



Deutsche
Beteiligungs AG

QUARTERLY REPORT
AT JULY 31, 2002





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NEGATIVE RESULT DUE TO VALUATION ADJUSTMENTS

Consolidated pre-tax earnings¹⁾ were negative for the first nine months of this financial year. The sum of current expenses for the management of and valuation adjustments to the portfolio considerably exceeded capital gains from the sale of investments and income from investments. For the first three quarters, the Group registered a loss after taxes of € –12.8 million. For Deutsche Beteiligungs AG, the loss after taxes totaled € –1.3 million (November 1, 2000 to July 31, 2001: net income € 0.6 million).

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This earnings position is unsatisfactory. At the center of this situation is the current state of exit channels: the turmoil on capital markets persists. These events have also impeded opportunities to sell investments outside the stock exchange to strategic investors. Consequently, achievable realizations, both in number and volume, were limited in the first nine months of the current financial year. Additionally, the first three quarters necessitated performing more extensive valuation adjustments than in the previous year. These write-downs relate to a few individual investee businesses in the portfolio.

Our portfolio constitutes a classical industrial portfolio. It is well balanced across the various sectors of industry. Through investments in the United States and other selected European countries, we also endeavor to geographically diversify the investment risk. We generally hold interests in businesses

¹⁾In October 2001, Deutsche Beteiligungs AG purchased the remaining shares in DBG Auslands-Holding GmbH. For that reason, the reporting was changed. Since then, Deutsche Beteiligungs AG has been reporting as a Group. For better comparability of quarterly reports with the previous year's performance, the figures for the Group as well as those of Deutsche Beteiligungs AG have been presented.

that are particularly well poised in their marketplaces. They therefore tend to be more successful than other competitors even in difficult economic environments.

Valuation adjustments are routine in the business of private equity investors. They mirror the risks as opposed to the outstanding opportunities normally involved in our line of business. Certain industry and company-related events caused us to revise valuations on portfolio companies at July 31, 2002. These valuation adjustments total € 19.0 million.

The write-downs relate to a few individual investments. A considerable part of the sum is attributable to one investment in the United States. To avoid any disadvantages to their operations, the portfolio companies concerned will not be named separately.

Cash flows from income were positive and totaled € 6.3 million (previous year: € 0.9 million). This result reflects the profitable realizations achieved in the first nine months of this financial year.

PORTFOLIO DEVELOPMENT: PROFITABLE REALIZATIONS AND INVESTMENT IN HT-ENGINEERING

In the mid-year report, we announced the sale of the Company's holding in Heilmeyer & Weinlein Fabrik für Oel-Hydraulik GmbH & Co. KG (Hawe KG, Munich). This transaction was completed in May 2002.

Subsequent to the close of the reporting period, we also finalized the sale of our shares in Rheinhold & Mahla AG (Munich). This transaction is proof of the competence of Deutsche Beteiligungs AG in selecting promising enterprises and successfully developing them even under challenging business conditions. Although equity valuations on stock markets have deteriorated significantly since entering the investment in Rheinhold & Mahla, this exit generated very satisfactory returns.

Quartus Capital Partners I concluded a contract on the sale of one of its four investments in April 2002, thereby realizing a capital gain. Deutsche Beteiligungs AG is the sponsor and largest investor of this French private equity fund.

From November 1, 2001 to July 31, 2002, we invested the sum of € 27.1 million. At the beginning of this financial year, we acquired two automotive suppliers from the Rütgers group and paid capital into a new fund raised by our American partners, Harvest Partners.

New in the portfolio since June 2002 is HT-Engineering GmbH. This company constitutes the engineering business of Austria-based RHI AG. It consists of six divisions that develop and provide facilities and components for high-temperature processes. High-temperature processes are key technologies

in pig iron production, aluminum processing and power plants.

The third quarter also saw a further allocation of capital to the Quartus Capital Partners I fund.

PORTFOLIO DEVELOPMENT AT JULY 31, 2002

	Total portfolio in millions of €	Number
November 1, 2001	311	49
Investments	27	1
Disposals/repayments	11	1
Juli 31, 2002	327	49

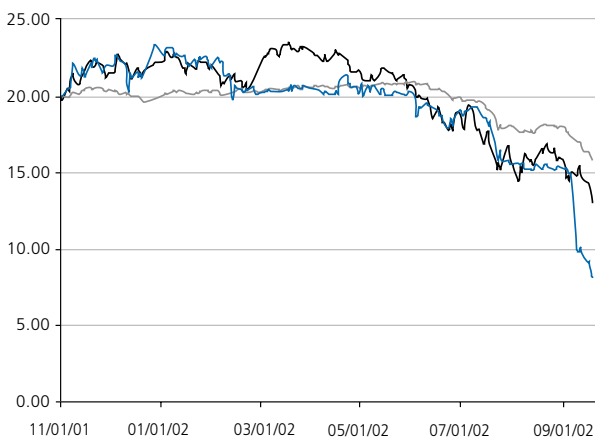
At July 31, 2002, the consolidated portfolio totaled € 327 million, invested in 49 companies. Including co-investment funds, Deutsche Beteiligungs AG had 59 investments at acquisition costs of € 532 million under management.

SHARE PRICE DROPS FOLLOWING LOSS ANNOUNCEMENT

The shares of Deutsche Beteiligungs AG, which invests in equity capital, were not able to avoid the negative market trend in the first three quarters of this financial year. The share price fell 22 percent (adjusted by dividend payment), corresponding to the performance exhibited by the German Stock Index (Dax). The price trend mirrors the capital market players' changed assessment.

The loss at July 31 and for this current financial year announced in an ad hoc release on September 9, 2002 led to a further drop in the share price by more than one third. The shares of Deutsche Beteiligungs AG are now traded below the book value, which was € 11.36 at July 31, 2002 (July 31, 2001: € 12.77).

Share price in €



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- Deutsche Beteiligungs AG (adjusted)
- DAX (indexed)
- SDAX (indexed)

Naturally, this share price performance is unsatisfactory. Deutsche Beteiligungs AG has therefore intensified the dialogue with its shareholders. In doing so, we underline that the book value of our shares merely denotes the portfolio at acquisition costs (or the revised value following an adjustment). Based on our accounting principle of the lower of cost or market, it does not reflect the value already created within the portfolio.

Since June 24, the German Stock Exchange has been determining the SDax – the index for small and mid-sized companies – on the basis of market capitalization weighted by the free float. Additionally, the composition of this index was reduced from 100 to 50 companies. Measured by market capitalization, the shares of Deutsche Beteiligungs AG are among the heavyweights in this group of 50 companies.

PRIVATE EQUITY MARKET: LONG-TERM GROWTH TREND IS SOUND

The weakness on stock markets worldwide over the last two years is now beginning to impact private equity markets: the influx of capital is no longer on the rise, and the dynamism that has driven the market particularly in Germany for the last ten years has decelerated. Nevertheless: Germany's private equity market is still on a "mid to long-term growth trend", according to a study²⁾ on "the future of Germany's investment business after the crash". Over the last 18 months, the German market has developed more favorably than that of other European countries, the study said.

Other research supports this assessment. Institutional investors voiced their intention to increase private equity investments in the coming years. The share of investments in off-exchange equity capital is estimated to move up from one percent to three percent in the next three to five years³⁾. A large part of the demand is anticipated to come from insurances and pension funds.

The Bundesverband Deutscher Kapitalbeteiligungsgesellschaften/German Venture Capital Association (BVK) regularly monitors and evaluates the German equity market. In August, the association published its mid-year statistics and found⁴⁾ that those market segments in which Deutsche

²⁾2nd Deloitte & Touche Venture Capital and Private Equity Study, Frankfurt am Main (June 2002). Also contributing to this study were the Center for Management Buy-Out Research (CMBOR) of the University of Nottingham, the German Venture Capital Association (BVK), and the Center for International Corporate Finance at the European Business School (ebs).

³⁾Wissen, Risiko, Erfolg – Investoren in Private Equity-Fonds – ein Markt im Aufbruch, Mackewicz & Partner, Munich (July 2002)

⁴⁾Mid-year statistics 2002, German Venture Capital Association (BVK), Berlin (August 2002)

Beteiligungs AG operates are currently up front – namely later-stage financing, spin-offs from large corporations and takeovers of established companies, or, in other words, management buyouts. Well-poised mid-sized businesses are again gaining in importance for investments, and larger management buyouts sized between € 25 to € 75 million are definitely on an uptrend, the association stated. We share that opinion: the number of investment opportunities on offer has markedly increased.

According to the report, trade sales (or sales to strategic investors) will continue to constitute the primary exit channel. However, realizations by public offerings are presently blocked.

OUTLOOK: CURRENT YEAR TO EXHIBIT A LOSS

We intend to proceed with our investment activity as planned. In the present market setting, there are lucrative investment opportunities arising, particularly sourced by efforts on the part of large corporations to focus on core competencies and spin off peripheral activities.

In a capital market environment marked by sustained uncertainty, Deutsche Beteiligungs AG's long-standing track record has proved invaluable. Our transactions are laid out for longer holding periods, generally three to five years. Our business is not linked to specific exit deadlines, putting the Company in a position to flexibly respond to prevailing market conditions. In a difficult environment, we succeeded in profitably realizing two investments in the first nine months of this financial year. Other exits are in the pipeline.

Normalization on M&A markets is long in coming. Although exit processes for mature investments are progressing, persisting volatility on capital markets makes it extremely difficult to predict an exact time line for planned realizations.

Based on the results for the first nine months, earnings for the complete financial year will be negative. We expect to post a loss of approximately € 15 million, the assumption being that no further capital gains will be achieved before the close of the current financial year.

September 2002

The Board of Management

I CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD FROM NOVEMBER 1, 2001 TO JULY 31, 2002

(Previous year: parent company)

	Nov. 1, 2001 to July 31, 2002 T €	Nov. 1, 2000 to July 31, 2001 T €
Income from investments	11,156	13,459
Gains from investment disposals	9,339	5,167
Losses from investment disposals	1,042	9,041
Write-offs on investments	19,006	0
Other operating income	3,799	4,722
Personnel costs	5,138	5,555
Depreciation on fixed assets	118	300
Other operating expenses	8,629	5,501
Net interest	-3,764	-2,280
Result of ordinary activity	-13,403	671
Taxes	614	-60
Consolidated net earnings/loss	-12,789	611
Profit carried forward	10,372	8,141
Withdrawal from reserves for own shares within retained earnings	0	71
Consolidated profit/loss	-2,417	8,823
Earnings per share	€ -0.91	€ 0.04
	July 31, 2002	July 31, 2001
Number of shares	14 million	14 million
Employees	52	48
thereof active	48	45

At € -12.8 million, Group earnings were negative for the first three quarters of the 2001/2002 financial year. Valuation adjustments were performed for several investments, whereby a considerable part of the sum relates to one investee business in the United States. Income from investments has decreased, due to no longer applicable one-time effects in the previous year. Gains from investment disposals largely relate to the disposal of Heilmeyer & Weinlein, the sale of an investment by Quartus Capital Partners I, and supplementary income from the sale of GAH. The decline in other operating income results from the elimination of intra-Group income. Personnel costs have decreased, due to lower performance-related income constituents. The rise in other operating expenses reflects higher transaction-related consultancy and assessment costs and also served to build up other reserves. The tax yield comes from a retransfer of tax provisions. The comparative figures for the previous year relate to the parent company, which is the Group's major enterprise and employs the entire staff.

T € = thousands of €

I CONSOLIDATED BALANCE SHEET AT JULY 31, 2002

ASSETS

	July 31, 2002 T €	Oct. 31, 2001 T €
Fixed assets	863	816
Investments	287,883	291,587
Long-term assets	288,746	292,403
Receivables	9,746	9,165
Other assets/securities/prepayments	20,100	21,520
Cash and cash equivalents	646	6,836
Current assets	30,492	37,521
	319,238	329,924
Trustee claims	12,128	15,723

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LIABILITIES AND SHAREHOLDERS' EQUITY

	July 31, 2002 T €	Oct. 31, 2001 T €
Subscribed capital	36,400	36,400
Capital reserve	102,194	102,194
Retained earnings	22,823	22,823
Consolidated profit/loss	-2,417	17,372
Total shareholders' equity	159,000	178,789
Provisions	17,729	25,369
Liabilities to banks	121,019	96,723
Other liabilities/deferred income	21,490	29,043
Liabilities	142,509	125,766
	319,238	329,924
Trustee liabilities	12,128	15,723

T € = thousands of €

I CASH FLOW STATEMENT

(Previous year: parent company)

Increase (+) / decrease (-)	Nov. 1, 2001 to July 31, 2002 T €	Nov. 1, 2000 to July 31, 2001 T €
Consolidated net income	-12,789	611
Write-offs on investments	19,006	0
Depreciation on fixed assets	118	300
Cash flows from income	6,335	911
Increase (-) / decrease (+) in accounts receivable	-581	3,597
Increase (-) / decrease (+) in other assets/securities/ pre-paid expenses	1,420	3,276
Increase (+) / decrease (-) in provisions	-7,640	-4,956
Decrease in non-bank liabilities/ deferred income	-7,553	-3,301
Cash flows from operating activities	-8,019	-473
Investments	-27,122	-28,183
Investment disposals	11,820	23,307
Capital expenditure on fixed assets/ intangible assets (net)	-165	-651
Net investment	-15,467	-5,527
Dividends paid for the prior year	-7,000	-25,200
Net decrease in cash and cash equivalents	-30,486	-31,200
New borrowings (-)	-24,296	-34,430
Increase (+) / decrease (-) in bank balance	-6,190	3,230

T € = thousands of €

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