio Companies to the Company are triggered, inter alia, in connection with the sale of such Portfolio Companies.

Income from investments equalled EUR 29.9 million in financial year 2000/2001, EUR 11.8 million in financial year 2001/2002 and EUR 9.3 million in financial year 2002/2003.

Each year, the Income from investments consists of a number of individual items. The discrepancy between the strong earnings generated in financial year 2000/2001 and the significantly lower results in the subsequent years can be attributed primarily to the share in the gain on a successful disposal made in 2000 (Czech Online). The share in the gain represents a success premium from the first Eastern European fund. In the financial year 2000/2001, the next smaller income item after the aforementioned gain was EUR 2.8 million. The largest item in the financial year 2001/2002 was EUR 2.4 million, while in the financial year 2002/2003, it was EUR 1.5 million.

### **12.3.3 Gains from Investment Disposals**

Gains from investment disposals result from the sale of holdings and profit distributions made from investments in private equity funds, since such distributions resulted primarily from capital gains and were usually associated with the repayment of capital. Gains from the disposal of Investments are dependent upon the results of few transactions.

If the Company provides warranties in connection with a disposal of its Investments, then any gains made on such sale (the sale price less the book value of the holding) will be discounted to reflect the liability risks arising from a potential warranty claim by the purchaser. The Company will calculate the liability risks individually on the basis of the respective liability risk and its own past experiences. If it becomes apparent that no warranty claims will be enforced, the Company will recognise as income the amount of the risk discount that has been applied. This income will be reported under the item "gains from investment disposals".

Gains from investment disposals totalled EUR 9.7 million in financial year 2000/2001, EUR 15.5 million in financial year 2001/2002 and EUR 13.9 million in financial year 2002/2003.

In the financial year 2000/2001, no significant investments were sold. The income reported resulted primarily from gains generated on disposals made in previous years where no warranty claims were enforced. In the financial years 2001/2002 and 2002/2003, two successful disposals or partial disposals were consummated in each of these years: namely, Rheinhold & Mahla AG and HAWE KG in financial year 2001/2002, and Edscha AG and Andritz AG in financial year 2002/2003. These transactions contributed to gains from investment disposals.

### **12.3.4 Losses from Investment Disposals**

Losses on the sale or disposal of investments result from transactions in which these investments were sold at a value below their most recently appraised book value. These losses equalled EUR 9.0 million in financial year 2000/2001, EUR 1.1 million in financial year 2001/2002 and EUR 1.5 million in financial year 2002/2003.

The exceptionally high losses in financial year 2000/2001 related to the sale of the remaining holding in Libro AG.

The loss sustained in financial year 2001/2002 resulted largely from a waiver of loan receivables in an amount of EUR 0.7 million.

In financial year 2002/2003, the losses consisted of a number of smaller amounts, the largest of which was EUR 0.5 million.

### **12.3.5 Write-downs on Investments and on Marketable Securities**

The aim in the private equity business is to generate gains from the sale of investments held in the investment portfolio. Regardless of the strategy for promoting the long-term growth in the value of their holdings, private equity firms must perform write-offs or write-downs in order to account for the economic and business development of their Portfolio Companies.

Write-downs on investments and on marketable securities equalled EUR 11.2 million in financial year 2000/2001, EUR 27.0 million in financial year 2001/2002 and EUR 16.8 million in financial year 2002/2003.

In financial year 2000/2001, five holdings had to be written down in an amount totalling EUR 11.1 million, while marketable securities were written down in the amount of EUR 0.1 million.

The poor economy was the main cause for the unusually high level of write-downs in the financial year 2001/2002 (EUR 27.0 million). A total of 10 holdings had to be written down, of which most related to three investments.

In financial year 2002/2003, another high volume of write-downs had to be recognized (EUR 16.8 million). Of this amount, a total of EUR 13.1 million was written down on US holdings.

### **12.3.6 Other Operating Income**

Other operating income includes primarily management compensation from service and trustee agreements entered into between DBAG and the funds under its management, pass-through costs, income from structuring investment transactions, the release of provisions, supervisory board compensation, and write-ups on equity investments.

Other operating income totalled EUR 9.6 million in financial year 2000/2001, EUR 10.4 million in financial year 2001/2002 and EUR 19.9 million in financial year 2002/2003.

The investment management remuneration, which is included therein, fell from EUR 5.7 million in financial year 2000/2001 to EUR 4.0 million in financial year 2001/2002 as a result of the initial full-year consolidation of DBG Auslands-Holding GmbH, which paid a management fee to DBAG. In financial year 2002/2003, the compensation for investment management rose to EUR 7.9 million. This amount included a non-recurring income item of EUR 0.8 million. The increase may be attributed primarily to the income collected for the first time for the management of the newly established parallel Fund IV (approximately EUR 4.2 million). By virtue of the divestiture of Fund I KG and Fund III GmbH, management fees will generally tend to decline until the launch of the next fund.

The fluctuations in Other operating income are also caused by pass-through costs, which rose appreciably in financial year 2001/2002 and declined again in financial year 2002/2003. This item was EUR 23 thousand in financial year 2000/2001, EUR 4.1 million in financial year 2001/2002 and EUR 1.6 million in financial year 2002/2003.

Other operating income covers income from structuring equity investment transactions in the amount of EUR 1.4 million in financial year 2000/2001, EUR 0.2 million in financial year 2001/2002 and EUR 1.7 million in financial year 2002/2003. In the financial year 2001/2002, additional income from structuring equity investment transactions in the amount of EUR 1.4 million has been generated which was included in the Income from Investments.

Reversals to value adjustments and write-ups on financial assets equalled EUR 1.2 million in financial year 2000/2001, EUR 0 in financial year 2001/2002 and EUR 6.7 million in financial year 2002/2003. The unusually high Other operating income item in financial year 2002/2003 can thus be attributed primarily to the reversals to value adjustments and write-ups on financial assets.

### **12.3.7 Personnel Costs**

Personnel costs consist primarily of wages and salaries as well as social security contributions, additions to pension reserves and special payments and benefits.

Personnel costs declined from EUR 8.8 million in financial year 2000/2001 to EUR 7.6 million in financial year 2001/2002, and remained relatively constant in financial year 2002/2003 at EUR 7.6 million. In financial year 2000/2001, personnel expenses were inflated as a result of one-time personnel expenditures of approximately EUR 2.9 million. Personnel costs were affected, inter alia, by changes both in the Board of Management and in the investment team.

### **12.3.8 Depreciation on Fixed Assets and Intangible Assets**

Depreciation on tangible assets totalled EUR 0.35 million in financial year 2000/2001, EUR 0.22 million in financial year 2001/2002 and EUR 0.23 million in financial year 2002/2003. The higher figure in 2000/2001 is connected, inter alia, to the company's relocation to new business premises, which triggered special write-downs.

### **12.3.9 Other Operating Expenses**

Other operating expenses consist primarily of operating expenses, which are attributable to investment management, incidental costs related to sales transactions, costs of procuring capital and writing off receivables.

Other operating expenses equalled EUR 10.7 million in financial year 2000/2001, EUR 12.1 million in financial year 2001/2002 and EUR 9.4 million in financial year 2002/2003. The main causes of these changes were increased consulting expenses in 2001/2002 and lower consulting expenses in the financial year 2002/2003. The consulting expenses consist primarily of advice provided in connection with the review and structuring of investments. Since some of these expenses were passed on, the fluctuations in consulting expenses are also reflected in the fluctuations of pass-through costs, which are also shown under "Other operating income".

### 12.3.10 Net Interest

Net interest represents the net amount of interest income and interest expenses and includes mostly interest expenses connected with the debt financing of the equity investment portfolio. Net interest in financial year 2000/2001 equalled EUR –2.8 million, EUR –5.5 million in financial year 2001/2002 and EUR –3.3 million in financial year 2002/2003.

The increase of net interest expense between financial year 2000/2001 and financial year 2001/2002 was the consequence of the first complete-year inclusion of DBG Auslands-Holding GmbH in DBAG's consolidated financial statement. Net interest expense in financial year 2002/2003 as loans were repaid and the interest rate on the capital markets declined.

### 12.3.11 Taxes

Tax charges totalled EUR –2.8 million in financial year 2000/2001, EUR –0.07 million in financial year 2001/2002, and EUR 1.3 million in financial year 2002/2003. The tax item in financial year 2000/2001 was caused primarily by a reversal of the tax reserves in the amount of EUR 2.5 million. During financial year 2001/2002, the Group reported positive tax effects only in the amount of EUR 0.1 million, while in financial year 2002/2003 it again showed a tax charge of EUR 1.3 million.

### 12.3.12 Consolidated Net Income (Previous Year: Consolidated Net Loss)

Consolidated net income in financial year 2000/2001 equalled EUR 9.2 million, followed by a consolidated annual net loss in financial year 2001/2002 of EUR 15.8 million, and returning to an annual profit in financial year 2002/2003 of EUR 3.1 million.

## 12.4 Financial Position and Net Assets of the DBAG Group 2000/2001 – 2002/2003

### 12.4.1 Summary of Balance Sheet Development of the DGAB Group 2000/2001 – 2002/2003

| In € '000s                       | 2000/01 | 2001/02 | change<br>from<br>prev. yr. | % change<br>from<br>prev. yr. | 2002/03 | change<br>from<br>prev. yr. | % change<br>from<br>prev. yr. |
|----------------------------------|---------|---------|-----------------------------|-------------------------------|---------|-----------------------------|-------------------------------|
| Fixed assets                     | 292,403 | 270,517 | –21,886                     | –7.5 %                        | 257,699 | –12,818                     | –4.7 %                        |
| of which Investments             | 291,587 | 269,707 | –21,880                     | –7.5 %                        | 256,925 | –12,782                     | –4.7 %                        |
| Current assets                   | 37,507  | 35,565  | –1,942                      | –5.2 %                        | 33,755  | –1,810                      | –5.1 %                        |
| Total shareholders' equity       | 178,789 | 155,423 | –23,366                     | –13.1 %                       | 158,737 | 3,314                       | 2.1 %                         |
| Provisions                       | 25,369  | 16,832  | –8,537                      | –33.7 %                       | 18,639  | 1,807                       | 10.7 %                        |
| Liabilities                      | 125,761 | 134,513 | 8,752                       | 7.0 %                         | 113,528 | –20,985                     | –15.6 %                       |
| of which liabilities<br>to banks | 96,723  | 97,490  | 767                         | 0.8 %                         | 75,813  | –21,677                     | –22.2 %                       |

The long-term assets of the DBAG Group consist almost exclusively of the Portfolio Companies, which are included under the investments. Investments represented EUR 291.6 million in financial year 2000/2001, fell to EUR 269.7 million in financial year 2001/2002 and then

dropped again to EUR 256.9 million in financial year 2002/2003. In addition to the write-downs totalling EUR 11.2 million in financial year 2000/2001, EUR 27.0 million in financial year 2001/2002 and EUR 16.8 million in financial year 2002/2003, this declining trend may be attributed to the fact that the Group sold more holdings in the previous year (EUR 45.4 million) than it purchased (EUR 30.7 million) in financial year 2002/2003. In the Company's opinion, the conservative investment approach could be attributed to a slump in the economy and the excessive price expectations of sellers.

The material changes in the investment portfolio in financial year 2000/2001 – as measured by the original cost of acquisition or the book value – resulted from new investments in Aksys GmbH, Computec AG and ET Multimedia AG and from the sale of AvK/SEG Holding KG and Gong Verlag GmbH.

The material changes in the investment portfolio in financial year 2001/2002 – as measured by the original cost of acquisition or the book value – resulted from the DBAG Group's new investment in HT Engineering GmbH. The investments in HAWE KG and Rheinhold & Mahla AG were sold.

In financial year 2002/2003, the material changes in the portfolio – as measured by original cost of acquisition or the book value – may be attributed to the purchase of Casco Surfaces GmbH, the sale of the Edscha AG and Global Engineering Holding LLC, and the partial sale of Andritz AG.

Current assets consist primarily of receivables and other assets, of which the tax refund claims represent the largest amount, as well as cash and cash equivalents. This item fell from EUR 37.5 million in financial year 2000/2001 to EUR 35.6 million in financial year 2001/2002, and then dipped to EUR 33.8 million in financial year 2002/2003.

Shareholders' equity totalled EUR 178.8 million in financial year 2000/2001, EUR 155.4 million in financial year 2001/2002 and EUR 158.7 million in financial year 2002/2003. The decline in financial year 2001/2002 may be attributed to the reported losses and the dividend payments for the previous year. The increase in financial year 2002/2003 reflects the profits made in that financial year.

Provisions equalled EUR 25.4 million in financial year 2000/2001, EUR 16.8 million in financial year 2001/2002 and EUR 18.6 million in financial year 2002/2003. Pension reserves constitute the most important single item. In financial year 2000/2001, the Group also reported tax provisions of EUR 10.3 million, which were reduced by the tax payments in the following year.

Liabilities totalled EUR 125.8 million in financial year 2000/2001, EUR 134.5 million in financial year 2001/2002 and EUR 113.5 million in financial year 2002/2003. The liabilities consist primarily of financial liabilities represented in Liabilities to banks. This item totalled EUR 96.7 million in 2000/2001, EUR 97.5 million in financial year 2001/2002 and EUR 75.8 million in financial year 2002/2003. In financial year 2001/2002, the item remained constant compared to the previous year, because the negative cash flows from ordinary business activities and the positive cash flows from investing activities almost offset one another.

The significant decline in financial year 2002/2003 was triggered by the reduction of investments as a result of the sale of assets.

## 12.4.2 Miscellaneous

The DBAG Group has provided financing commitments to various funds; namely, Harvest Partners IV GmbH & Co KG, Quartus Capital Partners I, DBG Eastern Europe II L.P. and Harvest Partners III, HSBC Technology, HSBC India.

These financing commitments are not recorded in the balance sheet and will be disclosed in the Notes under "Other Information".

Potential payment obligations equalled EUR 80.2 million in financial year 2000/2001, EUR 79.5 million in financial year 2001/2002 and EUR 71.6 million in financial year 2002/2003.

The decline in these payment obligations is based on the fact that certain capital calls have since been made and that the DBAG Group did not enter into any new obligations.

The reported trust assets include mainly three companies, which are held in trust by Deutsche Beteiligungsgesellschaft mbH for Fund I KG for reasons of outside appearance.

## 12.4.3 Summary Cash Flow Statement of the DBAG Group 2000/2001 – 2002/2003

| In € '000s   | 2000/01 | of which caused by consold.* | 2001/02 | change from prev. yr. | % change from prev. yr. | 2002/03 | change from prev. yr. | % change from prev. yr. |
|--|---------|------------------------------|---------|-----------------------|-------------------------|---------|-----------------------|-------------------------|
| Cash flows from operating activities                           | 29,798  | 5,316                        | -8,291  | -38,089               | -127.8%                 | 11,652  | 19,943                | -240.5%                 |
| Cash flows from investing activities                           | -49,404 | -58,973                      | 7,991   | 57,395                | -116.2%                 | 14,844  | 6,853                 | 85.8%                   |
| of which proceeds from disposals of long-term financial assets | 40,503  | -4,822                       | 51,536  | 11,033                | 27.2%                   | 45,781  | -5,755                | -11.2%                  |
| of which acquisition of long-term financial assets             | -89,216 | -54,151                      | -43,333 | 45,883                | -51.4%                  | -30,744 | 12,589                | -29.1%                  |
| Cash flows from financing activities                           | 26,429  | 54,063                       | -6,233  | -32,662               | -123.6%                 | -21,677 | -15,444               | 247.8%                  |
| Cash funds at beginning of period                              | 13      | 0                            | 6,836   | 6,823                 | 52484.6%                | 303     | -6,533                | -95.6%                  |
| Cash funds at end of period                                    | 6,836   | 406                          | 303     | -6,533                | -95.6%                  | 5,122   | 4,819                 | 1590.4%                 |

\* The DBAG Group excluding DBAG and excluding the transfer of the 100 percent shareholding in DBG Auslands-Holding GmbH as capital contribution into a new DBAG subsidiary (sales price approximately EUR 18.9 million)

The cash funds at the end of the financial year equals the cash funds at the beginning of the financial year plus any cash flow generated from ordinary business activities, cash flows from investing activities and cash flow from financing activities. Cash funds totalled EUR 6.8 million at the end of financial year 2000/2001, EUR 0.3 million at the end of financial year 2001/2002, and EUR 5.1 million at the end of financial year 2002/2003.

Cash flows from operating activities were calculated from the results of the period plus any net depreciation/amortisation/value adjustments and any gains/losses from the disposal of long-term assets, changes in provisions and changes in any short term assets and liabilities. Cash flows from operating activities equalled EUR 29.8 million in financial year 2000/2001, EUR -8.3 million in the financial year 2001/2002 and EUR 11.7 million in financial year 2002/2003. The

decline in financial year 2001/2002 and the improvement in financial year 2002/2003 are primarily a reflection of the losses incurred in financial year 2001/2002 and the profits earned in financial year 2002/2003.

Cash flows from investing activities result primarily from payments received on the sale of financial assets and payments made for investments in financial assets. This item equalled EUR –49.4 million in financial year 2000/2001, EUR 8 million in financial year 2001/2002 and EUR 14.8 million in financial year 2002/2003. The high negative figure in financial year 2000/2001 relates, to a large extent, to the creation of the DBAG Group. Net divestitures led to a positive cash flow in each of the two subsequent years.

Cash flow from financing activities consists of the payment of dividends and the netting of any advances received and repayments made under financing loans. This cash flow item equalled EUR 26.4 million in 2000/2001, EUR –6.2 million in financial year 2001/2002 and EUR –21.7 million in financial year 2002/2003. In financial year 2000/2001, the cash flow from financing activities arose from a dividend payment of EUR 25.2 million and net borrowings of EUR 51.6 million, which resulted primarily from the creation of the Group. These loans represent existing loans held by companies consolidated for the first time in financial year 2000/2001. In financial year 2001/2002, the negative cash flow can be attributed primarily to the payment of dividends in the amount of EUR 7 million. Cash flow in financial year 2002/2003 was affected solely by the repayment of bank debt.

## **13 Consolidated Financial Statements of the DBAG Group for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)**

### **13.1 Auditor's Reports on the Consolidated Financial Statements for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)**

The auditor's reports printed below relate to the complete audited annual consolidated financial statements of the Company for financial years 2000/2001, 2001/2002 and 2002/2003. They may be obtained at the offices listed in subsection 1.3. The Company's consolidated balance sheets, consolidated profit and loss accounts and consolidated cash flow statements have been presented below in a comparative format in accordance with the requirements under Articles 21 and 22 of the German Exchange Admissions Regulation (Börsenzulassungsverordnung). The comparative consolidated cash flow statements of the Company are based on the corresponding audited annual consolidated financial statements and were prepared in conformity with DRS 2 (German Accounting Standard 2). Since neither Article 8 of the German Sales Prospectus Regulation (Verkaufsprospektverordnung) nor Articles 21 and 22 of the Exchange Admissions Regulation require the Company to disclose the notes and management reports to the consolidated financial statements of the Company for financial years 2000/2001 and 2001/2002, these materials are not included in this Prospectus.

#### ***13.1.1 Auditor's Report on the Consolidated Financial Statements for Financial Year 2002/2003 (HGB)***

"We have audited the consolidated financial statements and the group management report prepared by Deutsche Beteiligungs AG, Frankfurt am Main, for the business year from 1 November 2002 to 31 October 2003. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with Article 317 HGB ("Handelsgesetzbuch" – German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. On the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development."

Frankfurt am Main, 19 December 2003

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Bose  
Wirtschaftsprüfer  
(German public auditor)

Janus  
Wirtschaftsprüfer  
(German public auditor)

### **13.1.2 Auditor's Report on the Consolidated Financial Statements for Financial Year 2001/2002 (HGB)**

"We have audited the consolidated financial statements and the group management report prepared by Deutsche Beteiligungs AG, Frankfurt am Main, for the business year from 1 November 2001 to 31 October 2002. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with § 317 HGB ("Handelsgesetzbuch" – German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. On the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development."

Frankfurt am Main, 15 January 2003

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Lemnitzer  
Wirtschaftsprüfer  
(German public auditor)

Janus  
Wirtschaftsprüfer  
(German public auditor)

### **13.1.3 Auditor's Report on the Consolidated Financial Statements for Financial Year 2000/2001 (HGB)**

"We have audited the consolidated financial statements and the group management report prepared by Deutsche Beteiligungs AG, Frankfurt am Main, for the business year from 1 November 2000 to 31 October 2001. The preparation of the consolidated financial statements and the group management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with Article 317 HGB ("Handelsgesetzbuch" – German Commercial Code) and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position, results of operations in the consolidated financial statements in accordance with German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in consolidation, the determination of the companies to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. On the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development."

Frankfurt am Main, 31 January 2002

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Lemnitzer  
Wirtschaftsprüfer  
(German public auditor)

Janus  
Wirtschaftsprüfer  
(German public auditor)

## 13.2 Comparison of the Consolidated Balance Sheets of the DBAG Group for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)

| Assets  | Note No. | Oct 31, 2003<br>In € '000s | Oct 31, 2002<br>In € '000s | Oct 31, 2001<br>In € '000s |
|---|----------|----------------------------|----------------------------|----------------------------|
| <b>Intangible assets</b>                                      |          | 146                        | 110                        | 88                         |
| <b>Fixed assets</b>   |          | 628                        | 700                        | 728                        |
| Equity shares in subsidiaries                                 |          | 497                        | 360                        | 4,235                      |
| Equity shares   |          | 246,499                    | 259,769                    | 275,002                    |
| Loans made to companies,<br>in which equity shares are held   |          | 9,573                      | 9,422                      | 12,236                     |
| Long-term asset securities                                    |          | 356                        | 156                        | 114                        |
| <b>Investments</b>  |          | <u>256,925</u>             | <u>269,707</u>             | <u>291,587</u>             |
| <b>Long-term assets</b>                                       | (1)      | <u>257,699</u>             | <u>270,517</u>             | <u>292,403</u>             |
| Receivables from subsidiaries                                 | (2)      | 3,238                      | 496                        | 61                         |
| Receivables from companies in which equity<br>shares are held | (2)      | 5,388                      | 8,339                      | 9,104                      |
| Other assets  | (3)      | 19,885                     | 26,325                     | 21,390                     |
| <b>Receivables and<br/>other assets</b>                       |          | <u>28,511</u>              | <u>35,160</u>              | <u>30,555</u>              |
| <b>Securities</b>   | (4)      | 122                        | 102                        | 116                        |
| <b>Cash and cash<br/>equivalents</b>                          |          | <u>5,122</u>               | <u>303</u>                 | <u>6,836</u>               |
| <b>Current assets</b>   |          | <u>33,755</u>              | <u>35,565</u>              | <u>37,507</u>              |
| <b>Prepayments</b>  |          | <u>494</u>                 | <u>688</u>                 | <u>14</u>                  |
|   |          | <u>291,948</u>             | <u>306,770</u>             | <u>329,924</u>             |
| <b>Trustee claims</b>   |          | <u>10,320</u>              | <u>12,090</u>              | <u>15,723</u>              |

| <b>Liabilities and shareholders' equity</b>                      | Note<br>No. | Oct 31, 2003<br>In € '000s | Oct 31, 2002<br>In € '000s | Oct 31, 2001<br>In € '000s |
|--|-------------|----------------------------|----------------------------|----------------------------|
| <b>Subscribed capital</b>  |             | 36,400                     | 36,400                     | 36,400                     |
| <b>Capital reserve</b>   |             | 102,194                    | 102,194                    | 102,194                    |
| Legal reserve  |             | 403                        | 403                        | 403                        |
| Reserve for own shares   |             | 12                         | 1                          | 6                          |
| Other revenue reserves   |             | 21,775                     | 21,557                     | 22,414                     |
| <b>Retained earnings</b>   |             | 22,190                     | 21,961                     | 22,823                     |
| <b>Balance sheet profit/loss</b>                                 |             | -2,374                     | -5,463                     | 17,372                     |
| <b>Minority interests</b>  |             | 327                        | 331                        | 0                          |
| <b>Total shareholders' equity</b>                                | (5)         | <b>158,737</b>             | <b>155,423</b>             | <b>178,789</b>             |
| Pension provisions   |             | 13,231                     | 12,701                     | 12,174                     |
| Tax provisions   |             | 2,716                      | 1,609                      | 10,292                     |
| Other provisions   |             | 2,692                      | 2,522                      | 2,903                      |
| <b>Provisions</b>  | (6)         | <b>18,639</b>              | <b>16,832</b>              | <b>25,369</b>              |
| Liabilities to banks   |             | 75,813                     | 97,490                     | 96,723                     |
| Trade account payables   |             | 1,956                      | 1,634                      | 1,418                      |
| Accounts payable to subsidiaries                                 |             | 53                         | 1                          | 19,228                     |
| Accounts payable to companies<br>in which equity shares are held |             | 32,514                     | 30,655                     | 2,896                      |
| Other liabilities  |             | 3,192                      | 4,733                      | 5,496                      |
| <b>Liabilities</b>   | (7)         | <b>113,528</b>             | <b>134,513</b>             | <b>125,761</b>             |
| <b>Deferred income</b>   |             | <b>1,044</b>               | <b>2</b>                   | <b>5</b>                   |
|  |             | <b>291,948</b>             | <b>306,770</b>             | <b>329,924</b>             |
| <b>Trustee liabilities</b>                                       |             | <b>10,320</b>              | <b>12,090</b>              | <b>15,723</b>              |

### 13.3 Comparison of the Consolidated Profit and Loss Accounts of the DBAG Group for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)

|  | Note No. | 2002/2003<br>In € '000s | 2001/2002<br>In € '000s | 2000/2001<br>In € '000s |
|--|----------|-------------------------|-------------------------|-------------------------|
| Income from investments                                    | (8)      | 9,289                   | 11,767                  | 29,935                  |
| Gains from investment disposals                            |          | 13,910                  | 15,463                  | 9,748                   |
| Losses from investment disposals                           |          | 1,528                   | 1,053                   | 9,041                   |
| Write-downs on investments<br>and on marketable securities |          | 16,837                  | 27,025                  | 11,235                  |
| Other operating income                                     | (9)      | 19,945                  | 10,366                  | 9,568                   |
| Personnel costs  | (10)     | 7,552                   | 7,571                   | 8,775                   |
| Depreciation on fixed assets and<br>intangible assets      |          | 229                     | 218                     | 351                     |
| Other operating expenses                                   | (11)     | 9,348                   | 12,142                  | 10,659                  |
| Net interest   | (12)     | -3,264                  | -5,492                  | -2,793                  |
| <b>Results of ordinary<br/>activity</b>                    |          | <b>4,386</b>            | <b>-15,905</b>          | <b>6,397</b>            |
| Taxes  | (13)     | 1,290                   | -65                     | -2,769                  |
| <b>Consolidated net income/net loss</b>                    |          | <b>3,096</b>            | <b>-15,840</b>          | <b>9,166</b>            |
| Minority interests   |          | 4                       | 0                       | 0                       |
| Loss/profit carried forward from previous year             |          | -5,463                  | 10,372                  | 8,141                   |
| Withdrawals from retained<br>earnings for own shares       |          | 0                       | 5                       | 65                      |
| Allocations to retained<br>earnings for own shares         |          | 11                      | 0                       | 0                       |
| <b>Consolidated balance sheet profit/loss</b>              |          | <b>-2,374</b>           | <b>-5,463</b>           | <b>17,372</b>           |

### 13.4 Comparison of the Consolidated Cash Flow Statements for the DBAG Group for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)

| Cash inflow (+)/Cash outflow (-)   | 2002/2003<br>In € '000s | 2001/2002<br>In € '000s | 2000/2001<br>In € '000s |
|--|-------------------------|-------------------------|-------------------------|
| Result for the period  | 3,096                   | -15,840                 | 9,166                   |
| Write-downs/write-ups on long-term assets                                      | 10,356                  | 26,604                  | 10,371                  |
| Increase (+)/decrease (-) in accruals  | 1,807                   | -8,537                  | 1,552                   |
| Profit (-)/loss (+) from disposals of long-term assets                         | -12,382                 | -14,410                 | -707                    |
| Increase (-)/decrease (+) in other assets (netted)                             | 6,823                   | -3,564                  | 9,063                   |
| Increase (+)/decrease (-) in other liabilities (netted)                        | 1,952                   | 7,456                   | 353                     |
| <b>Cash flows from operating activities</b>                                    | <b>11,652</b>           | <b>-8,291</b>           | <b>29,798</b>           |
| Proceeds from disposals of property, plant and equipment and intangible assets | 52                      | 10                      | 108                     |
| Purchase of property, plant and equipment and intangible assets                | -245                    | -222                    | -799                    |
| Proceeds from disposals of long-term financial assets                          | 45,781                  | 51,536                  | 40,503                  |
| Acquisition of long-term financial assets                                      | -30,744                 | -43,333                 | -89,216                 |
| <b>Cash flows from investing activities</b>                                    | <b>14,844</b>           | <b>7,991</b>            | <b>-49,404</b>          |
| Cash payments to shareholders (dividends)                                      | 0                       | -7,000                  | -25,200                 |
| Proceeds from short or long-term borrowing                                     | 0                       | 767                     | 51,629                  |
| Cash repayments of short or long-term borrowing                                | -21,677                 | 0                       | 0                       |
| <b>Cash flows from financing activities</b>                                    | <b>-21,677</b>          | <b>-6,233</b>           | <b>26,429</b>           |
| Change in cash funds from cash-relevant transactions                           | 4,819                   | -6,533                  | 6,823                   |
| Cash funds at beginning of period  | 303                     | 6,836                   | 13                      |
| <b>Cash funds at end of the period</b>   | <b>5,122</b>            | <b>303</b>              | <b>6,836</b>            |

## 13.5 Notes to the Consolidated Financial Statements for Financial Year 2002/2003

### A. Principal activity

Deutsche Beteiligungs AG was incorporated on December 10, 1984. The Company is domiciled in Frankfurt am Main and listed in the Commercial Register at the District Court of Frankfurt am Main under Section B, No. 52491. As a financial investor, Deutsche Beteiligungs AG provides equity and financial instruments of a similar nature to well-positioned medium-sized enterprises. The Company substantially generates its income by appreciating the value of the companies it purchases; Deutsche Beteiligungs AG realizes these value enhancements when its investments are ultimately sold. The Group's subsidiaries pursue the same business activities or provide supporting services.

### B. Consolidated companies

The consolidated financial statements include the principal Group companies, in which Deutsche Beteiligungs AG, directly or indirectly, holds at least 50 percent of the voting shares, or may exercise control in other ways. Effective October 26, 2001, an obligation to present consolidated financial statements arose for the first time. The consolidated financial statements at October 31, 2003 include the following companies:

| Name and domicile of consolidated company                     | Equity share % | Held by                                 |
|---|----------------|---|
| DBG Auslandsbeteiligungen GmbH & Co. KG,<br>Frankfurt am Main | 100.00         | Deutsche Beteiligungs AG                |
| Undecima Beteiligungs GmbH,<br>Frankfurt am Main              | 100.00         | Deutsche Beteiligungs AG                |
| DBG Management GmbH & Co. KG,<br>Frankfurt am Main            | 100.00         | Deutsche Beteiligungs AG                |
| Deutsche Beteiligungsgesellschaft mbH,<br>Königstein/Taunus   | 100.00         | DBG Auslandsbeteiligungen GmbH & Co. KG |
| DBG Fifth Equity International GmbH,<br>Frankfurt am Main     | 100.00         | Deutsche Beteiligungsgesellschaft mbH   |
| DBG Fourth Equity Team GmbH & Co. KGaA,<br>Frankfurt am Main  | 99.00          | Undecima Beteiligungs GmbH              |
| Q.P.O.N. Beteiligungs GmbH,<br>Frankfurt am Main              | 50.00          | Deutsche Beteiligungsgesellschaft mbH   |
| DBG Advisors GmbH & Co. KG,<br>Frankfurt am Main              | 33.33          | DBG Fifth Equity International GmbH     |

Changes in the group of consolidated companies in comparison to the status at October 31, 2002 constitute the addition of DBG Management GmbH & Co. KG, since this company is no longer of minor importance. DBG Management GmbH & Co. KG was initially consolidated on October 31, 2003. Consequently, the profit and loss account of this company is not yet included in the consolidated financial statements at October 31, 2003.

The holding in Q.P.O.N. Beteiligungs GmbH was recognized in the consolidated financial statements on a pro rata basis (proportionate consolidation).

Despite a voting interest of less than 50 percent, DBG Advisors GmbH & Co. KG was recognized in the consolidated financial statements in conformity with Article 290, section 2, paragraph 2 of the German Commercial Code, since Deutsche Beteiligungs AG has the power to appoint or remove the majority of the managing shareholders.

DBG Beteiligungs GmbH, Frankfurt am Main, in which Deutsche Beteiligungs AG holds 100 percent of the voting shares, was excluded from the consolidated financial statements, since the commercial risk of its business activity – and, consequently, the business policy – lies with other companies.

DBG Fifth Equity Team GmbH & Co. KGaA, Frankfurt am Main, in which a subsidiary of Deutsche Beteiligungs AG holds 100 percent of the limited partner's shares, was not consolidated in the accounts, since significant and long-lasting restrictions exist that impair rights in respect of this company's assets and management.

DBG Jota GmbH and DBG Kappa GmbH, in which a subsidiary of Deutsche Beteiligungs AG holds 100 percent of the shares and which are both domiciled in Frankfurt am Main, were not consolidated, since the majority of the shares in the subsidiaries are held temporarily.

Due to their minor importance, some subsidiaries in which Deutsche Beteiligungs AG or an associated and consolidated company holds voting shares of more than 50 percent were not consolidated. These largely relate to shell companies.

At-equity consolidation was not performed for equity shares in which voting rights of 20 to 50 percent are held, but no significant influence on operating policies is exercised. This also ensued from the temporary nature of these investments, as stipulated by the corporate purpose.

### ***C. Principles of consolidation***

The consolidated financial statements of Deutsche Beteiligungs AG were drawn up and presented in accordance with the valid standards of the German Commercial Code, using the accounting and valuation principles of the parent company.

#### **Basis of presentation**

The consolidated financial statements are based on the individual annual accounts of the consolidated companies, which are drawn up according to standardized accounting and valuation policies. For subsidiaries whose balance sheet date is not identical to that of the Group, consolidation was based on interim accounts.

The capital consolidation of the subsidiaries has been performed using the fair value purchase method by revaluing the assets and debt of consolidated subsidiaries and subsequently matching the equity share of the subsidiary against the parent company's investment book value. Asset-side balancing items exhibiting the nature of goodwill are offset against retained earnings. Liability-side balancing items relate to realized earnings and are taken to retained earnings.

Sales, expenditures and earnings as well as all receivables and liabilities from inter-company transactions have been eliminated.

#### **Principles of accounting**

The profit and loss account has been prepared using the total expenditure format. To provide for the special circumstances governing the private equity business, the legally-required structure of the profit and loss account was modified according to Article 265, section 6 of the German Commercial Code to include the positions "Gains from investment disposals" and "Losses from investment disposals."

For the sake of clarity and in compliance with Article 265, section 7, No. 2 of the German Commercial Code, individual positions in the profit and loss account have been combined; detailed disclosures are contained in the notes.

“Gains from investment disposals” discloses the net proceeds from realized revenue less the book value.

Contained under “Losses from investment disposals” are the net losses, insofar as realized revenue is less than the book value.

For a better overview, the legally-required information and commentary on individual items in the balance sheet and the profit and loss account, as well as the commentary which may either be contained in the balance sheet, the profit and loss account, or the notes to the financial statements, are all shown in the notes to the financial statements.

#### ***D. Accounting policies***

##### **Fixed assets**

Fixed assets are valued at purchase cost, less regular depreciation (straight-line method). Depreciation is based on normal useful life.

Assets of a minor value are written off in the year of acquisition. Minor-value assets are treated as disposed in the assets account of the acquisition year.

Additions to movable fixed assets during the first half of the year are depreciated at the full annual rate; additions during the second half of the year are written off at half the annual rate.

Financial investments are generally valued at acquisition cost. Long-lasting reduction in the value of an investment is accounted for by non-scheduled depreciation.

##### **Current assets**

Receivables and other assets are principally carried at face value. Recognizable risks have been accounted for by value adjustments.

Marketable securities are valued at the lower of cost, market or professional valuation.

##### **Provisions**

Provisions covering all recognizable risks and contingent liabilities are calculated at their probable realistic value at the balance sheet date.

Pension obligations were determined on the basis of the accrued benefit valuation method, which is applied for disclosures in conformity with the "International Accounting Standards" (IAS). The discount rate is 5.5 percent p.a. Factors influencing valuation are average staff turnover and future salary and benefit increases. These were accounted for at an assumed trend rate of 2.5 percent p.a..

## Liabilities

Liabilities are carried at their repayment amount.

## Currency translation

Financial investments in foreign currency are principally translated at the exchange rate at the time of purchase; receivables and accounts payable denominated in foreign currency are translated at the lower of currency rate at the purchasing date, balance sheet date or repayment date. Foreign currency items in the profit and loss account are translated at the exchange rate on the date of payment or receipt of payment.

## Trust assets

Trust assets consist of receivables valued at purchase cost. These are matched against liabilities in the same amount.

## E. Notes to the balance sheet

### (1) Long-term assets

| In € '000s  | Aquisition Cost |           |           |                 | Accumulated depreciation |           |           |           | Net book value  |                 |                 |
|---|-----------------|-----------|-----------|-----------------|--------------------------|-----------|-----------|-----------|-----------------|-----------------|-----------------|
|   | Nov 1,<br>2002  | Additions | Disposals | Oct 31,<br>2003 | Nov 1,<br>2002           | Additions | Disposals | Write-ups | Oct 31,<br>2003 | Oct 31,<br>2003 | Oct 31,<br>2002 |
| <b>I. Intangible assets</b>                           |                 |           |           |                 |                          |           |           |           |                 |                 |                 |
| Concessions, patents and similar rights               | 204             | 103       | 39        | 268             | 94                       | 61        | 33        | 0         | 122             | 146             | 110             |
| <b>II. Fixed assets</b>                               |                 |           |           |                 |                          |           |           |           |                 |                 |                 |
| Office and operational equipment                      | 1,348           | 142       | 132       | 1,358           | 648                      | 168       | 86        | 0         | 730             | 628             | 700             |
| <b>III. Investments</b>                               |                 |           |           |                 |                          |           |           |           |                 |                 |                 |
| 1. Equity shares in subsidiaries                      | 979             | 166       | 29        | 1,116           | 619                      | 0         | 0         | 0         | 619             | 497             | 360             |
| 2. Equity shares                                      | 300,157         | 27,932    | 41,204    | 286,885         | 40,388                   | 16,837    | 12,046    | 4,793     | 40,386          | 246,499         | 259,769         |
| 3. Loans to companies in which equity shares are held | 14,791          | 2,446     | 4,212     | 13,025          | 5,369                    | 0         | 0         | 1,917     | 3,452           | 9,573           | 9,422           |
| 4. Long-term asset securities                         | 313             | 200       | 0         | 513             | 157                      | 0         | 0         | 0         | 157             | 356             | 156             |
|   | 316,240         | 30,744    | 45,445    | 301,539         | 46,533                   | 16,837    | 12,046    | 6,710     | 44,614          | 256,925         | 269,707         |
|   | 317,792         | 30,989    | 45,616    | 303,165         | 47,275                   | 17,066    | 12,165    | 6,710     | 45,466          | 257,699         | 270,517         |

*(2) Receivables*

| In € '000s                                      | Oct 31, 2003 | Oct 31, 2002 |
|---|--------------|--------------|
| Subsidiaries .....                              | 3,238        | 496          |
| Companies in which equity shares are held ..... | 5,388        | 8,339        |
| (thereof, maturing in more than 1 year) .....   | (21)         | (21)         |
|   | <u>8,626</u> | <u>8,835</u> |

Accounts receivable from companies in which equity shares are held stem from profit and interest entitlements as well as consulting services.

*(3) Other assets*

Other assets largely pertain to tax credits.

*(4) Securities*

| In € '000s             | Oct 31, 2003 | Oct 31, 2002 |
|------------------------|--------------|--------------|
| Own shares .....       | 12           | 1            |
| Other securities ..... | 110          | 101          |
|                        | <u>122</u>   | <u>102</u>   |

*(5) Shareholders' equity*

| In € '000s                            | Oct 31, 2003   | Oct 31, 2002   |
|---------------------------------------|----------------|----------------|
| Subscribed capital .....              | 36,400         | 36,400         |
| Capital reserve .....                 | 102,194        | 102,194        |
| Retained earnings .....               | 22,190         | 21,961         |
| Consolidated balance sheet loss ..... | -2,374         | -5,463         |
| Minority interests .....              | 327            | 331            |
|                                       | <u>158,737</u> | <u>155,423</u> |

The subscribed capital (capital stock) is denominated into 14,000,000 common shares without par value. Arithmetically, the capital attributable to each share is 2.60 euros.

Valid until March 20, 2007 and subject to the approval of the Supervisory Board, the Board of Management is authorized to raise the capital stock of the Company by up to EUR 18,200 thousand through one or several issues of new bearer shares against cash or in kind (approved capital).

Additionally, there is contingent capital of up to EUR 7,800 thousand to grant holders or creditors of warrants and/or convertible bonds issued until March 24, 2006 option rights or conversion rights for up to 3,000,000 new shares, representing a proportionate share of the subscribed capital, in conformity with the specific terms of the warrants or convertible bonds.

There is also contingent capital available to enable the issuance of option rights for the Company's stock to members of the Company's management team contributing to the performance of the Company's shares. The Company's subscribed capital may be raised by EUR 1,820 thousand until March 24, 2006 to grant these option rights through an issuance of up to 700,000 new shares, in conformity with the specific terms of the option rights. The terms of the options are presented under "Other information."

The shares of Deutsche Beteiligungs AG are traded consecutively on the stock exchanges in Frankfurt am Main and Düsseldorf, and OTC-traded on the stock exchanges in Berlin, Bremen, Hamburg, and Stuttgart.

The Board of Management offers employees and former employees of Deutsche Beteiligungs AG and associated companies an employee stock purchase plan at preferential terms which are oriented around tax legislation and limits. This has resulted in the following transactions involving the Company's own shares in financial year 2002/2003:

|  | Purchase/sales<br>price per share<br>€ | No. of<br>shares | Share of<br>subscribed capital<br>T€ | Share of<br>subscribed capital<br>% |
|--|--|------------------|--------------------------------------|-------------------------------------|
| At Nov 1, 2002 .....                       |  | 76               | 0.2                                  | 0.0                                 |
| Date of purchase: Dec 30, 2002 .....       | 7.96                                   | 1,700            | 4.4                                  | 0.1                                 |
| Date of purchase: June 5, 2003 .....       | 6.67                                   | 3,630            | 9.4                                  | 0.3                                 |
| .....                                      |  | 5,406            | 14.0                                 | 0.4                                 |
| Date of sale/transfer: June 13, 2003 ..... | 4.69                                   | -3,630           | -9.4                                 | 0.3                                 |
| At Oct 31, 2003 .....                      |  | 1,776            | 4.6                                  | 0.1                                 |

#### Development of retained earnings:

| In € '000s                                   | Legal<br>reserve | Reserves<br>for own | Other<br>revenue<br>shares | Retained<br>earnings<br>reserves |
|--|------------------|---------------------|----------------------------|----------------------------------|
| At Nov 1, 2002 .....                         | 403              | 1                   | 21,557                     | 21,961                           |
| Allocations .....                            |                  | 11                  |                            | 11                               |
| Increase in liability-side balancing item .. |                  |                     | 218                        | 218                              |
| At Oct 31, 2003 .....                        | 403              | 12                  | 21,775                     | 22,190                           |

The legal reserve remained unchanged, since the amount under this item plus the capital reserve total one tenth of the subscribed capital, as is required by Article 272, section 2, No. 1 of the German Commercial Code.

Reserves for own shares were made in the amount disclosed on the asset side and result from residual stock in conjunction with the employee stock purchase program.

Other revenue reserves contain a balancing item from capital consolidation totalling EUR 3,523 thousand (previous year: EUR 3,741 thousand). Similar to the prior year, it is comprised of an asset-side balancing item of EUR 4,782 thousand and a liability-side balancing item of EUR 1,259 thousand (previous year: EUR 1,041 thousand). The changes result from the initial consolidation of a subsidiary.

Since the 2001/2002 financial year, members of the Board of Management have been investing alongside DBAG, within the scope of a partnership participation in a private equity fund and at a defined ratio, in the same companies in which Deutsche Beteiligungs AG invests. Investments in funds are excepted. This can result in a superior profit share, if superior returns are realized from these investments within a defined holding period. The profit share is only paid if Deutsche Beteiligungs AG or the investors in the respective co-investment fund have received a minimum return on their invested capital. This minimum return currently amounts to 8.0 percent annually. The structure of the profit share, its implementation and set points are in conformity with common practice in the private equity industry and constitute a prerequisite for the placement of co-investment funds. The profit share of members of the Board of Management is not expensed in the profit-and-loss account of Deutsche Beteiligungs AG; rather, it is recognized under minority investments. For Board members, the profit share is income from an investment.

In addition to the Board of Management, minority interests also include a selected group of employees of Deutsche Beteiligungs AG who indirectly, through a partnership participation in a private equity fund, invest in the same portfolio companies as does Deutsche Beteiligungs AG.

The consolidated balance sheet loss contains loss carryforward of EUR 5,463 thousand (previous year: EUR 10,372 thousand).

#### (6) Provisions

| In € '000s         | Oct 31, 2003  | Oct 31, 2002  |
|--------------------|---------------|---------------|
| Pension provisions | 13,231        | 12,701        |
| Tax provisions     | 2,716         | 1,609         |
| Other provisions   | 2,692         | 2,522         |
|                    | <u>18,839</u> | <u>16,832</u> |

The 1998 Klaus Heubeck actuarial charts were used to determine the pension provisions.

Other provisions substantially pertain to personnel-related costs, guarantees, as well as the cost for the year-end financial statements and the Annual Meeting.

#### (7) Liabilities

| In € '000s  | Oct 31, 2003   |                         | Oct 31, 2002   |                         |
|---|----------------|-------------------------|----------------|-------------------------|
|   | Total          | due in less than 1 year | Total          | due in less than 1 year |
| Liabilities to banks  | 75,813         | 75,813                  | 97,490         | 97,490                  |
| Trade accounts payable  | 1,956          | 1,956                   | 1,634          | 1,634                   |
| Accounts payable to subsidiaries                              | 53             | 53                      | 1              | 1                       |
| Accounts payable to companies in which equity shares are held | 32,514         | 32,514                  | 30,655         | 30,655                  |
| Other liabilities   | 3,192          | 3,192                   | 4,733          | 4,733                   |
| (thereof, related to taxes)                                   | (674)          | (674)                   | (564)          | (564)                   |
|   | <u>113,528</u> | <u>113,528</u>          | <u>134,513</u> | <u>134,513</u>          |

## **F. Notes to Profit and Loss Account**

### *(8) Income from investments*

| In € '000s                             | 2002/2003    | 2001/2002     |
|--|--------------|---------------|
| Income from equity shares . . . . .    | 7,668        | 11,392        |
| Income from loan investments . . . . . | 1,621        | 375           |
|  | <u>9,289</u> | <u>11,767</u> |

Income from equity shares also contains income from silent partnerships to which the Company is entitled, irrespective of the partner company's annual profit situation. The greater part of income from equity shares is attributable to profit entitlements.

### *(9) Other operating income*

Other operating income includes income from fees for services rendered to Deutsche Beteiligungsgesellschaft mbH & Co. Fonds I KG and Deutsche Beteiligungsgesellschaft Fond III GmbH as well as consultancy fees.

In 2002/2003, income from management activity in conjunction with the new DBAG Fund IV co-investment fund was recorded for the first time. For a better overview, this income was recognized in "Other operating income."

This position also includes write-ups on the book value of investments and loans to companies in which shares are held totaling EUR 6,101 thousand and income of a non-periodic nature amounting to EUR 188 thousand (previous year: EUR 302 thousand).

### *(10) Personnel costs*

| In € '000s  | 2002/2003    | 2001/2002    |
|---|--------------|--------------|
| Wages and salaries . . . . .                          | 5,841        | 5,922        |
| Social security costs, pensions and support . . . . . | 1,711        | 1,649        |
| (thereof, for pensions) . . . . .                     | (1,167)      | (1,163)      |
|   | <u>7,552</u> | <u>7,571</u> |

### *(11) Other operating expenses*

Other operating expenses include consultancy and audit costs as well as costs for the annual financial statements and the Annual Meeting. This item also contains non-deductible taxes, expenses resulting from litigation and other expenses from current operations. In the 2002/2003 financial year, "Other operating expenses" also include costs for the placement of the new DBAG Fund IV.

(12) *Net interest*

| In € '000s                              | 2002/2003     | 2001/2002     |
|---|---------------|---------------|
| Other interest and similar income ..... | 366           | 407           |
| Interest and similar expenses .....     | -3,630        | -5,899        |
|   | <u>-3,264</u> | <u>-5,492</u> |

(13) *Taxes*

| In € '000s         | 2002/2003    | 2001/2002  |
|--------------------|--------------|------------|
| Income taxes ..... | 1,286        | -88        |
| Other taxes .....  | 4            | 23         |
|                    | <u>1,290</u> | <u>-65</u> |

Net income taxes largely result from positive taxable income.

**G. Other information**

At October 31, 2003, other financial commitments amounted to EUR 71,629 thousand for payments which may be called for by international investment funds, depending on the progress of the investing activity. The remaining other financial commitments totalled EUR 6,705 thousand and represent long-term contractual obligations.

*Contingent liabilities:*

| In € '000s                         | Oct 31, 2003  | Oct 31, 2002  |
|------------------------------------|---------------|---------------|
| Liabilities from guarantees .....  | 511           | 3,677         |
| Other contingent liabilities ..... | 56,654        | 59,240        |
|                                    | <u>57,165</u> | <u>62,917</u> |

The Group holds interests in excess of five percent of the voting shares in the following large corporations:

Bauer AG, Schrobenhausen  
DS Technologie Holding GmbH, Mönchengladbach  
Grohmann Engineering GmbH, Prüm  
Lignum Technologie AG, Schopfloch  
schlott sebaldu AG, Freudenstadt  
Zapf GmbH, Bayreuth.

The members of the Board of Management of Deutsche Beteiligungs AG receive fixed and variable salary components determined on a yearly basis. The variable components constitute a profit-sharing plan, a bonus system, and a stock option program. Pension commitments have been made to individual Board members.

The profit-sharing plan is linked to the annual performance of investments to which the Company had committed up to December 31, 2000. The profit share is determined on the basis of the extent to which the return on equity exceeds 15 percent. In determining the profit share, the equity only relates to those investments that are included in the profit-sharing plan.

The bonus system allows Board members to participate in the performance of the fund management activities of Deutsche Beteiligungs AG. It is based on the result of management activity determined in accordance with operational criteria.

Within the scope of the stock option program, 70,000 stock options have been granted annually to the members of the Board of Management since 2001. One stock option represents an entitlement for the purchase of one share of Deutsche Beteiligungs AG. The options are exercisable not earlier than three years and expire after a maximum period of five years after the date of grant. An appreciation is only achieved, if the performance of the shares of Deutsche Beteiligungs AG (including dividend payments) exceeds that of the S-Dax. The program expires on March 24, 2006.

Emoluments to the Board of Management totaled EUR 1,680 thousand for the reporting year. The emoluments include performance-related payments totaling EUR 240 thousand. The emoluments do not contain payments from programs based on long-term incentives. The sum of EUR 354 thousand was paid to surviving dependents and former members of the Board of Management. Pension provisions of EUR 6,732 thousand have been made for former members of the Board of Management.

To date, the following stock options have been granted to members of the Board of Management:

| Date of grant         | Number of stock options granted | Reference price | Value of reference index S-DAX |
|-----------------------|---------------------------------|-----------------|--------------------------------|
|                       | Piece                           | €               | €                              |
| April 11, 2001 .....  | 70,000                          | 31.39           | 2,926.74                       |
| April 16, 2002 .....  | 70,000                          | 20.27           | 2,456.50                       |
| April 11, 2003 .....  | 70,000                          | 6.72            | 1,742.84                       |
| Total at Oct 31, 2003 | 210,000                         |                 |                                |

Members of the Board of Management held 484 shares of Deutsche Beteiligungs AG; no shares were held by members of the Supervisory Board.

Fixed emoluments for members of the Supervisory Board totaled approximately EUR 39 thousand in financial year 2002/2003. Since no dividends were disbursed, variable emoluments were not paid this year. Prof. Dr. h.c. Rolf-Dieter Leister received emoluments totalling EUR 137 thousand (net) through INFRA BERATUNG GmbH for consultancy services. Fees of approximately EUR 25 thousand (net) for consultancy services were paid to White & Case, Feddersen.

The Company employed an average of 48 employees and three apprentices in financial year 2002/2003.

A selected group of employees received the same number of stock options as did the members of the Board of Management for the purchase of one share each of the stock of Deutsche Beteiligungs AG. These options may be exercised under the same terms as those granted to the Board of Management. In individual cases, there may be immaterial deviations due to slightly differing dates of grant.

The list of investments held will be filed separately with the Court of Registration in Frankfurt am Main. We made use of the option of not disclosing the equity and net income for the past financial year, as provided for by Article 313, section 3, No. 1 of the German Commercial Code.

The consolidated financial statements at October 31, 2003 will be filed with the Commercial Register at the District Court in Frankfurt am Main (HR B 52491).

A "Declaration of Conformity" in accordance with Article 161 of the German Stock Corporation Act (AktG) was submitted by Deutsche Beteiligungs AG and is permanently accessible to shareholders at the Company's internet site.

### ***Segment reporting***

The private equity operations of Deutsche Beteiligungs AG are conducted on a global basis, i.e. without differentiating between segments, for instance, geographical or industrial segments. Segment information is therefore not reportable.

## **Governing Bodies of the Company**

(Per October 31, 2003)

### **Supervisory Board**

**Prof. Dr. Dieter Feddersen**, Kronberg (Chairman)

Attorney-at-Law

#### *Statutory offices*

Drägerwerk AG, Lübeck (Chairman)

SAI Automotive AG, Frankfurt am Main (Chairman)\*

Sauerborn Trust AG, Bad Homburg (Vice Chairman)

Tarkett Sommer AG, Frankenthal (Chairman)

#### *Comparable offices in Germany and internationally*

Gesellschaft für Industriebeteiligungen Dr. Joachim Schmidt AG & Co. Holding KG, Berlin (Chairman)

Karl Munte Bauunternehmung GmbH & Co. KG, Braunschweig (Chairman)

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

**Prof. Dr. h.c. Rolf-Dieter Leister**, Lucern (Vice Chairman)

Business Consultant

#### *Statutory offices*

Berlinwasser Holding AG, Berlin (Chairman)

BÖWE System AG, Augsburg

DaimlerChrysler Services (debis) AG, Berlin

Loewe AG, Kronach

#### *Comparable offices in Germany and internationally*

Südwestdeutsche Medien Holding GmbH, Stuttgart

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

**Dr. Hans-Peter Binder**, Berg

Director of Deutsche Bank AG (retired)

#### *Statutory offices*

Dierig Holding AG, Augsburg (Chairman)

Faber-Castell AG, Stein/Nürnberg (Vice Chairman)

Knorr-Bremse AG, Munich (Chairman)

Knorr-Bremse Systeme für Nutzfahrzeuge GmbH, Munich

Osram GmbH, Munich (term ending January 27, 2003)

Saint-Gobain Oberland AG, Bad Wurzach

SCA Hygiene Products AG, Munich

#### *Comparable offices in Germany and internationally*

A.W. Faber-Castell Unternehmensverwaltung GmbH & Co., Stein/Nuremberg

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

\* This Board position is subject to the transitional rules of Article 12 EGAktG.

"Statutory offices" means membership in other supervisory boards, which the law requires the entity to form

"Comparable offices in Germany and internationally" means membership in similar domestic and foreign supervisory bodies of business enterprises, in each case as of October 31, 2003

**Eberhard Buschmann**, Munich  
Chairman of the Board of Management of Wilhelm von Finck AG

*Comparable offices in Germany and internationally*  
Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

**Dr. Fritz Lehnen**, Ratingen (term commencing March 27, 2003)  
Member of the Board of Management of mg technologies ag

*Statutory offices*  
Dynamit Nobel AG, Troisdorf (term ending October 31, 2003)  
GEA AG, Bochum (Chairman, November 3, 2003)  
Lurgi AG, Frankfurt am Main (Chairman until November 7, 2003)  
Lurgi Lentjes AG, Düsseldorf (term ending October 31, 2003)  
Polyamid 2000 AG, Premnitz (term ending October 30, 2003)  
Vaillant AG, Remscheid (term commencing May 10, 2003)  
Zimmer AG, Frankfurt am Main (Chairman, until November 3, 2003)

*Comparable offices in Germany and internationally*  
Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main  
(term commencing March 27, 2003)

**Walter Schmidt**, Kaarst (term commencing March 27, 2003)  
Managing Director of Gerling Gesellschaft für Vermögens-Management mbH and  
GERLING INVESTMENT Kapitalanlage GmbH

*Comparable offices in Germany and internationally*  
Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main  
(term commencing March 27, 2003)

**Stefan L. Volk**, Cologne (term commencing March 27, 2003)  
Former member of the Board of Management of Gerling Versicherungs-Beteiligungs-AG,  
Cologne (term ending November 15, 2002)

*Statutory offices*  
SINEUS AG, Hamburg (Chairman), (term ending November 21, 2002)

*Comparable offices in Germany and internationally*  
Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main  
(term ending March 27, 2003)

**Prof. Dr. Hans-Jürgen Warnecke**, Weil der Stadt (term ending March 27, 2003)  
Former President of the Fraunhofer-Gesellschaft (term ending September 30, 2002)

*Statutory offices*

Deutz AG, Cologne

Dynamit Nobel AG, Troisdorf

Howaldtswerke-Deutsche Werft AG, Kiel (term ending July 30, 2003)

Jenoptik AG, Jena

Microlog Logistics AG, Lorsch (term ending May 31, 2003)

MAN Roland AG, Offenbach (term ending May 31, 2003)

Mahle GmbH, Stuttgart

Wanderer-Werke AG, Augsburg

*Comparable offices in Germany and internationally*

Rohde & Schwarz Meßgerätebau GmbH, Memmingen

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main  
(term ending March 27, 2003)

## **Board of Management**

**Wilken Freiherr von Hodenberg**, Königstein/Taunus (Spokesman)

*Statutory offices*

Edscha AG, Remscheid (term ending February 14, 2003)

Unternehmens Invest AG, Vienna (Chairman)

UNIVEST AG, Vienna (Chairman)

*Comparable offices in Germany and internationally*

Giga-Stream GmbH, Saarbrücken

JCK Holding GmbH Textil KG, Quakenbrück

Quartus Gestion S.A., Paris

DBG Osteuropa-Holding GmbH, Frankfurt am Main (Chairman)

**Torsten Grede**, Frankfurt am Main

*Comparable offices in Germany and internationally*

Hochtemperatur Engineering GmbH, Mainz-Kastel

(term commencing December 16, 2002, Chairman)

Grohmann Engineering GmbH, Prüm

Otto Sauer Achsenfabrik Keilberg, Bessenbach-Keilberg (Vice Chairman)

**Helmut Irle**, Unterhaching

*Statutory offices*

AKsys Beteiligungs GmbH, Worms (term commencing April 30, 2003, Chairman)

Bauer AG, Schrobenhausen (Vice Chairman)

*Comparable offices in Germany and internationally*

Faist Automotive GmbH & Co. KG, Krumbach (term ending November 14, 2002; Vice Chairman)

Hörmann GmbH & Co. Beteiligungs KG, Kirchseeon (Vice Chairman)

Zapf GmbH, Bayreuth (Chairman)

**Reinhard Löffler**, Weil der Stadt

*Statutory offices*

Hucke AG, Lübbecke

Lignum Technologie AG, Schopfloch

MHM Modeholding AG, Düsseldorf (term ending April 29, 2003, Vice Chairman)

schlott gruppe AG, Freudenstadt

transtec AG, Tübingen (Vice Chairman)

Victorvox AG, Krefeld (Vice Chairman)

## 13.6 Group Management Report of Deutsche Beteiligungs AG

### *1. Market development*

Overall, the private equity market declined slightly in financial year 2002/2003. Like last year, however, the decrease in investments by private equity companies relates to activities outside the market in which Deutsche Beteiligungs AG operates. Management buyouts again registered a distinct rise over the prior year. For the first three quarters of 2002, some 600 million euros were invested in management buyouts in Germany; for the first three quarters of 2003, the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften/German Venture Capital Association reported that its members had made investments of more than 850 million euros. This rise of more than one third reflects the transaction development in that market segment, on which the investment activity of Deutsche Beteiligungs AG is focused. In 2002, eleven management buyouts with a transaction value of between 50 million and 250 million euros (mid-market segment) were recorded in Germany. In the first nine months of 2003, there had been already twelve management buyouts; in the same time period the transaction value at this mid-market level increased to 1.8 billion euros, up from some 1.4 billion euros in 2002.

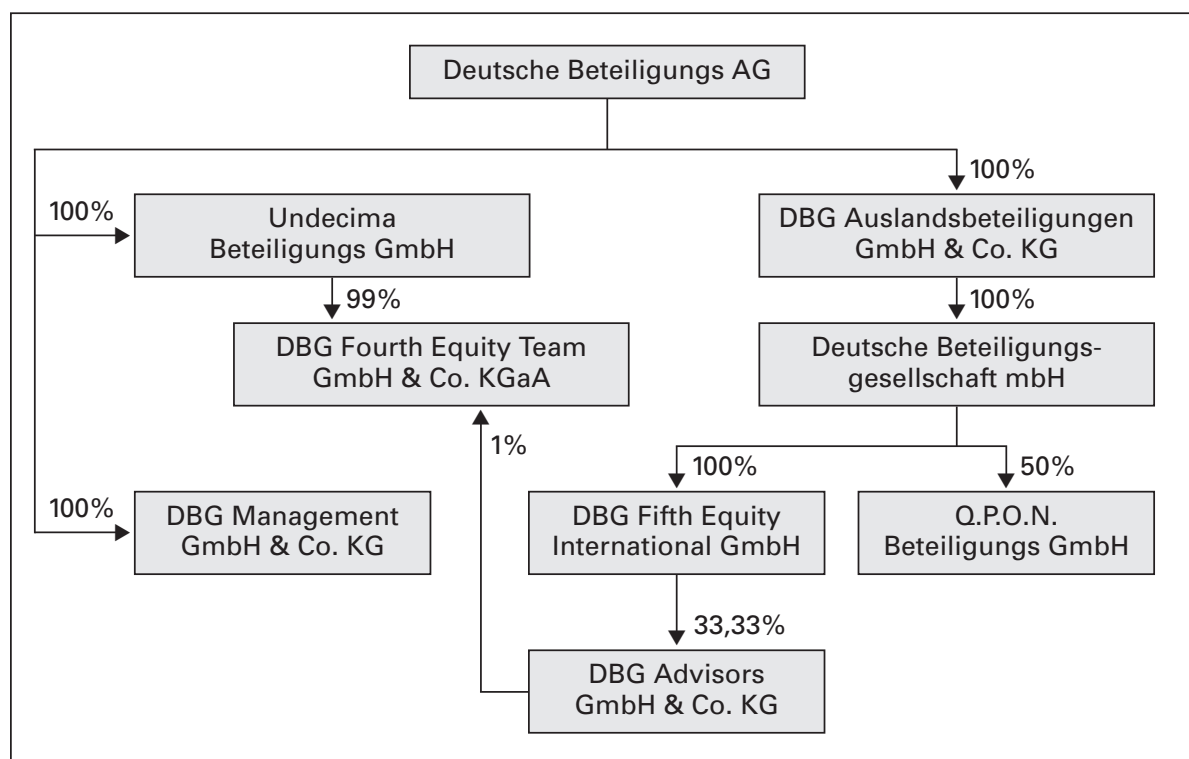
Globally, 2003 saw a reversal of the trend in private equity investments, which has been negative in recent years. In 2001 and 2002, investments in both the United States and key European private equity markets had fallen in comparison to each of the prior years. The reasons were attributable to the sharp drop in venture capital activity that was not offset by the growth in buyout financing. Preliminary data based on the semi-annual figures indicate that worldwide private equity investments in 2003 will finish ahead of those completed in 2002.

This global market is valued at approximately 80 billion euros – many times more than the size of the market accessible to Deutsche Beteiligungs AG. An assessment of the market opportunities based on such global data does not do justice to the activities of Deutsche Beteiligungs AG. We anticipate that the uptrend registered in our market segment in 2003 will continue. In our view, the private equity business in Germany will be driven by these factors:

1. Fueled by capital market expectations, large corporations will intensify their focus on core businesses and part with peripheral activities. The large majority of management buyouts in 2003 originated from these sources. However, experience proves that financing aspects involved in disinvesting subsidiaries or individual business units are clearly gaining in significance.
2. Stock markets as a financing option are still only available to a very limited extent to high growth enterprises; this also holds true for disinvestments of existent holdings. The private equity market stands to profit from these supplementary investment opportunities: unsuccessful attempts to raise additional equity by selling parts of an enterprise through an initial public offering may end up in a complete sale of that company in a management buyout. Furthermore, management buyouts to a second generation of managers, or secondary buyouts, have gained in importance as an exit opportunity.
3. The change in the lending policy of banks, which was, in part, triggered by the announcement of new equity guidelines for banks ("Basle II"), poses a new challenge, particularly to mid-sized enterprises. This change, in addition to the succession issue in family-owned businesses, will boost the mid-term demand for private equity.

## II. Group Structure

Deutsche Beteiligungs AG has presented consolidated financial statements since fiscal year 2000/2001. The consolidated financial statements include the following companies:



Deutsche Beteiligungs AG holds practically all German investments; international investments are essentially held by Deutsche Beteiligungsgesellschaft mbH and Q.P.O.N. Beteiligungs GmbH. Deutsche Beteiligungs AG co-invests alongside the new DBAG Fund IV through DBG Fourth Equity Team GmbH & Co. KGaA. The management team of Deutsche Beteiligungs AG co-invests through DBG Advisors GmbH & Co. KG. The other four companies hold no material investments.

## III. Development of the portfolio

At October 31, 2003, there were 43 companies or groups of companies valued at acquisition costs of 300 million euros in the portfolio of Deutsche Beteiligungs AG. In the previous year, the total number of investments was 49, valued at acquisition costs of 313 million euros.

Investments during the year under review totaled 30.8 million euros. Of this, 12.4 million euros are attributable to the most recent investment, Casco Surfaces GmbH. Two other investments were contracted during the reporting year, but they were formally completed in November 2003, subsequent to the close of the reporting year.

Seven investments valued at acquisition costs of 31.7 million euros were completely released from the portfolio. Including repayments and partial sales, disposals from the portfolio totaled 44.2 million euros. Thus, the total portfolio at acquisition cost declined slightly from 313 million euros in the previous year to 300 million at October 31, 2003. The number of investments in the portfolio fell to 43.

#### **IV. Result of financial year 2002/2003 for the Deutsche Beteiligungs AG Group**

Following a consolidated net loss of 15.8 million euros in the previous year, this year saw a return to positive income. Consolidated net income amounted to 3.1 million euros.

The profit and loss account was drawn up in conformity with the German Commercial Code. To facilitate an analysis of our corporate performance, the data has been reclassified in the overview below:

| In € '000s  | 2002/03 | 2001/02 | Change |          |
|---|---------|---------|--------|----------|
|   |         |         | in %   | absolute |
| Result of investment activity .....                 | 18,408  | 19,311  | -4.7   | -903     |
| Result of adjustments in valuation/provisions ..... | -10,010 | -27,025 | 63.0   | 17,015   |
| Result of investment management .....               | -4,012  | -8,191  | 51.0   | 4,179    |
| Result of ordinary activity .....                   | 4,386   | -15,905 |        | 20,291   |
| Net income/loss .....                               | 3,096   | -15,840 |        | 18,936   |
| Earnings per share in euros .....                   | 0.22    | -1.13   |        | 1.35     |

Income from profit disbursements, which actually represents income from investment management, was recognized in the result of investment management. Income from write-ups on investments, which is required to be recognized under "Other operating income" in conformity with the rules of the German Commercial Code, was allocated to the "Result of adjustments in valuation/provisions" for the above overview.

##### **IV. 1. Result from investment activity**

The sum of total income achieved through numerous smaller investment disposals and profit distribution fell slightly short of the previous year's income, which had recorded a particularly high level of profit disbursements. Consequently, the result from investment activity amounted to 18.4 million euros, down by 0.9 million euros, or five percent less than last year's 19.3 million euros.

##### **IV. 2. Result of the revaluation of portfolio investments**

The objective in the private equity business is to achieve capital gains through the realization of investments from the portfolio. Our strategy is to sustainably build the value of our investments. Nevertheless, general economic or business developments in certain portfolio companies may necessitate performing valuation adjustments or write-offs. These are always based on an assessment of the longer-term value of an investment.

The net amount from the revaluation of investments totaling –10.0 million euros was clearly less than the previous year’s unusually high level, which necessitated write-downs of 27.0 million euros. At 18.9 million euros, the level of valuation adjustments required to be performed on individual investments was again high in the reporting year. However, four investments whose value had previously been depreciated have returned to a pattern of good progress, thereby enabling an appreciation on their valuation totaling 6.8 million euros. The net amount from these value movements represents a marked improvement of 63 percent compared with the prior year.

### **IV. 3. Results of investment management**

Income from investment management activity netted against expenses for canvassing new transactions and the management of the portfolio amounted to –4.1 million euros, thereby representing a distinct improvement of 4.1 million euros against last year’s total of –8.2 million euros. This increase largely stems from management fee income from the new DBAG Fund IV co-investment fund earned this year for the first time. Similar to the previous year, income from fees paid for the structuring of transactions amounted to 2.3 million euros. Income from fees for the management of co-investment funds rose to 7.9 million euros. Contained in this sum is a one-off item of 0.8 million euros which will not be applicable in the following financial years. Moreover, management fee income declines as funds disinvest; thus, this year’s level of fee income should not be considered a constant for the following years. At 7.6 million euros, personnel costs largely remained unchanged. Fees paid for the placement of the new parallel fund amounted to 2.1 million euros, following 1.5 million euros the prior year.

### **IV. 4. Net income for the year**

Pursuant to last year’s consolidated net loss – the first in the Company’s history – totaling –15.8 million euros, this year saw a return to a positive result, with consolidated net income at 3.1 million euros. This advance of 18.9 million euros over the year before is largely due to the valuation of portfolio investments, which clearly improved.

The return on equity, measured by the net income for the year in relation to the opening equity at the beginning of the financial year, was 2.0 percent. At –9.2 percent, the return was worse than last year as a result of the net loss..

### **IV. 5. Appropriation of the distributable profit**

The balance sheet profit of Deutsche Beteiligungs AG amounts to 7.8 million euros; the Group has posted a consolidated balance sheet loss of –2.4 million. In view of the balance sheet loss at Group level, the Board of Management and Supervisory Board of Deutsche Beteiligungs AG will recommend to shareholders at the Annual Meeting to carry forward the balance sheet profit of Deutsche Beteiligungs AG.

## **V. Financial position**

At October 31, 2003, the book value of financial assets declined by 13 million euros to 257 million euros, down from 270 million euros the previous year. Net liabilities to banks – i. e. bank borrowings less credit balances on accounts – were reduced to 70.7 million euros, a decrease of 26.5 million euros against the prior year's 97.2 million euros. The capital-to-assets ratio improved from the previous year's 50.7 percent to 54.4 percent.

## **VI. Risk management**

### **VI. 1. External risk exposure**

The difficult economic environment in which Deutsche Beteiligungs AG and its portfolio companies operated did not noticeably change in comparison with the previous year. The persistent negative business trend particularly impacted investee businesses outside Germany, necessitating valuation modifications on several investments. However, toward the end of the financial year, first signs of a revitalization of the world economy began to emerge, with new impulses for demand arising particularly in countries outside Germany.

### **VI. 2. Company-specific risk exposure**

Success in private equity is determined by these factors:

- to invest in promising enterprises in conformity with the portfolio strategy
- to build and sustain the value of existing and new investments
- to realize the value created through current income from investments and capital gains from the sale of investments

The prerequisites for this are a highly qualified, motivated team and a network of contacts in order to solicit a continual stream of investment opportunities. There are excellent opportunities for high returns on investments. But, by the nature of private equity, there may also be a need to perform write-offs on investments in certain cases.

For the activities of Deutsche Beteiligungs AG, which comprise the evaluation and the execution of investment transactions, operational risks play a subordinate role in light of the relatively low number of total transactions, employees, and the involvement of several employees in larger transactions.

#### **VI. 2.1. Investments based on the portfolio strategy**

Pursuant to the long years of experience which Deutsche Beteiligungs AG has in private equity, a strategy has been laid down that targets a high yield potential on investments while balancing the opportunities/risk profile. Beginning in the financial year 1996/1997, Deutsche Beteiligungs AG has focused its investing activity on majority acquisitions or investments in which the Company holds a majority interest jointly with other financial investors. Investments in minority holdings are only made, if a public offering seems a realistic exit option, or defined alternatives for the sale of a minority investment exist. To minimize the risk inherent in early-stage and smaller enterprises, the Group companies of Deutsche Beteiligungs AG principally invest in established enterprises that generally achieve annual revenues clearly in excess of 50 million euros.

To spread risk exposure, the Company ensures that the maximum sum invested in any particular portfolio enterprise is limited to ten percent of the consolidated financial assets of the Group. At 10.7 percent, the investment in Bauer AG currently represents the largest single holding, reaching this defined limit as a result of the reduced financial asset volume.

Deutsche Beteiligungs AG invests in many sectors of the economy and the portfolio is widely diversified. This minimizes risks that may arise from dependence on certain industrial sectors, and from those industries' susceptibility to business cycles. Nevertheless, the portfolio exhibits certain focal points. At the closing date, investments in the machine and plant construction sector accounted for 17.0 percent of the book value of the portfolio.

To reduce exposure to risks from economic cycles in different regions, we have continued to diversify the geographical focus of the portfolio. We achieved our objective of investing one third of the portfolio internationally several years ago. At October 31, 2003, investments outside Germany totaled 35.9 percent of the book value of the portfolio. Of this, the share of investments domiciled outside Europe amounted to 28.3 percent.

## **VI. 2.2. Building and sustaining the value of investments**

To avoid or reduce exposure to risks, a comprehensive monitoring system has been installed. This monitoring system is adapted and improved on an ongoing basis. Portfolio companies basically report on their business development at monthly intervals. Additionally, Deutsche Beteiligungs AG holds positions in supervisory or advisory bodies of major portfolio companies. This places the Company in a position to take any necessary early counteraction to negative developments. Only two international fund investments, constituting a combined total of 1.1 percent of the portfolio, do not report on a quarterly basis. In these cases, we solicit information on current developments through contacts in the course of a year. Despite all risk reduction procedures, it will not be possible to entirely prevent valuation adjustments on investments in certain individual cases. However, their effects on the Company's earnings should, among other things, be reduced by the Company's investment strategy.

Our support for the development of portfolio companies is not only directed at reducing risks, but, primarily, at building value. Measures and decisions for action are channeled through supervisory and advisory bodies of portfolio companies. To provide the incentive for the staff and the Board of Management of Deutsche Beteiligungs AG to personally commit to maximizing the profit from investments, a substantial part of income is performance-related.

## **VI. 2.3. Focus on profitable realizations**

A key factor for success in private equity is the realization of capital gains. Prior to making an acquisition, we explore opportunities to profitably exit that investment again, following a phase of building value. We principally will not enter an investment, if we do not recognize realistic mid-term exit opportunities.

Moreover, we work on a number of exits simultaneously during the course of a financial year to reduce the risk of depending too strongly on a single realization. Nevertheless, the private equity business, by its nature, may be subject to comparative distortions for reasons related to the year-end closing date. Complex transactions such as trade sales or public offerings may not always be completed within a certain financial year. Delays may arise through changes in the capital market environment or for other reasons. The realization of the Company's investment

in Edscha, for instance, was finalized in early November 2002, shortly after the close of the 2001/2002 financial year, while the transaction had largely been negotiated in 2001/2002. The capital gain from this transaction was therefore realized in financial year 2002/2003.

In addition to capital gains from the realization of investments, income from investments in the form of dividends, profit sharing, and interest income constitutes another relevant source of earnings for Deutsche Beteiligungs AG. The annual volume of this income is limited, however, and varies depending on the portfolio companies' earnings and financial position.

## ***VII. Generation of investment opportunities***

To ensure a steady stream of new investment opportunities, the Company has access to a large national and international network of contacts to industrial enterprises, investment banks, auditors, attorneys, etc. Deutsche Beteiligungs AG also benefits from its position as the long-standing private equity partner to Deutsche Bank AG. Furthermore, Deutsche Beteiligungs AG has built its own pool of industrial consultants, who, in addition to their knowledge of and insights into particular sectors of industry, can mediate contacts to enterprises in these industries.

The portfolio strategy, with its focus on majority acquisitions of larger companies, and the targeted returns mean that the Company will be selective in acquiring new investments. When comparing specific periods, fluctuations in the number of new investments are therefore normal in our business and reflect the strict standards we apply to profitable investments.

## ***VIII. People***

Deutsche Beteiligungs AG needs a qualified, highly-motivated team to realize its objectives. In financial year 2001/2002, the Board of Management and a selected group of investment team staff were asked, for the first time, to co-invest in direct investments. The managerial team of Deutsche Beteiligungs AG thus shares in both the upside and downside of the portfolio investments, while this policy also ensures that the interests of the management team and those of Deutsche Beteiligungs AG coincide.

This co-investment activity is realized within the scope of a partnership participation. This can result in a superior profit share, if outstanding returns are realized on these investments within a defined holding period. The profit share is only paid if Deutsche Beteiligungs AG or the investors in the respective co-investment fund have received a minimum return on their invested capital. This minimum return currently amounts to 8.0 percent annually. The structure of the profit share, its implementation and set points are in conformity with common practice in the private equity industry and constitute a prerequisite for the placement of co-investment funds. The profit share of members of the management team is not expensed in the profit-and-loss account of Deutsche Beteiligungs AG. For the individuals the profit share is income from an investment.

To create an additional incentive to enhance share performance on a sustained basis, stockholders at the 2001 Annual Meeting resolved to install a stock option program for 700,000 stock options. Since then, 70,000 stock options for one share each of Deutsche Beteiligungs AG have been granted in every financial year after the Annual Meeting to a selected group of employees who are in a position to contribute positively toward the stock's performance. 70,000 further stock options are granted to the members of the Board of Management. An appreciation is achieved, if the performance of the shares of Deutsche Beteiligungs AG exceeds that of the S-Dax. The options are exercisable not earlier than three years after the date of grant. At the balance sheet date, an intrinsic value was only attached to the stock options granted in 2003; at October 31, 2003, the option value amounted to 3.20 euros per share.

Beyond that, we offer a motivating work environment characterized by lean reporting lines, teamwork-based project organization and early distribution of responsibility and authority.

The factors described are conducive to retaining key staff. The Company's management team of 15 people currently boasts an average of 9 years of service.

At the balance sheet date, the number of staff had declined from 51 to 50; of these 37 serve full-time, seven work part-time. Three employees are on parent leave. Three apprentices are currently receiving their training for their future professions.

### ***IX. Events subsequent to the closing date***

After the close of the 2002/2003 financial year, two new investments at acquisition costs of 21.9 million euros were added to the portfolio; these relate to the management buy-out of Babcock Borsig Service GmbH and Preh GmbH. There were disposals and partial disposals amounting to 10.8 million euros. Of this, the largest amount is attributable to the sale of Victorvox AG.

### ***X. Outlook***

Following the pronounced economic weakness this past financial year, indications of a resurgence of the world economy are emerging with new impulses for demand arising particularly in countries outside Germany. The sentiment on equity markets has taken a turn for the better, as prices rise due to investors' greater willingness to take risks. Furthermore, there are signs of increasing activity on the M&A market. The private equity market and mid-market transactions – the key segment on which Deutsche Beteiligungs AG is focused – stand to profit from these favorable developments. The larger number of transactions completed in the calendar year of 2003 attests to this. Three management buyouts were contracted, whereas only one transaction was completed in each of the two preceding years.

In light of the long years of economic slowdown and of structural aspects, there is uncertainty about the magnitude of business recovery, particularly in Germany. Against this backdrop and in view of the development in private equity's mid-market segment as well as the quality of the existing portfolio, we are, nevertheless, confident that Deutsche Beteiligungs AG will exhibit positive progress.

Frankfurt am Main, December, 2003

## **14 Annual Financial Statements of the Company for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)**

### **14.1 Auditor's Reports on the Company's Annual Financial Statements for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)**

The auditor's reports printed below relate to the complete audited annual financial statements of the Company for financial years 2000/2001, 2001/2002 and 2002/2003. They may be obtained at the offices listed in subsection 1.3. The Company's balance sheets, profit and loss accounts and cash flow statements have been presented below in a comparative format in accordance with the requirements under Articles 21 and 22 of the German Exchange Admissions Regulation (Börsenzulassungsverordnung). The comparative cash flow statements of the Company are based on the corresponding audited financial statements and were prepared in conformity with DRS 2 (German Accounting Standard 2). Since neither Article 8 of the German Sales Prospectus Regulation (Verkaufsprospektverordnung) nor Articles 21 and 22 of the Exchange Admissions Regulation require the Company to disclose the notes and management reports to the annual financial statements of the Company for financial years 2000/2001 and 2001/2002, these materials are not included in this Prospectus.

#### ***14.1.1 Auditor's Report on the Company's Annual Financial Statements for Financial Year 2002/2003***

"We have audited the annual financial statements, together with the bookkeeping system, and the management report of Deutsche Beteiligungs AG, Frankfurt am Main, for the business year from 1 November 2002 to 31 October 2003. In accordance with section 8 paragraph 3 Private Equity Investment Companies Act ("Gesetz über Unternehmensbeteiligungsgesellschaften") the scope of the audit was extended to cover compliance with the requirements of that Act. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law (and the supplementary provisions in the articles of incorporation) are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit and on compliance with the Private Equity Investment Companies Act.

We conducted our audit of the annual financial statements in accordance with Article 317 HGB ("Handelsgesetzbuch" – German Commercial Code), section 8 paragraph 3 Private Equity Investment Companies Act and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance and such that we can assess with reasonable assurance whether the requirements which result from the extension to the scope of the audit in accordance with section 8 paragraph 3 Private Equity Investment Companies Act were fulfilled. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of Deutsche Beteiligungs AG, Frankfurt am Main, in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Frankfurt am Main, 19 December 2003

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Bose  
Wirtschaftsprüfer  
(German public auditor)

Janus  
Wirtschaftsprüfer  
(German public auditor)

### **14.1.2 Auditor's Report on the Company's Annual Financial Statements for Financial Year 2001/2002**

"We have audited the annual financial statements, together with the bookkeeping system, and the management report of Deutsche Beteiligungs AG, Frankfurt am Main, for the business year from 1 November 2001 to 31 October 2002. In accordance with section 8 paragraph 3 Private Equity Investment Companies Act ("Gesetz über Unternehmensbeteiligungsgesellschaften") the scope of the audit was extended to cover compliance with the requirements of that Act. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit and on compliance with the Private Equity Investment Companies Act.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("Handelsgesetzbuch" – German Commercial Code), section 8 paragraph 3 Private Equity Investment Companies Act and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance and such that we can assess with reasonable assurance whether the requirements which result from the extension to the scope of the audit in accordance with section 8 paragraph 3 Private Equity Investment Companies Act were fulfilled. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit.

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Frankfurt am Main, 15 January 2003

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Lemnitzer  
Wirtschaftsprüfer  
(German public auditor)

Janus  
Wirtschaftsprüfer  
(German public auditor)

### **14.1.3 Auditor's Report on the Company's Annual Financial Statements for Financial Year 2000/2001**

"We have audited the annual financial statements, together with the bookkeeping system, and the management report of Deutsche Beteiligungs AG, Frankfurt am Main, for the business year from 1 November 2000 to 31 October 2001. In accordance with section 8 paragraph 3 Private Equity Investment Companies Act ("Gesetz über Unternehmensbeteiligungsgesellschaften") the scope of the audit was extended to cover compliance with the requirements of that Act. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit and on compliance with the Private Equity Investment Companies Act.

We conducted our audit of the annual financial statements in accordance with Article 317 HGB ("Handelsgesetzbuch" – German Commercial Code), section 8 paragraph 3 Private Equity Investment Companies Act and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance and such that we can assess with reasonable assurance whether the requirements which result from the extension to the scope of the audit in accordance with section 8 paragraph 3 Private Equity Investment Companies Act were fulfilled. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

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In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of Deutsche Beteiligungs AG, Frankfurt am Main, in accordance with German principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development."

Frankfurt am Main, 15 January 2002

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Wirtschaftsprüfungsgesellschaft

Dr. Lemnitzer  
Wirtschaftsprüfer  
(German public auditor)

Janus  
Wirtschaftsprüfer  
(German public auditor)

## 14.2 Comparison of the DBAG Balance Sheets for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)

| Assets   | Oct 31, 2003<br>In € '000s | Oct 31, 2002<br>In € '000s | Oct 31, 2001<br>In € '000s |
|--|----------------------------|----------------------------|----------------------------|
| <b>Intangible Assets</b> .....                                       | <b>146</b>                 | <b>110</b>                 | <b>88</b>                  |
| <b>Fixed Assets</b> .....  | <b>628</b>                 | <b>700</b>                 | <b>728</b>                 |
| 1. Equity shares in subsidiaries .....                               | 48,327                     | 39,415                     | 22,792                     |
| 2. Equity shares .....   | 183,960                    | 200,106                    | 224,487                    |
| 3. Loans made to companies, in which<br>equity shares are held ..... | 8,173                      | 5,854                      | 10,151                     |
| 4. Long-term asset securities .....                                  | 356                        | 156                        | 114                        |
| <b>Investments</b> .....   | <b>240,816</b>             | <b>245,531</b>             | <b>257,544</b>             |
| <b>Long-term assets</b> .....  | <b>241,590</b>             | <b>246,341</b>             | <b>258,360</b>             |
| Receivables from subsidiaries .....                                  | 3,378                      | 4,476                      | 43                         |
| Receivables from companies in which<br>equity shares are held .....  | 5,196                      | 7,732                      | 7,901                      |
| Other assets .....   | 16,522                     | 22,326                     | 17,536                     |
| <b>Receivables and other assets</b> .....                            | <b>25,096</b>              | <b>34,534</b>              | <b>25,480</b>              |
| <b>Securities</b> .....  | <b>122</b>                 | <b>102</b>                 | <b>116</b>                 |
| Cash and cash equivalents .....                                      | 2,491                      | 118                        | 6,430                      |
| <b>Current assets</b> .....  | <b>27,709</b>              | <b>34,754</b>              | <b>32,026</b>              |
| <b>Prepayments</b> .....   | <b>77</b>                  | <b>71</b>                  | <b>14</b>                  |
|  | <b>269,376</b>             | <b>281,166</b>             | <b>290,400</b>             |

**Liabilities and Shareholders' Equity**

|  | Oct 31, 2003<br>In € '000s | Oct 31, 2002<br>In € '000s | Oct 31, 2001<br>In € '000s |
|--|----------------------------|----------------------------|----------------------------|
| <b>Subscribed capital</b> .....  | <b>36,400</b>              | <b>36,400</b>              | <b>36,400</b>              |
| <b>Capital Reserve</b> .....   | <b>102,194</b>             | <b>102,194</b>             | <b>102,194</b>             |
| Legal reserve .....  | 403                        | 403                        | 403                        |
| Reserve for own shares .....   | 12                         | 1                          | 6                          |
| Other revenue reserves .....   | 25,298                     | 25,298                     | 25,298                     |
| <b>Retained earnings</b> .....   | <b>25,713</b>              | <b>25,702</b>              | <b>25,707</b>              |
| Balance sheet profit .....   | 7,752                      | 6,959                      | 15,987                     |
| <b>Total shareholders' equity</b> .....                                | <b>172,059</b>             | <b>171,255</b>             | <b>180,288</b>             |
| Pension provisions .....   | 9,705                      | 9,085                      | 8,545                      |
| Tax provisions .....   | 1,660                      | 1,020                      | 9,829                      |
| Other provisions .....   | 2,635                      | 2,444                      | 2,827                      |
| <b>Provisions</b> .....  | <b>14,000</b>              | <b>12,549</b>              | <b>21,201</b>              |
| Liabilities to banks .....   | 38,121                     | 46,646                     | 42,660                     |
| Trade accounts payables .....  | 1,956                      | 1,634                      | 1,418                      |
| Liabilities to subsidiaries .....                                      | 7,010                      | 15,570                     | 35,532                     |
| Accounts payable to companies in which<br>equity shares are held ..... | 31,219                     | 30,642                     | 3,846                      |
| Other liabilities .....  | 3,969                      | 2,870                      | 5,455                      |
| <b>Liabilities</b> .....   | <b>82,275</b>              | <b>97,362</b>              | <b>88,911</b>              |
| <b>Deferred Income</b> .....   | <b>1,042</b>               | <b>0</b>                   | <b>0</b>                   |
|  | <b>269,376</b>             | <b>281,166</b>             | <b>290,400</b>             |

### 14.3 Comparison of the DBAG Profit and Loss Accounts for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)

|  | 2002/2003<br>In € '000s | 2001/2002<br>In € '000s | 2000/2001<br>In € '000s |
|--|-------------------------|-------------------------|-------------------------|
| Income from investments .....                                    | 7,776                   | 11,467                  | 15,435                  |
| Gains from investment disposals .....                            | 11,852                  | 15,375                  | 21,604                  |
| Losses from investment disposals .....                           | 825                     | 1,010                   | 9,041                   |
| Write-downs on investments and on<br>marketable securities ..... | 21,458                  | 17,228                  | 10,017                  |
| Other operating income .....                                     | 22,352                  | 11,558                  | 9,568                   |
| Personnel costs .....  | 7,386                   | 7,337                   | 8,775                   |
| Depreciation on fixed assets and<br>intangible items .....       | 229                     | 218                     | 351                     |
| Other operating expenses .....                                   | 9,012                   | 11,638                  | 10,619                  |
| Net interest .....   | -1,554                  | -3,556                  | -2,793                  |
| <b>Results of ordinary activity</b> .....                        | <b>1,516</b>            | <b>-2,587</b>           | <b>5,011</b>            |
| Taxes .....  | 712                     | -554                    | -2,769                  |
| <b>Net income/loss</b> .....                                     | <b>804</b>              | <b>-2,033</b>           | <b>7,780</b>            |
| Profit carried forward from previous year .....                  | 6,959                   | 8,987                   | 8,142                   |
| Withdrawals from retained earnings<br>for own shares .....       | 0                       | 5                       | 65                      |
| Allocations to retained earnings for own shares                  | 11                      | 0                       | 0                       |
| <b>Balance sheet profit</b> .....                                | <b>7,752</b>            | <b>6,959</b>            | <b>15,987</b>           |

#### 14.4 Comparison of the Company's Cash Flow Statements for Financial Years 2002/2003, 2001/2002 and 2000/2001 (HGB)

| Cash inflows (+)/Cash outflows (-) in € '000s   | 2002/2003     | 2001/2002      | 2000/2001      |
|---|---------------|----------------|----------------|
| Result for period . . . . .   | 804           | -2,033         | 7,780          |
| Write-downs/write-ups on long term assets . . . .   | 15,586        | 16,807         | 9,153          |
| Increase (+)/decrease (-) in accruals . . . . .   | 1,451         | -8,652         | -2,616         |
| Profit (-)/loss (+) from disposals<br>of long-term assets . . . . .                         | -11,027       | -14,365        | -12,563        |
| Increase (-)/decrease (+)<br>in other assets (netted) . . . . .                             | 9,412         | -9,097         | 14,138         |
| Increase (+)/decrease (-)<br>in other liabilities (netted) . . . . .                        | -5,520        | 4,465          | 20,445         |
| <b>Cash flows from operating activities . . . . .</b>                                       | <b>10,706</b> | <b>-12,875</b> | <b>36,337</b>  |
| Proceeds from disposals of property, plant<br>and equipment and intangible assets . . . . . | 52            | 10             | 108            |
| Purchase of property, plant and equipment<br>and intangible assets . . . . .                | -245          | -222           | -799           |
| Proceeds from disposals of long-term<br>financial assets . . . . .                          | 35,772        | 49,384         | 52,359         |
| Acquisition of long-term financial assets . . . . .   | -35,387       | -39,595        | -53,954        |
| <b>Cash flows from investing activities . . . . .</b>                                       | <b>192</b>    | <b>9,577</b>   | <b>-2,286</b>  |
| Cash payments to shareholders (dividends) . . .   | 0             | -7,000         | -25,200        |
| Proceeds from short or long-term borrowings . .   | 0             | 3,986          | 0              |
| Cash repayments of short or long-term<br>borrowings . . . . .                               | -8,525        | 0              | -2,434         |
| <b>Cash flows from financing activities . . . . .</b>                                       | <b>-8,525</b> | <b>-3,014</b>  | <b>-27,634</b> |
| Change in cash funds from<br>cash-relevant transactions . . . . .                           | 2,373         | -6,312         | 6,417          |
| Cash funds at beginning of period . . . . .   | 118           | 6,430          | 13             |
| <b>Cash funds at end of period . . . . .</b>  | <b>2,491</b>  | <b>118</b>     | <b>6,430</b>   |

## **14.5 Notes for Financial Year 2002/2003**

### ***General Information***

The annual financial statements were prepared in accordance with the rules under Articles 264 et seq. of the German Commercial Code (HGB), which apply to corporations. Based on its size, the Company qualifies as a large corporation within the meaning of Article 267, section 3, HGB.

The profit and loss account was prepared using the total expenditure format (Gesamtkostenverfahren). In order to take into account the special circumstances surrounding the private equity business, the legally mandated format for the profit and loss accounts was changed in accordance with Article 265, section 6, HGB and supplemented in this case with the new items "Gains from investment disposals" and "Losses from investment disposals".

For purposes of creating greater transparency and in accordance with Article 265, section 7, paragraph 2, HGB, individual items in the profit and loss account had been combined and detailed information with respect thereto set forth in the notes.

"Gains from investment disposals" show the difference between realised proceeds and the book value.

The item "Losses from investment disposals" reports the net losses, insofar as any realised proceeds are less than the book value.

In the interests of transparency, the information and comments on individual items in the balance sheet and the profit and loss account, which are required by law, as well as the comments, which may either be included in the balance sheet, the profit and loss account or the notes to the financial statements, are all shown in the notes to the financial statements.

### ***Accounting and valuation methods***

#### **Fixed assets**

Fixed assets are valued at purchase cost, less regular depreciation (straight-line method). Depreciation is based on normal useful life.

Assets of a minor value are written off in the year of acquisition. Minor-value assets are treated as disposed in the assets account of the acquisition year.

Additions to movable fixed assets during the first half of the year are depreciated at the full annual rate; additions during the second half of the year are written off at half the annual rate.

Financial investments are generally valued at acquisition cost. Long-lasting reduction in the value of an investment is accounted for by non-scheduled depreciation.

**Current assets**

Receivables and other assets are principally carried at face value. Recognizable risks have been accounted for by value adjustments.

Marketable securities are valued at the lower of cost, market or professional valuation.

**Provisions**

Provisions covering all recognizable risks and contingent liabilities are calculated at their probable realistic value at the balance sheet date.

Pension obligations were determined on the basis of the accrued benefit valuation method, which is applied for disclosures in conformity with the "International Accounting Standards" (IAS). The discount rate is 5.5 percent p.a. Factors influencing valuation are average staff turnover and future salary and benefit increases. These were accounted for at an assumed trend rate of 2.5 percent p.a.

**Liabilities**

Liabilities are carried at their repayment amount.

**Currency translation**

Financial investments in foreign currency are principally translated at the exchange rate at the time of purchase; receivables and accounts payable denominated in foreign currency are translated at the lower of currency rate at the purchasing date, balance sheet date or repayment date. Foreign currency items in the profit and loss account are translated at the exchange rate on the date of payment or receipt of payment.

## Notes to the balance sheet

### (1) Long-term assets

Deutsche Beteiligungs AG  
Frankfurt am Main  
Asset Movement Schedule  
October 31, 2003

## E. Notes to the balance sheet

### (1) Long-term assets

| In € '000s  | Aquisition Cost |           |                |                       | Accumulated Depreciation |                 |                |                |               | Net Book Value   |                  |                  |
|---|-----------------|-----------|----------------|-----------------------|--------------------------|-----------------|----------------|----------------|---------------|------------------|------------------|------------------|
|   | Nov. 1,<br>2002 | Additions | Dis-<br>posals | Reclassi-<br>fication | Oct. 31,<br>2003         | Nov. 1,<br>2002 | Addi-<br>tions | Dis-<br>posals | Write-<br>ups | Oct. 31,<br>2003 | Oct. 31,<br>2003 | Oct. 31,<br>2003 |
| <b>I. Intangible assets</b>                           |                 |           |                |                       |                          |                 |                |                |               |                  |                  |                  |
| Concessions, patents and similar rights               | 204             | 103       | 39             | 0                     | 268                      | 94              | 61             | 33             | 0             | 122              | 146              | 110              |
| <b>II. Fixed assets</b>                               |                 |           |                |                       |                          |                 |                |                |               |                  |                  |                  |
| Office and operational equipment                      | 1,348           | 142       | 132            | 0                     | 1,358                    | 648             | 168            | 86             | 0             | 730              | 628              | 700              |
| <b>III. Investments</b>                               |                 |           |                |                       |                          |                 |                |                |               |                  |                  |                  |
| 1. Equity shares in subsidiaries                      | 39,415          | 23,284    | 1,927          | 0                     | 60,772                   | 0               | 12,445         | 0              | 0             | 12,445           | 48,327           | 39,415           |
| 2. Equity shares                                      | 227,956         | 9,456     | 24,194         | 0                     | 213,218                  | 27,850          | 9,013          | 3,421          | 4,184         | 29,258           | 183,960          | 200,106          |
| 3. Loans to companies in which equity shares are held | 11,223          | 2,447     | 2,045          | 0                     | 11,625                   | 5,369           | 0              | 0              | 1,917         | 3,452            | 8,173            | 5,854            |
| 4. Long-term asset securities                         | 313             | 200       | 0              | 0                     | 513                      | 157             | 0              | 0              | 0             | 157              | 356              | 156              |
|   | 278,907         | 35,387    | 28,166         | 0                     | 286,128                  | 33,376          | 21,458         | 3,421          | 6,101         | 45,312           | 240,816          | 245,531          |
|   | 280,459         | 35,632    | 28,337         | 0                     | 287,754                  | 34,118          | 21,687         | 3,540          | 6,101         | 46,164           | 241,590          | 246,341          |

Accumulated write-downs on investments and loans relate to twelve different Investments. Of these write-downs, 69 percent relate to four investments.

The values of three holdings were written-up.

(2) *Receivables*

| In € '000s  | Oct 31, 2003 | Oct 31, 2002  |
|---|--------------|---------------|
| Subsidiaries . . . . .                              | 3,378        | 4,476         |
| Companies in which equity shares are held . . . . . | 5,196        | 7,732         |
| (thereof, maturing in more than 1 year) . . . . .   | (21)         | (21)          |
|   | <u>8,574</u> | <u>12,208</u> |

Accounts receivable from subsidiaries and companies in which equity shares are held stem from profit and interest entitlements as well as consulting services.

(3) *Other assets*

Other assets largely pertain to tax credits.

(4) *Securities*

| In € '000s                 | Oct 31, 2003 | Oct 31, 2002 |
|----------------------------|--------------|--------------|
| Own shares . . . . .       | 12           | 1            |
| Other securities . . . . . | 110          | 101          |
|                            | <u>122</u>   | <u>102</u>   |

(5) *Total shareholders' equity*

| In € '000s                 | Subscribed capital | Capital reserve | Retained Earnings |
|----------------------------|--------------------|-----------------|-------------------|
| At Nov. 1, 2002 . . . . .  | 36,400             | 102,194         | 25,702            |
| Allocations . . . . .      |                    |                 | 11                |
| At Oct. 31, 2003 . . . . . | <u>36,400</u>      | <u>102,194</u>  | <u>25,713</u>     |

The subscribed capital (registered share capital) is denominated into EUR 14,000 thousand no par shares. The notional per share percentage of the registered share capital equals EUR 2.60 per no par share.

Valid until March 20, 2007 and subject to the approval of the Supervisory Board, the Board of Management is authorized to raise the capital stock of the Company by up to EUR 18,200 thousand through one or several issues of new bearer shares against cash or in kind (approved capital).

Additionally, there is contingent capital of up to EUR 7,800 thousand to grant holders or creditors of warrants and/or convertible bonds issued until March 24, 2006 option rights or conversion rights for up to 3,000 thousand new shares, representing a proportionate share of the subscribed capital, in conformity with the specific terms of the warrants or convertible bonds.

There is also contingent capital available to enable the issuance of option rights for the Company's stock to members of the Company's management team contributing to the performance of the Company's shares. The Company's subscribed capital may be raised by EUR 1,820 thousand until March 24, 2006 to grant these option rights through an issuance of up to 700,000 new shares, in conformity with the specific terms of the option rights. The terms of the options are presented under "Other information."

The shares of Deutsche Beteiligungs AG are traded consecutively on the stock exchanges in Frankfurt am Main and Düsseldorf, and OTC-traded on the stock exchanges in Berlin, Bremen, Hamburg, and Stuttgart.

The Board of Management offers employees and former employees of Deutsche Beteiligungs AG and associated companies an employee stock purchase plan at preferential terms which are oriented around tax legislation and limits. This has resulted in the following transactions involving the Company's own shares in financial year 2002/2003:

|  | Purchase/<br>Sales price<br>per share<br>€ | No. of<br>shares | Share of<br>subscribed capital |     |
|--|--|------------------|--------------------------------|-----|
|  |  |                  | T€                             | %   |
| At Nov 1, 2002 .....                   |  | 76               | 0.2                            | 0.0 |
| Date of purchase: Dec. 30, 2002 ..     | 7.96                                       | 1,700            | 4.4                            | 0.1 |
| Date of purchase: June 5, 2003 ...     | 6.67                                       | 3,630            | 9.4                            | 0.3 |
|  |  | 5,406            | 14.0                           | 0.4 |
| Date of sale/transfer: June 13, 2003 . | 4.69                                       | -3,630           | -9.4                           | 0.3 |
| At Oct 31, 2003 .....                  |  | 1,776            | 4.6                            | 0.1 |

Development of retained earning:

| In € '000             | Legal<br>reserve | Reserves<br>for own<br>shares | Other<br>revenue<br>reserves | Retained<br>earnings |
|-----------------------|------------------|-------------------------------|------------------------------|----------------------|
| At Nov 1, 2002 .....  | 403              | 1                             | 25,298                       | 25,702               |
| Allocations .....     | 0                | 11                            | 0                            | 11                   |
| At Oct 31, 2003 ..... | 403              | 12                            | 25,298                       | 25,713               |

The legal reserve remained unchanged, since the amount under this item plus the capital reserve total one tenth of the subscribed capital, as is required by Article 272, section 2, paragraph 1 of the German Commercial Code.

Reserves for own shares were made in the amount disclosed on the asset side and result from residual stock in conjunction with the employee stock purchase program.

The balance sheet profit includes a profit carried forward of EUR 6,959 thousand (Previous year: EUR 8,987 thousand).

The following is a disclosure by shareholders concerning their voting share rights pursuant to Article 21 (1) sentence 1 of the German Securities Trading Act (WpHG):

|  | right share<br>(as a percentage) | registered<br>share capital |
|--|----------------------------------|-----------------------------|
| Kreissparkasse Biberach . . . . .                                    | 5.08                             | 711,200                     |
| SchmidtBank AG, Hof/Saale . . . . .                                  | 7.50                             | 1,050,000                   |
| Gerling-Konzern<br>Lebensversicherungs-AG, Cologne . . . . .         | 15.00                            | 2,100,000                   |
| VAGO Dreißigste Vermögens-<br>verwaltungs GmbH, Düsseldorf . . . . . | 15.00                            | 2,100,000                   |
| DB Value GmbH, Norderfriedrichskoog . .                              | 15.00                            | 2,100,000                   |

On 9 September 2002, Kreissparkasse Biberach, (Biberach) (local savings Bank in the town of Biberach) disclosed to us that it held a 5.08 percent voting share in our Company.

On 27 September 2002, SchmidtBank AG (Hof/Saale) disclosed that it owns 7.5 percent of the Company's voting shares. These voting rights are attributable to Zweite Beteiligungs-gesellschaft der SchmidtBank-Gruppe mbH (Berlin) pursuant to Article 22, section 1, paragraph 1, WpHG. After the balance sheet date, SchmidtBank AG sold all of its shareholding to institutional investors.

Gerling Gesellschaft für Vermögens-Management mbH informed us pursuant to Article 21 WpHG that as of 1 April 2002, Gerling-Konzern Lebensversicherungs-AG (Gereonshof) held voting rights equal to 15 percent in Deutsche Beteiligungs AG.

Wilhelm von Finck jun. (Grasbrunn) disclosed to us that beginning 22 October 2002, VAGO Dreißigste Vermögensverwaltungs GmbH ("VAGO") (Düsseldorf) held 15 percent of the voting rights in our Company. These voting rights are held directly by VAGO and are attributable to Mr von Finck jun. pursuant to Article 22, section 1, paragraph 1, WpHG.

Deutsche Bank AG (Frankfurt am Main) informed us that its subsidiary, DB Value GmbH (Norderfriedrichskoog), was entitled to 15 percent of the voting rights in Deutsche Beteiligungs AG beginning on 25 November 2002. These voting rights are attributable to Deutsche Bank AG pursuant to Article 22, section 1, paragraph 1, WpHG.

*(6) Provisions*

| In € '000s                   | Oct 31, 2003 | Oct 31, 2002 |
|------------------------------|--------------|--------------|
| Pension provisions . . . . . | 9,705        | 9,085        |
| Tax provisions . . . . .     | 1,660        | 1,020        |
| Other provisions . . . . .   | 2,635        | 2,444        |
|                              | 14,000       | 12,549       |

The 1998 Klaus Heubeck actuarial charts were used to determine the pension provisions.

Other provisions substantially pertain to personnel-related costs, guarantees, as well as the cost for the year-end financial statements and the Annual Meeting.

*(7) Liabilities*

| In € '000s  | Oct 31, 2003  |                         | Oct 31, 2002  |                         |
|---|---------------|-------------------------|---------------|-------------------------|
|   | Total         | Due in less than 1 year | Total         | Due in less than 1 year |
| Liabilities to banks .....  | 38,121        | 38,121                  | 46,646        | 46,646                  |
| Trade accounts payable .....  | 1,956         | 1,956                   | 1,634         | 1,634                   |
| Accounts payable to subsidiaries .....                              | 7,010         | 7,010                   | 15,570        | 15,570                  |
| Accounts payable to companies in which equity shares are held ..... | 31,219        | 31,219                  | 30,642        | 30,642                  |
| Other liabilities .....   | 3,969         | 3,969                   | 2,870         | 2,870                   |
| (thereof, related to taxes) .....                                   | (523)         | (523)                   | (564)         | (564)                   |
|   | <u>82,275</u> | <u>82,275</u>           | <u>97,362</u> | <u>97,362</u>           |

**Notes to Profit and Loss account**

*(8) Income from investments*

| In € '000s                         | 2002/03      | 2001/02       |
|------------------------------------|--------------|---------------|
| Income from equity shares .....    | 6,559        | 11,092        |
| Income from loan investments ..... | 1,217        | 375           |
|                                    | <u>7,776</u> | <u>11,467</u> |

Income from equity shares also contains income from silent partnerships to which the Company is entitled, irrespective of the partner company's annual profit situation. The greater part of income from equity shares is attributable to profit entitlements.

*(9) Gains from investment disposals*

Gains on the sale of holdings relate primarily to three investments.

*(10) Losses from investment disposals*

Losses on the sale of holdings relate primarily to two investments.

*(11) Other operating income*

Other operating income includes income from fees for services rendered to Deutsche Beteiligungsgesellschaft mbH & Co. Fonds I KG, Deutsche Beteiligungsgesellschaft mbH and Deutsche Beteiligungsgesellschaft Fond III GmbH as well as consultancy fees.

In 2002/2003, income from management activity in conjunction with the new DBAG Fund IV co-investment fund was recorded for the first time. For a better overview, this income was recognized in "Other operating income."

This position also includes write-ups on the book value of investments and loans to companies in which shares are held totaling EUR 6,101 thousand and income of a non-periodic nature amounting to EUR 188 thousand (previous year: EUR 302 thousand).

*(12) Personnel costs*

| In € '000s  | 2002/03      | 2001/02      |
|---|--------------|--------------|
| Wages and salaries. . . . .                           | 5,841        | 5,922        |
| Social security costs, pensions and support . . . . . | 1,545        | 1,415        |
| (thereof, for pension) . . . . .                      | (1,015)      | (934)        |
|   | <u>7,386</u> | <u>7,337</u> |

*(13) Other operating expenses*

Other operating expenses include consultancy and audit costs as well as costs for the annual financial statements and the Annual Meeting. This item also contains non-deductible taxes, expenses resulting from litigation and other expenses from current operations. In the 2002/2003 financial year, "Other operating expenses" also include costs for the placement of the new DBAG Fund IV.

*(14) Net interest*

| In € '000s                                  | 2002/03       | 2001/02       |
|---|---------------|---------------|
| Other interests and similar income. . . . . | 247           | 320           |
| Interest and similar expenses . . . . .     | -1,801        | -3,876        |
|   | <u>-1,554</u> | <u>-3,556</u> |

*(15) Taxes*

| In € '000s            | 2002/03    | 2001/02     |
|-----------------------|------------|-------------|
| Income taxes. . . . . | 708        | -556        |
| Other taxes . . . . . | 4          | 2           |
|                       | <u>712</u> | <u>-554</u> |

Net income taxes result from positive taxable income.

The Company is exempt from trade tax because it is a private equity investment company.

### **Other information**

At October 31, 2003, other financial commitments amounted to EUR 56,677 thousand for payments which may be called for by international investment funds, depending on the progress of the investing activity. The remaining other financial commitments totalled EUR 6,705 thousand and represent long-term contractual obligations.

#### *Contingent liabilities:*

| In € '000s                         | Oct 31, 2003  | Oct 31, 2002   |
|------------------------------------|---------------|----------------|
| Liabilities from guarantees .....  | 511           | 3,677          |
| Other contingent liabilities ..... | 93,917        | 108,213        |
|                                    | <u>94,428</u> | <u>111,890</u> |

The Group holds interests in excess of 5 percent of the voting shares in the following large corporations:

Bauer AG, Schrobenhausen  
DS Technologie Holding GmbH, Mönchengladbach  
Grohmann Engineering GmbH, Prüm  
Lignum Technologie AG, Schopfloch  
schlott sebaldu AG, Freudenstadt  
Zapf GmbH, Bayreuth.

The members of the Board of Management of Deutsche Beteiligungs AG receive fixed and variable salary components determined on a yearly basis. The variable components constitute a profit-sharing plan, a bonus system, and a stock option program. Pension commitments have been made to individual Board members.

The profit-sharing plan is linked to the annual performance of investments to which the Company had committed up to December 31, 2000. The profit share is determined on the basis of the extent to which the return on equity exceeds 15 percent. In determining the profit share, the equity only relates to those investments that are included in the profit-sharing plan.

The bonus system allows Board members to participate in the performance of the fund management activities of Deutsche Beteiligungs AG. It is based on the result of management activity determined in accordance with operational criteria.

Within the scope of the stock option program, 70,000 stock options have been granted annually to the members of the Board of Management since 2001. One stock option represents an entitlement for the purchase of one share of Deutsche Beteiligungs AG. The options are exercisable not earlier than three years and expire after a maximum period of five years after the date of grant. An appreciation is only achieved, if the performance of the shares of Deutsche Beteiligungs AG (including dividend payments) exceeds that of the S-Dax. The program expires on March 24, 2006.

Emoluments to the Board of Management totaled EUR 1,680 thousand for the reporting year. The emoluments include performance-related payments totaling EUR 240 thousand. The emoluments do not contain payments from programs based on long-term incentives. Pension provisions of EUR 4,991 thousand have been made for former members of the Board of Management.

To date, the following stock options have been granted to members of the Board of Management:

| Date of grant          | Number of stock option granted | Reference Price<br>€ | Value of reference index S-DAX<br>€ |
|------------------------|--------------------------------|----------------------|-------------------------------------|
| April 11, 2001 .....   | 70,000                         | 31.39                | 2,926.74                            |
| April 16, 2002 .....   | 70,000                         | 20.27                | 2,456.50                            |
| April 11, 2003 .....   | 70,000                         | 6.72                 | 1,742.84                            |
| Total at Oct. 31, 2003 | 210,000                        |                      |                                     |

Members of the Board of Management held 484 shares of Deutsche Beteiligungs AG; no shares were held by members of the Supervisory Board.

Fixed emoluments for members of the Supervisory Board totaled approximately EUR 39 thousand in financial year 2002/2003. Since no dividends were disbursed, variable emoluments were not paid this year. Prof. Dr. h.c. Rolf-Dieter Leister received emoluments totalling EUR 137 thousand (net) through INFRA BERATUNG GmbH for consultancy services. Fees of approximately EUR 25 thousand (net) for consultancy services were paid to White & Case, Feddersen.

The Company employed an average of 48 employees and three apprentices in financial year 2002/2003.

A selected group of employees received the same number of stock options as did the members of the Board of Management for the purchase of one share each of the stock of Deutsche Beteiligungs AG. These options may be exercised under the same terms as those granted to the Board of Management. In individual cases, there may be immaterial deviations due to slightly differing dates of grant.

The list of investments held will be filed separately with the Court of Registration in Frankfurt am Main. We made use of the option of not disclosing the equity and net income for the past financial year, as provided for by Article 313, section 3, No. 1 of the German Commercial Code.

The consolidated financial statements at October 31, 2003 will be filed with the Commercial Register at the District Court in Frankfurt am Main (HR B 52491).

A "Declaration of Conformity" in accordance with Article 161 of the German Stock Corporation Act (AktG) was submitted by Deutsche Beteiligungs AG and is permanently accessible to shareholders at the Company's internet site.

## ***Governing Bodies of the Company***

(Per October 31, 2003)

### **Supervisory Board**

**Prof. Dr. Dieter Feddersen**, Kronberg (Chairman)

Attorney-at-Law

#### *Statutory offices*

Drägerwerk AG, Lübeck (Chairman)

SAI Automotive AG, Frankfurt am Main (Chairman)\*

Sauerborn Trust AG, Bad Homburg (Vice Chairman)

Tarkett Sommer AG, Frankenthal (Chairman)

#### *Comparable offices in Germany and internationally*

Gesellschaft für Industriebeteiligungen Dr. Joachim Schmidt AG & Co. Holding KG, Berlin (Chairman)

Karl Munte Bauunternehmung GmbH & Co. KG, Braunschweig (Chairman)

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

**Prof. Dr. h.c. Rolf-Dieter Leister**, Lucern (Vice Chairman)

Business Consultant

#### *Statutory offices*

Berlinwasser Holding AG, Berlin (Chairman)

BÖWE System AG, Augsburg

DaimlerChrysler Services (debis) AG, Berlin

Loewe AG, Kronach

#### *Comparable offices in Germany and internationally*

Südwestdeutsche Medien Holding GmbH, Stuttgart

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

**Dr. Hans-Peter Binder**, Berg

Director of Deutsche Bank AG (retired)

#### *Statutory offices*

Dierig Holding AG, Augsburg (Chairman)

Faber-Castell AG, Stein/Nürnberg (Vice Chairman)

Knorr-Bremse AG, Munich (Chairman)

Knorr-Bremse Systeme für Nutzfahrzeuge GmbH, Munich

Osram GmbH, Munich (term ending January 27, 2003)

Saint-Gobain Oberland AG, Bad Wurzach

SCA Hygiene Products AG, Munich

#### *Comparable offices in Germany and internationally*

A.W. Faber-Castell Unternehmensverwaltung GmbH & Co., Stein/Nuremberg

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

**Eberhard Buschmann**, Munich

Chairman of the Management Board of Wilhelm von Finck AG

#### *Comparable offices in Germany and internationally*

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main

**Dr. Fritz Lehnen**, Ratingen (term commencing March 27, 2003)  
Member of the Management Board of mg technologies ag

*Statutory offices*

Dynamit Nobel AG, Troisdorf (term ending October 31, 2003)  
GEA AG, Bochum (Chairman, November 3, 2003)  
Lurgi AG, Frankfurt am Main (Chairman until November 7, 2003)  
Lurgi Lentjes AG, Düsseldorf (term ending October 31, 2003)  
Polyamid 2000 AG, Premnitz (term ending October 30, 2003)  
Vaillant AG, Remscheid (term commencing May 10, 2003)  
Zimmer AG, Frankfurt am Main (Chairman, until November 3, 2003)

*Comparable offices in Germany and internationally*

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main  
(term commencing March 27, 2003)

**Walter Schmidt**, Kaarst (term commencing March 27, 2003)  
Managing Director of Gerling Gesellschaft für Vermögens-Management mbH and  
GERLING INVESTMENT Kapitalanlage GmbH

*Comparable offices in Germany and internationally*

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main  
(term commencing March 27, 2003)

**Stefan L. Volk**, Cologne (term commencing March 27, 2003)  
Former member of the Management Board of Gerling Versicherungs-Beteiligungs-AG,  
Cologne (term ending November 15, 2002)

*Statutory offices*

SINEUS AG, Hamburg (Chairman), (term ending November 21, 2002)

*Comparable offices in Germany and internationally*

Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main  
(term ending March 27, 2003)

**Prof. Dr. Hans-Jürgen Warnecke**, Weil der Stadt (term ending March 27, 2003)  
Former President of the Fraunhofer-Gesellschaft (term ending September 30, 2002)

*Statutory offices*

Deutz AG, Cologne  
Dynamit Nobel AG, Troisdorf  
Howaldtswerke-Deutsche Werft AG, Kiel (term ending July 30, 2003)  
Jenoptik AG, Jena  
Microlog Logistics AG, Lorsch (term ending May 31, 2003)  
MAN Roland AG, Offenbach (term ending May 31, 2003)  
Mahle GmbH, Stuttgart  
Wanderer-Werke AG, Augsburg

*Comparable offices in Germany and internationally*

Rohde & Schwarz Meßgerätebau GmbH, Memmingen  
Deutsche Beteiligungsgesellschaft Fonds III GmbH, Frankfurt am Main  
(term ending March 27, 2003)

## Management Board

**Wilken Freiherr von Hodenberg**, Königstein/Taunus (Spokesman)

### *Statutory offices*

Edscha AG, Remscheid (term ending February 14, 2003)

Unternehmens Invest AG, Vienna (Chairman)

UNIVEST AG, Vienna (Chairman)

### *Comparable offices in Germany and internationally*

Giga-Stream GmbH, Saarbrücken

JCK Holding GmbH Textil KG, Quakenbrück

Quartus Gestion S.A., Paris

DBG Osteuropa-Holding GmbH, Frankfurt am Main (Chairman)

**Torsten Grede**, Frankfurt am Main

### *Comparable offices in Germany and internationally*

Hochtemperatur Engineering GmbH, Mainz-Kastel

(term commencing December 16, 2002, Chairman)

Grohmann Engineering GmbH, Prüm

Otto Sauer Achsenfabrik Keilberg, Bessenbach-Keilberg (Vice Chairman)

**Helmut Irle**, Unterhaching

### *Statutory offices*

AKsys Beteiligungs GmbH, Worms (term commencing April 30, 2003, Chairman)

Bauer AG, Schrobenhausen (Vice Chairman)

### *Comparable offices in Germany and internationally*

Faist Automotive GmbH & Co. KG, Krumbach (term ending November 14, 2002; Vice Chairman)

Hörmann GmbH & Co. Beteiligungs KG, Kirchseeon (Vice Chairman)

Zapf GmbH, Bayreuth (Chairman)

**Reinhard Löffler**, Weil der Stadt

### *Statutory offices*

Hucke AG, Lübbecke

Lignum Technologie AG, Schopfloch

MHM Modeholding AG, Düsseldorf (term ending April 29, 2003, Vice Chairman)

schlott gruppe AG, Freudenstadt

transtec AG, Tübingen (Vice Chairman)

Victorvox AG, Krefeld (Vice Chairman)

Frankfurt am Main, December 1, 2003

The Management Board

Wilken Freiherr von Hodenberg

Torsten Grede

Helmut Irle

Reinhard Löffler

\* This Board position is subject to the transitional rules of Article 12 EGAktG.

"Statutory offices" means membership in other supervisory boards, which the law requires the entity to form

"Comparable offices in Germany and internationally" means membership in similar domestic and foreign supervisory bodies of business enterprises, in each case as of October 31, 2003

## 14.6 Management Report of Deutsche Beteiligungs AG

### *1. Market development*

Overall, the private equity market declined slightly in financial year 2002/2003. Like last year, however, the decrease in investments by private equity companies relates to activities outside the market in which Deutsche Beteiligungs AG operates. Management buyouts again registered a distinct rise over the prior year. For the first three quarters of 2002, some 600 million euros were invested in management buyouts in Germany; for the first three quarters of 2003, the Bundesverband Deutscher Kapitalbeteiligungsgesellschaften/German Venture Capital Association reported that its members had made investments of more than 850 million euros. This rise of more than one third reflects the transaction development in that market segment, on which the investment activity of Deutsche Beteiligungs AG is focused. In 2002, eleven management buyouts with a transaction value of between 50 million and 250 million euros (mid-market segment) were recorded in Germany. In the first ten months of 2003, there had been already twelve management buyouts; in the same time period the transaction value at this mid-market level increased to 1.8 billion euros, up from some 1.4 billion euros in 2002.

Globally, 2003 saw a reversal of the trend in private equity investments, which has been negative in recent years. In 2001 and 2002, investments in both the United States and key European private equity markets had fallen in comparison to each of the prior years. The reasons were attributable to the sharp drop in venture capital activity that was not offset by the growth in buyout financing. Preliminary data based on the semi-annual figures indicate that worldwide private equity investments in 2003 will finish ahead of those completed in 2002.

This global market is valued at approximately 80 billion euros – many times more than the size of the market accessible to Deutsche Beteiligungs AG. An assessment of the market opportunities based on such global data does not do justice to the activities of Deutsche Beteiligungs AG. We anticipate that the uptrend registered in our market segment in 2003 will continue. In our view, the private equity business in Germany will be driven by these factors:

1. Fueled by capital market expectations, large corporations will intensify their focus on core businesses and part with peripheral activities. The large majority of management buyouts in 2003 originated from these sources. However, experience proves that financing aspects involved in disinvesting subsidiaries or individual business units are clearly gaining in significance.
2. Stock markets as a financing option are still only available to a very limited extent to high growth enterprises; this also holds true for disinvestments of existent holdings. The private equity market stands to profit from these supplementary investment opportunities: unsuccessful attempts to raise additional equity by selling parts of an enterprise through an initial public offering may end up in a complete sale of that company in a management buyout. Furthermore, management buyouts to a second generation of managers, or secondary buyouts, have gained in importance as an exit opportunity.
3. The change in the lending policy of banks, which was, in part, triggered by the announcement of new equity guidelines for banks ("Basle II"), poses a new challenge, particularly to mid-sized enterprises. This change, in addition to the succession issue in family-owned businesses, will boost the mid-term demand for private equity.

## **II. Portfolio Development**

At October 31, 2003, there were 43 companies or groups of companies valued at acquisition costs of 300 million euros in the portfolio of Deutsche Beteiligungs AG. In the previous year, the total number of investments was 49, valued at acquisition costs of 313 million euros. Our business significantly depends on the activities of Deutsche Beteiligungsgesellschaft mbH, which is 100 percent held by Deutsche Beteiligungs AG. Therefore this management report describes the overall portfolio development.

Investments during the year under review totaled 30.8 million euros. Of this, 12.4 million euros are attributable to the most recent investment, Casco Surfaces GmbH. Two other investments were contracted during the reporting year, but they were formally completed in November 2003, subsequent to the close of the reporting year.

Seven investments valued at acquisition costs of 31.7 million euros were completely released from the portfolio. Including repayments and partial sales, disposals from the portfolio totaled 44.2 million euros. Thus, the total portfolio at acquisition cost declined slightly from 313 million euros in the previous year to 300 million at October 31, 2003. The number of investments in the portfolio fell to 43.

## **III. Results for Deutsche Beteiligungs AG in financial year 2002/2003**

In contrast to the previous year, in which the Company reported an annual net loss of 2.0 million euros, the Company once again generated an annual net profit in this financial year of 0.8 million euros. The main reason behind the earnings growth was the greatly increased profit generated by the Company's investment management business.

The profit and loss account was prepared in accordance with rules under the German Commercial Code (HGB). To facilitate an analysis of our business performance, the profit and loss data has been reclassified in the summary set forth below:

| In € '000s   | 2002/03 | 2001/02 | change |          |
|--|---------|---------|--------|----------|
|  |         |         | in %   | absolute |
| Results from investment activity . . . . .               | 17,250  | 20,901  | -17.5  | -3,651   |
| Results of adjustments in valuation/provisions . . . . . | -15,241 | -17,228 | 11.5   | 1,987    |
| Results of investment management . . . . .               | -493    | -6,260  | 92.1   | 5,767    |
| Results of ordinary activity . . . . .                   | 1,516   | -2,587  |        | 4,103    |
| Net income/loss . . . . .                                | 804     | -2,033  |        | 2,837    |
| Earnings per share in euros . . . . .                    | 0.06    | -0.15   |        | 0.21     |

Income from profit disbursements, which actually represents income from investment management, was recognized in the result of investment management. Income from write-ups on investments, which is required to be recognized under "Other operating income" in conformity with the rules of the German Commercial Code, was allocated to the "Result of adjustments in valuation/provisions" for the above overview.

### **III. 1. Results of investment activity**

The sum of total income achieved through numerous smaller investment disposals and profit distribution fell slightly short of the previous year's income, which had recorded a particularly high level of profit disbursements. Consequently, the result from the investment activity amounted to 17.2 million euros, down by 3.7 million euros, or 18 percent less than last year's 20.9 million euros.

### **III. 2. Result of the revaluation of portfolio investments**

The objective in the private equity business is to achieve capital gains through the realization of investments from the portfolio. Our strategy is to sustainably build the value of our investments. Nevertheless, general economic or business developments in certain portfolio companies may necessitate performing valuation adjustments or write-offs. These are always based on an assessment of the longer-term value of an investment.

The results from revaluing individual investments totalled –15.2 million euros in the most recently completed financial year and were therefore 12 percent lower than the previous year's level of adjustments (17.2 million euros). In addition to the increase in individual valuation adjustments from 17.2 million euros to 21.4 million euros, the write-ups on three investments totalling 6.2 million euros played a key role in this development.

### **III. 3. Results of investment management**

Net income from investment management activities – after deducting the expenses for soliciting new transactions and managing the portfolio – equalled –0.5 million euros and was almost balanced out, which represents a 5.8 million euros improvement over the previous year. This increase is attributable largely to management fee income collected for the first time from the newly launched DBAG Fund IV co-investment fund and from DBG Fourth Equity Team GmbH & Co. KGaA, which belongs to the Deutsche Beteiligungs AG Group. As in the previous year, income from fees paid for structuring transactions equalled 2.3 million euros. Income from fees for managing co-investment funds amounted to 7.9 million euros. Included in this sum is a non-recurring item of 0.8 million euros. Moreover, management fee income will decline as funds divest their assets. Accordingly, there should be no expectations that this past year's high level of fee income can be maintained in upcoming years. Personnel costs remained largely unchanged at 7.4 million euros. Fees paid for the placement of the new co-investment fund amounted to 2.1 million euros, which is an increase over the previous year (1.5 million euros).

### **III. 4. Net income for the year**

After sustaining a net loss for the first time in its history (which last year totalled –2.0 million euros), Deutsche Beteiligungs AG was again able to report a profit with annual net income of 0.8 million euros. This 2.8 million euros improvement can be attributed primarily to the significantly improved results from the investment management business. The increase in results would have been even more acute absent the effect of income taxes. This is apparent when reviewing the item “results of ordinary activity”, which improved by 4.1 million euros, from –2.6 million euros to 1.5 million euros.

The return on equity, which is measured by dividing annual net income by the initial equity capital as it existed at the beginning of the financial year, equalled 0.5 percent. The –1.2 percent last year resulted from the Company’s annual net loss.

### **III. 5. Appropriation of the distributable profit**

While the balance sheet profit of Deutsche Beteiligungs AG was 7.8 million euros, the Group as a whole reported a –2.4 million euros balance sheet loss. In view of this consolidated balance sheet loss, the Board of Management and Supervisory Board of Deutsche Beteiligungs AG will recommend to the shareholders at the annual meeting to carry forward the balance sheet profit of Deutsche Beteiligungs AG.

## ***IV. Financial position and net assets***

As of October 31, 2003, the book value of the financial assets declined slightly from 246 million euros to 241 million euros. Net liabilities owed to banks (i.e., bank loans less account credit balances) fell by 10.9 million euros, from 46.5 million euros to 35.6 million euros. The equity capital ratio improved from 60.9 percent in the previous year to 63.9 percent.

## ***V. Risk management***

### **V. 1. External risk exposure**

The difficult economic environment in which Deutsche Beteiligungs AG and its portfolio companies operated did not noticeably change in comparison with the previous year. The persistent negative business trend particularly impacted investee businesses outside Germany, necessitating valuation modifications on several investments. However, toward the end of the financial year, first signs of a revitalization of the world economy began to emerge, with new impulses for demand arising particularly in countries outside Germany.

## **V. 2. Company-specific risk exposure**

Success in private equity is determined by these factors:

- to invest in promising enterprises in conformity with the portfolio strategy
- to build and sustain the value of existing and new investments
- to realize the value created through current income from investments and capital gains from the sale of investments

The prerequisites for this are a highly qualified, motivated team and a network of contacts in order to solicit a continual stream of investment opportunities. There are excellent opportunities for high returns on investments. But, by the nature of private equity, there may also be a need to perform write-offs on investments in certain cases.

For the activities of Deutsche Beteiligungs AG, which comprise the evaluation and the execution of investment transactions, operational risks play a subordinate role in light of the relatively low number of total transactions, employees, and the involvement of several employees in larger transactions.

### **V. 2.1. Investments based on the portfolio strategy**

Pursuant to the long years of experience which Deutsche Beteiligungs AG has in private equity, a strategy has been laid down that targets a high yield potential on investments while balancing the opportunities/risk profile. Beginning in the financial year 1996/1997, Deutsche Beteiligungs AG has focused its investing activity on majority acquisitions or investments in which the Company holds a majority interest jointly with other financial investors. Investments in minority holdings are only made, if a public offering seems a realistic exit option, or defined alternatives for the sale of a minority investment exist. To minimize the risk inherent in early-stage and smaller enterprises, the Group companies of Deutsche Beteiligungs AG principally invest in established enterprises that generally achieve annual revenues clearly in excess of 50 million euros.

To spread risk exposure, the Company ensures that the maximum sum invested in any particular portfolio enterprise is limited to ten percent of the consolidated financial assets of the Group. At 10.7 percent, the investment in Bauer AG currently represents the largest single holding, reaching this defined limit as a result of the reduced financial asset volume of 257 million euros.

Deutsche Beteiligungs AG invests in many sectors of the economy and the portfolio is widely diversified. This minimizes risks that may arise from dependence on certain industrial sectors, and from those industries' susceptibility to business cycles. Nevertheless, the portfolio exhibits certain focal points. At the closing date, investments in the machine and plant construction sector accounted for 17.0 percent of the book value of the portfolio.

To reduce exposure to risks from economic cycles in different regions, we have continued to diversify the geographical focus of the portfolio. We achieved our objective of investing one third of the portfolio internationally several years ago. At October 31, 2003, investments outside Germany totaled 35.9 percent of the book value of the portfolio. Of this, the share of investments domiciled outside Europe amounted to 28.3 percent.

## **V. 2.2. Building and sustaining the value of investments**

To avoid or reduce exposure to risks, a comprehensive monitoring system has been installed. This monitoring system is adapted and improved on an ongoing basis. Portfolio companies basically report on their business development at monthly intervals. Additionally, Deutsche Beteiligungs AG holds positions in supervisory or advisory bodies of major portfolio companies. This places the Company in a position to take any necessary early counteraction to negative developments. Only two international fund investments, constituting a combined total of 1.1 percent of the portfolio, do not report on a quarterly basis. In these cases, we solicit information on current developments through contacts in the course of a year. Despite all risk reduction procedures, it will not be possible to entirely prevent valuation adjustments on investments in certain individual cases. However, their effects on the Company's earnings should, among other things, be reduced by the Company's investment strategy.

Our support for the development of portfolio companies is not only directed at reducing risks, but, primarily, at building value. Measures and decisions for action are channeled through supervisory and advisory bodies of portfolio companies. To provide the incentive for the staff and the Board of Management of Deutsche Beteiligungs AG to personally commit to maximizing the profit from investments, a substantial part of income is performance-related.

## **V. 2.3. Focus on profitable realizations**

A key factor for success in private equity is the realization of capital gains. Prior to making an acquisition, we explore opportunities to profitably exit that investment again, following a phase of building value. We principally will not enter an investment, if we do not recognize realistic mid-term exit opportunities.

Moreover, we work on a number of exits simultaneously during the course of a financial year to reduce the risk of depending too strongly on a single realization. Nevertheless, the private equity business, by its nature, may be subject to comparative distortions for reasons related to the year-end closing date. Complex transactions such as trade sales or public offerings may not always be completed within a certain financial year. Delays may arise through changes in the capital market environment or for other reasons. The realization of the Company's investment in Edscha, for instance, was finalized in early November 2002, shortly after the close of the 2001/2002 financial year, while the transaction had largely been negotiated in 2001/2002. The capital gain from this transaction was therefore realized in financial year 2002/2003.

In addition to capital gains from the realization of investments, income from investments in the form of dividends, profit sharing, and interest income constitutes another relevant source of earnings for Deutsche Beteiligungs AG. The annual volume of this income is limited, however, and varies depending on the portfolio companies' earnings and financial position.

## ***VI. Generation of investment opportunities***

To ensure a steady stream of new investment opportunities, the Company has access to a large national and international network of contacts to industrial enterprises, investment banks, auditors, attorneys, etc. Deutsche Beteiligungs AG also benefits from its position as the long-standing private equity partner to Deutsche Bank AG. Furthermore, Deutsche Beteiligungs AG has built its own pool of industrial consultants, who, in addition to their knowledge of and insights into particular sectors of industry, can mediate contacts to enterprises in these industries.

The portfolio strategy, with its focus on majority acquisitions of larger companies, and the targeted returns mean that the Company will be selective in acquiring new investments. When comparing specific periods, fluctuations in the number of new investments are therefore normal in our business and reflect the strict standards we apply to profitable investments.

## ***VII. People***

Deutsche Beteiligungs AG needs a qualified, highly-motivated team to realize its objectives. In financial year 2001/2002, the Board of Management and a selected group of investment team staff were asked, for the first time, to co-invest in direct investments. The managerial team of Deutsche Beteiligungs AG thus shares in both the upside and downside of the portfolio investments, while this policy also ensures that the interests of the management team and those of Deutsche Beteiligungs AG coincide.

This co-investment activity is realized within the scope of a partnership participation. This can result in a superior profit share, if outstanding returns are realized on these investments within a defined holding period. The profit share is only paid if Deutsche Beteiligungs AG or the investors in the respective co-investment fund have received a minimum return on their invested capital. This minimum return currently amounts to 8.0 percent annually. The structure of the profit share, its implementation and set points are in conformity with common practice in the private equity industry and constitute a prerequisite for the placement of co-investment funds. The profit share of members of the management team is not expensed in the profit-and-loss account of Deutsche Beteiligungs AG. For the individuals the profit share is income from an investment.

To create an additional incentive to enhance share performance on a sustained basis, stockholders at the 2001 Annual Meeting resolved to install a stock option program for 700,000 stock options. Since then, 70,000 stock options for one share each of Deutsche Beteiligungs AG have been granted in every financial year after the Annual Meeting to a selected group of employees who are in a position to contribute positively toward the stock's performance. 70,000 further stock options are granted to the members of the Board of Management. An appreciation is achieved, if the performance of the shares of Deutsche Beteiligungs AG exceeds that of the S-Dax. The options are exercisable not earlier than three years after the date of grant. At the balance sheet date, an intrinsic value was only attached to the stock options granted in 2003; at October 31, 2003, the option value amounted to 3.20 euros per share.

Beyond that, we offer a motivating work environment characterized by lean reporting lines, teamwork-based project organization and early distribution of responsibility and authority.

The factors described are conducive to retaining key staff. The Company's management team currently boasts an average of 9 years of service.

At the balance sheet date, the number of staff had declined from 51 to 50; of these 37 serve full-time, seven work part-time. Three employees are on parent leave. Three apprentices are currently receiving their training for their future professions.

### ***VIII. Events subsequent to the closing date***

After the close of the 2002/2003 financial year, two new investments at acquisition costs of 21.9 million euros were added to the portfolio; these relate to the management buy-out of Babcock Borsig Service GmbH and Preh GmbH. There were disposals and partial disposals amounting to 10.8 million euros. Of this, the largest amount is attributable to the sale of Victorvox AG.

### ***IX. Outlook***

Following the pronounced economic weakness this past financial year, indications of a resurgence of the world economy are emerging with new impulses for demand arising particularly in countries outside Germany. The sentiment on equity markets has taken a turn for the better, as prices rise due to investors' greater willingness to take risks. Furthermore, there are signs of increasing activity on the M&A market. The private equity market and mid-market transactions – the key segment on which Deutsche Beteiligungs AG is focused – stand to profit from these favorable developments. The larger number of transactions completed in the calendar year of 2003 attests to this. Three management buyouts were contracted, whereas only one transaction was completed in each of the two preceding years.

In light of the long years of economic slowdown and of structural aspects, there is uncertainty about the magnitude of business recovery, particularly in Germany. Against this backdrop and in view of the development in private equity's mid-market segment as well as the quality of the existing portfolio, we are, nevertheless, confident that Deutsche Beteiligungs AG will exhibit positive progress.

Frankfurt am Main, December, 2003

## 15 Current Business Development and Outlook

Within the first quarter of the financial year 2003/2004, the DBAG Group received income from Investments in the amount of 4.7 million euros (quarter of preceding year: 1.5 million euros) and net income from structuring equity investment transactions in the amount of 1.3 million euros. The analysis of the income from the sale of Investments, in particular, with regard to the remaining risks, the valuation of the Investments and the consideration of other risks have not yet been concluded. Based on the information currently available, the Company estimates that for the first quarter 2003/2004 it will be able to show a consolidated surplus of at least approximately 1 million euros. The corresponding amount of the preceding year of 3.4 million euros was largely influenced by the income resulting from the sale of the Investment in Edscha AG.

In the current financial year 2003/2004, two new Investments at acquisition costs of 21.9 million euros were added to the portfolio. These involved the management buyouts of Babcock Borsig Service Group and Preh GmbH. There were disposals and partial disposals amounting to 15.6 million euros, most of which was attributable to the sale of the holding in Victorvox AG. The Companies of the DBAG Group did not use any long-term debt for purposes of financing the acquisition of the Investments.

Effective as of November 27, 2003, one of the Company's subsidiaries invested a total of 9 million euros in the acquisition of Babcock Borsig Service GmbH in conjunction with a management buyout. The Company's Parallel Funds also invested in this. Babcock Borsig Service GmbH occupies a leading position in the power plant service market. It employs a staff of approximately 2,100 employees and reported a sales volume of 383 million euros in financial year 2002/2003. Outside of Germany, the Company has branches, in particular, in Eastern Europe, Africa and the Gulf region.

In November 2003, the Company added Preh GmbH to its holdings, investing 12.8 million euros through one of its subsidiaries in conjunction with a management buyout. Fund IV also holds a stake in the Investment. Preh GmbH develops and produces mechatronic solutions for sophisticated control panels used in the automobile and industrial electronics industries. The company employs a staff of approximately 1,700 and generates annual sales of over 220 million euros.

On February 3, 2004, the Company signed an agreement for the acquisition of Otto Sauer Achsenfabrik Keilberg KG in conjunction with a management buyout. The agreement will enter into effect subject to various conditions, which in the Company's opinion will be satisfied in March of 2004.

Based on the increased number of transactions already completed in calendar year 2003, the Company believes that DBAG is well positioned in its market. Three management buyouts were executed, whereas only one transaction had been completed in each of the two previous years.

The Company is currently working on additional potential management buyout transactions, which could lead to still further investments in the current financial year.

Frankfurt am Main, February 2004

Deutsche Beteiligungs AG







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