COMBINED MANAGEMENT REPORT

ON DEUTSCHE BETEILIGUNGS AG
AND THE DEUTSCHE BETEILIGUNGS AG GROUP
FOR FINANCIAL YEAR 2018/2019

COMBINED MANAGEMENT REPORT

BUSINESS OVERVIEW

Deutsche Beteiligungs AG has reached the end of a financial year in which it outstripped its original earnings forecast, largely thanks to several, in some cases very successful, disposals. While the investment progress made by the DBAG funds was once again encouraging, the value appreciation of the portfolio lagged behind our expectations overall. This can be traced back to negative economic factors that had a particular impact on portfolio companies with industrial business models, as well as to lower valuations on the capital market and delays in the implementation of necessary changes at some portfolio companies.

As a result, the Group's net asset value only improved by 1.4 million euros. Taking into account the dividend distributed (21.8 million euros), the net asset value was up by 5.2 per cent as against the adjusted value for the previous year. Earnings generated by Fund Investment Services came to 3.0 million euros as against 5.6 million euros a year earlier. Net income came to 45.9 million euros. Total comprehensive income was hit by higher allocations to pension provisions due to much lower interest rates, and amounted to 38.2 million euros. Earnings per share of 3.05 euros correspond to a return on equity per share of 9.1 per cent, significantly higher than the cost of equity.

Five new companies were added to the portfolio in the financial year 2018/2019 and the same number of investments were ended, largely very successfully. The portfolio continues to consist of 27 equity investments, plus two investments in international buyout funds managed by third parties.

The Private Equity Investments segment reported earnings before tax of 42.1 million euros in 2018/2019, which was around 75 per cent higher than in the previous financial year. The earnings before tax reported by the Fund Investment Services segment was down year-on-year, due to the smaller calculation basis for the income generated by this segment.

At 29.1 million euros, the Group's parent company also posted higher net income than in the previous year. Even after the dividend payment, it can report a net retained profit of 178.1 million euros thanks to numerous successful disposals in previous financial years; 1.50 euros per share is to be distributed to the shareholders, i.e. a total of 22.6 million euros.

FUNDAMENTAL INFORMATION ABOUT THE GROUP

Structure and business activity

Positioning: Listed private equity company

Deutsche Beteiligungs AG (DBAG) is a publicly-listed private equity company. It initiates closed-end private equity funds ("DBAG funds") for investment in equity or equity-like instruments predominantly in unlisted companies, and provides advice regarding these funds. Employing its own assets, it mainly enters into investments as a co-investor alongside the DBAG funds. Where investments do not match the investment strategies of DBAG funds, DBAG also invests independently of the funds ("Principal Investments"). The investment focus, as an investor and fund advisor, is on mid-market German companies.

Strategic development page 50

We support our portfolio companies, for a period of usually four to seven years, as a financial investor in a focused-partnership role with the objective of appreciating their value. The companies subsequently continue their development under a different constellation; for example, alongside a strategic partner, a new financial investor, or as a listed company.

DBAG's shares have been listed on the Frankfurt Stock Exchange since 1985. They are traded in the market segment with the highest transparency requirements, the Prime Standard.

Deutsche Beteiligungs AG is recognised as a special investment company, as defined by German statutory legislation on special investment companies (Gesetz über Unternehmensbeteiligungsgesellschaften – UBGG), and is therefore exempt from municipal trade tax. A subsidiary, which is registered as a small capital management company (Kapitalverwaltungsgesellschaft – KVG) in accordance with the German Capital Investment Code (Kapitalanlagegesetzbuch – KAGB) is responsible for the management of the German funds. Another subsidiary is registered in Guernsey as a KVG, from where it manages the funds based in Luxembourg and Guernsey.

Integrated business model: Two business segments that are closely tied to DBAG funds

The roots of Deutsche Beteiligungs AG reach back to 1965. Since then, DBAG and its predecessor company have entered into equity investments in more than 300 companies – from the outset (also) through closed-end funds that invest on their own account. Today, DBAG funds bundle the assets of German and international investors.

Raising capital for DBAG funds is advantageous for DBAG and its shareholders, as well as for investors in the funds.

- Shareholders participate in the fee income earned for advising DBAG funds ("Fund Investment Services"). The funds' assets create a substantially larger capital base, which enables investing in larger companies without reducing the diversity of the portfolio. Moreover, as a special investment company, DBAG is only permitted to take majority positions within strict limits; structuring management buyouts (MBOs) together with the DBAG funds is, however, possible without restrictions.
- The fund investors can, in turn, be assured that their advisor, in its role as a co-investor, pursues the same interests.

The two funds that are currently investing, DBAG Fund VII and DBAG Expansion Capital Fund (ECF), cover a wide section of the German private equity market with equity investments of between 10 and 100 million euros (up to 200 million euros in exceptional cases) for management buyouts and growth financing. Currently, there is a total of five DBAG funds that are in different phases of their life cycles:

- The DBAG Fund IV buyout fund has sold all of its portfolio companies and is currently in liquidation.
- Its two follow-on funds are in the disinvestment phase. Of the erstwhile eleven portfolio companies, DBAG Fund V had sold ten by the reporting date of 30 September 2019. DBAG Fund VI still holds investment in seven out of a previous total of eleven MBOs.
- DBAG ECF ended its original investment period in May 2017. It made growth financing available for eight companies and entered into one MBO. June 2017 saw the start of the first, and July 2018 the start of the second new investment period (DBAG ECF I/DBAG ECF II), which will run until the end of 2020 at the latest. 43 per cent of the fund was invested at the 30 September 2019 reporting date and a further 25 per cent was allocated to another investment that had already been agreed, but had not yet been completed, by that date.
- DBAG initiated the DBAG Fund VII in 2016. The fund's investment period started in December 2016; between then and the reporting date, the fund structured eight MBOs, seven of which were completed by the reporting date. Taking into account transactions that have been agreed but not yet completed, around 67 per cent of the fund has been called.[1]

Performance of DBAG Fund VI page 73f.

Performance of DBAG ECF page 72f.

Performance of DBAG Fund VII page 70f.

1 *Principal fund; top-up fund: 32 per cent*

Given the advanced level of investment of the two funds that are currently investing, we started preparing for a new DBAG fund during the financial year.

Fund		**Target**	**Start of investment period**	**End of investment period**	Size	Thereof DBAG	**Share of DBAG's co-investment**
DBAG Fund IV (in liquidation)	Managed by DBG New Fund Management	Buyouts	September 2002	February 2007	€322mn	€94mn	29%
DBAG Fund V	Managed by DBG Managing Partner	Buyouts	February 2007	February 2013	€539mn	€105mn	19%
DBAG Expansion Capital Fund (ECF)	Managed by DBG Managing Partner	Growth financing	May 2011	May 2017	€212mn	€100mn	47%
DBAG ECF first new investment period ("DBAG ECF I")	Managed by DBG Managing Partner	Growth financing and small buyouts	June 2017	June 2018	€85mn	€35mn	41%
DBAG ECF second new investment period ("DBAG ECF II")	Managed by DBG Managing Partner	Growth financing and small buyouts	June 2018	December 2020 (at the latest)	€97mn	€40mn	41%
DBAG Fund VI	Advised by DBG Advising	Buyouts	February 2013	December 2016	€700mn[1]	€133mn	19%
DBAG Fund VII	Advised by DBG Advising	Buyouts	December 2016	December 2022 (at the latest)	€1.010mn[2]	€200mn[3]	20%[4]

1 Without the co-investment of experienced members of the DBAG investment team
2 DBAG Fund VII consists of two sub-funds, a principal fund (808 million euros) and a top-up fund (202 million euros), without the co-investment of members of the investment team of DBAG; the top-up fund invests exclusively in transactions with an equity capital investment that exceeds the concentration limit of the principal fund for a single investment
3 DBAG has committed 183 million euros to the principal fund and 17 million euros to the top-up fund
4 The proportion of co-investments for the principal fund amounts to 20 per cent and the proportion of co-investments for the top-up fund amounts to eight per cent

Fund Investment Services business segment

Advisory services provided to DBAG funds are bundled in the Fund Investment Services business segment.

INVESTMENT SERVICES BUSINESS SEGMENT

INVEST

- Seek, assess and structure investment opportunities
- Negotiate investment agreements
- Compile investment memoranda for the fund manager

DEVELOP

- Support portfolio companies
- Participate in supervisory boards
- Finance acquisitions

REALISE

- Sell portfolio companies
- Structure the sale process
- Prepare investment decisions

Advisory services by the investment team

The advisory services provided to the funds can be split into three material processes: first, we identify and assess transaction opportunities ("invest"); second, we support the portfolio companies' development process ("develop"), before thirdly, we realise the value appreciation ("realise") upon a portfolio company's well-timed and well-structured disinvestment.

We manage these processes with our own resources in tried-and-tested workflows; responsibility for this lies primarily with the investment team. It consists of 21 investment managers, with two Board of Management members assuming responsibility for the team, whilst also being part of it. The team has a broad skill set combined with multifaceted experience in the investment business. It is supplemented by three employees in Research and Business Development. The auxiliary functions for the investment process and the administrative activities, which are collectively referred to as the "corporate functions", all report to the Chief Financial Officer, whose responsibilities also include portfolio valuation and risk management.

A project team of two to four individuals is generally responsible for each transaction. One of the two members of the Board of Management is assigned to each project team. One member of the project team will typically take a seat on the respective portfolio company's advisory board or supervisory board in order to support their management.

Fees resulting from services for DBAG funds as a source of income

DBAG receives volume-related fees for its investment services, which constitute a continual and readily forecastable source of income. For DBAG Fund VI and DBAG Fund VII, fees during the investment period are based on the committed capital (only DBAG Fund VII in the past financial year[2]). After that, they are measured by the invested capital (only DBAG Fund VI in the past financial year). The fees for DBAG ECF are based on the invested capital and we can also receive one-off fees based on individual transactions. As agreed, fees are no longer paid in DBAG Fund V more than two years after the end of the customary disinvestment phase.

Income from Fund Services page 76

2 *Fees for the top-up fund are also measured by the invested capital during the investment phase.*

It follows from this fee methodology that fee income from fund advisory services will decline with every disposal from a fund's portfolio. In principle, considerable increases can only be achieved when a new fund is launched. Smaller increases are achieved every time DBAG ECF enters into a new investment, because the services in connection with this fund are paid based on the invested capital.

Alignment of interest and incentives for the investment team

The members of the investment team with greater experience in investing (13 out of 19), and the two Board of Management members responsible for the investment team, personally co-invest their own money alongside the DBAG funds, generally investing around one per cent (as is common in the industry) of the capital raised by the fund investors and DBAG. This meets the expectations of fund investors who, for reasons of identity of interest, expect such a private investment. The co-investing members of the investment team receive an incentive for generating the best possible financial performance for the funds. They receive a profit share that is disproportionate to their capital commitment ("carried interest") after the fund investors and DBAG have realised their invested capital plus a preferred return.

Investment team supported by strong network

The investment team can rely on a strong network, the nucleus of which is an "Executive Circle" consisting of 64 people. The members of the Executive Circle support us in identifying and initiating investment opportunities, assist us in assessing certain industries or back us prior to making an investment in the particularly comprehensive target company due diligence process. The Executive Circle comprises experienced industrial experts, including partners of earlier investment transactions. The members have industry experience that is relevant to DBAG. The network is supplemented by a large group of financial experts, consultants, lawyers and auditors.

Private Equity Investments business line

Value creation on investments as a source of income

The Private Equity Investments business segment largely encompasses investments which are held through investment entity subsidiaries. DBAG co-invests via these companies on the same terms, in the same companies and in the same instruments as the DBAG funds. To that end, DBAG has concluded co-investment agreements with the DBAG funds that provide for a fixed investment ratio for the lifetime of a fund. These agreed ratios also apply upon an investment's disposal. Income is generated from the value appreciation and sale of these investments.

Investment ratios of DBAG to DBAG funds page 46

In addition, DBAG decided in the last financial year to include investments purely from its own balance sheet (in other words, not alongside the funds) as an additional investment programme ("Principal Investments"). These will include investments that are not consistent with the investment strategies of the existing DBAG funds; this applies, for example, to longer-dated minority investments.

The modes and specific structuring of an investment are geared to the individual financing situation. These could be:

Investment criteria pages 50ff.

- a succession solution in a family-owned business,
- split-offs of peripheral activities from large corporations,
- a sale from the portfolio of another financial investor,
- a capital requirement to fund a company's growth.

Correspondingly, an investment can involve equity or equity-like instruments, taking either majority or minority positions. The first three financing situations mentioned above will usually be structured as majority acquisitions. Growth financing, on the other hand, is made by way of a minority interest or by providing equity-like funding.

Portfolio profile: Predominantly MBOs

Our statement of financial position confirms the success of our investment activity. Since 1997, DBAG has financed a total of 53 MBOs together with DBG Fund III, DBAG Fund IV, DBAG Fund V, DBAG Fund VI and DBAG Fund VII, as well as DBAG ECF since June 2017. To date, we have increased the value of the invested equity to 2.0 times[3] the original amount. 32 of these investments had been realised completely or for the most part by the end of the previous financial year. The disposals generated a multiple of 2.7 times the invested capital.

Details on the portfolio pages 88ff.

3 *This takes into consideration all buyouts structured up to 30 September 2019; it does not take into consideration agreed but not yet completed transactions.*

Growth financing investments are also attractive. Like Principal Investments, these investments differ from MBOs in that, among other things, the companies' debt levels are mostly lower and the holding periods are usually longer. The expected rate of return is therefore lower than the rate of return for MBOs, while earnings are comparable in absolute terms.

Long-term financing of co-investments via the stock market

DBAG finances the co-investments alongside DBAG funds in the long term exclusively through the stock market. The structure of its statement of financial position attests to the special nature of the private equity business, with investments and realisations that cannot be scheduled. The Company maintains sufficient financial resources in order to take advantage of investment opportunities and to meet co-investment agreements at any time. Loans are only used in exceptional cases and only to serve short-term liquidity requirements. For longer planning horizons, we manage the amount of equity capital via distributions, share repurchases (as in 2005, 2006 and 2007) and capital increases (2004, 2016).

Risks arising from co-investment agreements page 104f.

Strategy

Investments in mid-market German companies with potential for development

Clear investment criteria

DBAG invests in established companies with a proven business model. This approach excludes investments in early-stage companies, or companies requiring considerable restructuring. Moreover, we attach a great deal of importance to seasoned and dedicated management teams who are able to realise the objectives agreed with them.

In the year under review, we expanded our investment strategy and, as a result, our product range for the mid-market segment: in addition to the co-investments alongside the DBAG funds, we now offer equity investments that are financed exclusively from the Deutsche Beteiligungs AG balance sheet. These are investments that are not consistent with the investment strategies of the existing DBAG funds. As a result, these Principal Investments differ from the co-investments made alongside the funds first of all in terms of the intended term of the investment: our offering is aimed at family businesses to whom we can offer equity capital from our balance sheet, enabling holding periods that are longer than the usual term of a closed-end private equity fund.

We look for companies with development potential to add to our portfolio. By way of example, measures to strengthen a company's strategic positioning – e.g. by expanding its product range or covering a larger geographical market – can unleash potential for value appreciation. Potential for earnings improvements that have not yet been realised can be exploited by improving operational processes, for example with the aim of making production more efficient. In some cases, there is also the option for particularly strong companies to press ahead with consolidation in the industry.

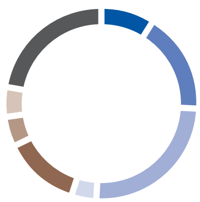
Companies that fit the range of investments we cover are also characterised by leadership positions in a (possibly small) market, entrepreneurially-driven management, strong innovative capacity and future-proof products. The business models of these companies are also aimed at reaping the benefits from the megatrends in their respective sectors. Many such mid-market companies can be found in Germany, for example, in mechanical and plant engineering, in the automotive supply industry and among industrial support services providers, as well as among industrial component manufacturers.

The DBAG investment team has traditionally focused on these industries and industry-related services and has a particular wealth of experience and expertise in this area. We are capable of structuring even complex transactions in these core sectors, such as the acquisition of companies from conglomerates or companies facing operational challenges. In addition to the investments in our core sectors, we have increasingly turned to portfolio companies in other new focus sectors in recent years and these now account for a considerable proportion of the portfolio.

Transactions in our core sectors, however, account for a limited share of the private equity market that has been declining in general of late. These sectors are also more exposed to cyclical influences than others. As a result, and also in the interests of further diversifying the risk in our portfolio, we have continuously broadened the range of industries we cover to include segments outside of our core sectors in recent years. Examples of transactions from these new focus sectors involve companies whose business is related to the expansion of digital infrastructure in Germany. Companies with mature and attractive business models are increasingly being found in the software industry, too. The healthcare sector has also opened up to financial investors over the last few years.

SECTOR BREAKDOWN OF THE PORTFOLIO

Costs of purchase (€bn)



Automotive supplier	9
Mechanical and plant engineering	17
Industrial components	25
Industrial services	4
Broadband/ telecommunications	13
IT services/software	5
Healthcare	5
Other	22

Overall, we have made significant changes to the industry structure of our portfolio in recent year. While the investments made in the period between 2007 and 2012 came exclusively from our traditional core sectors, this has no longer been the case since 2013. Transactions conducted outside of the core sectors have increased consistently since then.

Geographically, we concentrate on companies domiciled – or whose business is centred – in German-speaking regions. We limit any investments outside of this region to our core sectors.

Irrespective of the type of investment, the DBAG funds provide for equity investments in a single transaction of between 10 and 100 million euros. When it comes to structuring larger transactions with equity investments of up to 200 million euros, we include the top-up fund of DBAG Fund VII. For DBAG, this equates to equity investments of between 5 and 20 million euros, and for transactions involving the top-up fund, equity investments of up to 34 million euros in principle. DBAG's Principal Investments are designed to achieve a comparable level of equity investment; where appropriate, we enter into larger equity investments hand-in-hand with co-investors.

DBAG co-investment ratio with the DBAG funds page 46

Depending on the business model of the future portfolio company, the equity invested corresponds to an enterprise value of between 20 and 400 million euros. Furthermore, the focus is on investments in companies with an enterprise value of between 50 and 250 million, i.e. companies at the upper end of the mid-market segment. This segment comprises almost 9,000 companies in Germany.

We endeavour to achieve a diversified portfolio. For investments in several companies operating in the same industry, we take care to ensure that they serve different niche markets, operate in different geographical regions or have different business models. Most of our portfolio companies operate internationally. This applies to the markets they serve, but also to their production sites.

Some of our portfolio companies produce capital goods. The demand for these products is generally subject to stronger cyclical swings than the demand for consumer goods. This means that we pay particular attention to an appropriate financing structure for these companies. Investments in companies whose performance is more strongly linked to consumer demand mitigate the effects of business cycles on the value of the portfolio. This applies, in particular, to the investments in the new focus sectors of broadband/telecommunications and IT services/software.

Investment performance as a prerequisite for growth in both business lines

In our business segment of Fund Investment Services, our aim is to achieve long-term growth in the volume of assets under management or advisory. This is achieved by ensuring that a successor fund exceeds the size of its predecessor, or by launching further DBAG funds with new investment strategies that we have not pursued to date. The distribution of a higher fund volume among DBAG and the other investors determines the change in the basis for the fee income from investment services to funds, but first and foremost, it determines the growth opportunities open to the business segment of Private Equity Investments.

Capital commitments to a (successor) fund are significantly influenced by the performance of a current fund. Thus, a prerequisite for increasing managed and advised assets is, among other things, an excellent track record. Investors also value DBAG's access to the mid-market segment, the long-term stability of our investment team, and our strong roots in the German economy.

Objectives

Core objective: Long-term increase in the Company's value

The core **BUSINESS OBJECTIVE** of our activity is to sustainably increase the value of Deutsche Beteiligungs AG. We achieve this aim by increasing the value of our two business segments, Private Equity Investments and Fund Investment Services.

As is common in the private equity sector, a long period of time is required before we can be judged on our success. The income from investment activity is influenced to a significant degree by the appreciation in value of our portfolio companies. Exploiting development potential requires patience; on average, we support the companies over a period of four to seven years. Income from Fund Services is largely influenced by the launch of new funds, something that happens every four to five years or so, while the lifetime of a fund generally extends to ten years and extensions of up to two years are common. Key indicators can also be headed on a downward trajectory in the short term. This is partly a typical feature of the business because, for example, income from Fund Services falls after investments are disposed of. In part, however, it is also attributable to external factors that can fluctuate considerably in the short term, such as the valuation levels of listed peer group companies in the context of the portfolio valuation process. This means that a single quarter and even an entire financial year say very little about the success of our business activities. It is only when viewed over a sufficiently long period of time that it is possible to assess whether we have reached the core objective of our business activity.

Enhancement of the target system

We enhanced our target system in the financial year under review. As in the past, it consists of three financial and three non-financial objectives which make indirect and direct contributions to achieving the core business objective.

We have renamed the financial objective "Build the value of portfolio companies" "Build the value of Private Equity Investments". This editorial adjustment was made in view of the fact that the value of the portfolio companies does not fully reflect the value of the business segment. For example, the previous name of the objective does not cover the financial resources, which form part of the net asset value.

We have also made an editorial adjustment to the name of another objective: "Generate value contribution from Fund Investment Services" is now called "Build the value of Fund Investment Services". This is designed to make it clear that this value contribution is also to be increased in the long term.

The non-financial objective "Attract and retain experienced and motivated employees" is a new addition. Employees are the key to success, especially in the investment and fund business. This is evident, for example, from the fact that investors in private equity funds tend to regard selected members of the investment team as "key persons" for the success of a fund, and ensure that they are granted certain rights in the event that these individuals no longer belong to the investment team. This is why keeping an eye on motivation levels and the loyalty of its employees to the company is a top priority for DBAG.

The former non-financial objective "Maintain and build on our reputation in the private equity market" has been combined with the objective "Support promising mid-market business models" and is now referred to as "Garner esteem as a financial investor in the mid-market segment". This allows us to create closer links between the financial and non-financial objectives for our two business segments.

The enhanced target system will apply from the beginning of the 2019/2020 financial year. The previous target system consisting of the following objectives will continue to determine whether the objectives set were achieved during the reporting period:

- Financial objectives
  - Generate value contribution from Fund Investment Services
  - Build the value of portfolio companies
  - Have shareholders participate in the company's success
- Non-financial objectives
  - Support promising mid-market business models
  - Maintain and build on our reputation in private equity market
  - Garner esteem as an advisor of private equity funds

We refer to pages 35 to 37 of the 2017/2018 Annual Report for detailed information on the previous objectives.

Target system comprising financial and non-financial objectives (from the 2019/2020 financial year onwards)

In order to achieve the core business objective, DBAG continues to pursue three financial and three non-financial objectives.

Two out of the three financial objectives, namely "Build the value of Private Equity Investments" and "Build the value of Fund Investment Services" make a direct contribution to achieving the core business objective. The third financial objective, "Have shareholders participate in the company's success through dividends that are stable and which rise whenever possible", would appear to contradict this: every euro that is distributed is a euro that cannot be invested in value-enhancing investments in mid-market companies; it reduces the financial resources and, as a result, the value of the business segment. This is a contradiction that we are prepared to accept. It is important to us that our shareholders participate in our success in the form of distributions that – unlike our share price performance – we can influence directly.

The non-financial objectives, on the other hand, make an indirect contribution to the achievement of the financial objectives and, as a result, to the core business objective. The satisfaction, loyalty and respect of the most important stakeholder groups for the investment and fund business, namely mid-market entrepreneurs, institutional fund investors and our employees, are the most important foundations for the success of our business.

OBJECTIVES OF DEUTSCHE BETEILIGUNGS AG

Financial objectives

> BUILD THE VALUE OF PRIVATE EQUITY INVESTMENTS

> BUILD THE VALUE OF FUND INVESTMENT SERVICES

> HAVE SHAREHOLDERS PARTICIPATE IN OUR SUCCESS WITH STABLE, RISING DIVIDENDS

CORE BUSINESS OBJECTIVE
SUSTAINABLY INCREASE THE VALUE OF DBAG

> GARNER ESTEEM AS A FINANCIAL INVESTOR IN THE MID-MARKET SEGMENT

> GARNER ESTEEM AS AN ADVISOR OF PRIVATE EQUITY FUNDS

> RETAIN EXPERIENCED AND MOTIVATED EMPLOYEES

Non-financial objectives

Financial objective: Build the value of Private Equity Investments

The Private Equity Investments business segment is structured like a listed private equity portfolio managed by an external manager. This means that the equity investments are allocated to this business segment, namely those which DBAG enters into as a co-investor alongside the DBAG funds, but in future also those equity investments that DBAG makes exclusively using funds from its own balance sheet (Principal Investments). Financial resources and other asset and liability items that are directly related to private equity investments are also allocated to this business segment. In the Fund Investment Services segment, DBAG assumes the functions of an external advisor that receives an advisory fee (either a real or synthetic fee, depending on the fund) for these activities, as is standard practice in the sector. The costs of the stock exchange listing are also allocated to this business segment.

Financial and non-financial management indicators pages 60ff.

Building the value of Private Equity Investments in the long run first of all requires investments to be made in promising mid-market business models. To grow the value of the equity investments, DBAG supports the portfolio companies during a phase of strategic development in its role as a financial investor, usually over a period of four to seven years. The increase in value is realised by way of ongoing distributions, recapitalisation measures and the disposal of the investment. The higher the increases in value that can be realised with the investments made, and the higher the proportion of these increases in value that is reinvested in new investments, the greater the increase in the value of the business segment.

Financial objective: Build the value of Fund Investment Services

The Fund Investment Services business segment is structured like a manager or advisor of closed-end private equity funds. Managers or advisors of private equity funds tend to be teams of investment managers that are organised as partnerships and are not listed on the stock exchange. Things are different at DBAG: the members of the investment team are salaried employees of the listed company Deutsche Beteiligungs AG. Accordingly, this business segment comprises the employees that make up the investment team and the Group functions, unless they are involved in the duties associated with the stock exchange listing or capital market activities.

An increase in the value of the Fund Investment Services business segment requires substantial assets under management or advisory that increase in the medium term. The value of the business segment is measured by the sustainable growth in fee income from Fund Services, which tends to be volume-based, and the extent to which it exceeds the corresponding expenses. The value of the Fund Services segment can be determined using the DCF method or by applying a multiple based on a peer group or market transactions. The value of the business segment increases if (based on a given multiple) the excess of income over expenses increases.

Financial objective: Have shareholders participate in our success with stable, rising dividends

We intend to have our shareholders participate in financial gains by paying stable dividends that will thrive as much as possible. Three aspects play a key role when it comes to deciding on the amount of the distribution: the inflow of funds from the two business segments (income from Fund Services and net inflows after disposals), future liquidity requirements for (co-)investments and securing the dividend capacity in the long run. We also view an attractive dividend yield as a significant element of our shareholders' participation in DBAG's success.

Non-financial objective: Garner esteem as a financial investor in the mid-market segment

We want to invest the funds that shareholders and fund investors entrust to us. In order to achieve this, we not only need to identify and analyse a sufficient number of investment opportunities in our target market – companies in the German mid-market segment. In a highly competitive environment, it is also about setting ourselves apart from our peers. When company founders or family shareholders sell their companies or let DBAG in as a minority shareholder, esteem and trust are key factors in that decision, making them an important basis for our success.

Esteem and trust are nurtured by our long-standing market presence in the mid-market segment, in which we have proven time and again that we are not only able to preserve the life's work of founders or families, but also to secure their successful future. We have helped peripheral businesses of large corporations that have slipped out of focus on the path to successful development as independent entities. Our fundamental approach also helps to foster our good reputation among other stakeholders, including banks as financing partners or the workforces and representative bodies of the companies in which we invest. The transparency associated with our stock exchange listing and our focus on sustainability also help to build trust – both in the management of our Company and in the selection of, and support for, portfolio companies. If we have become the new owners of a company due to the trust placed in us, we aim to give our portfolio companies the leeway they need to successfully pursue their strategic development – with our equity, for example, to extend their market position through acquisitions – as well as with our experience, wealth of knowledge and network.

Sustainability reporting pages 38ff.

Non-financial objective: Garner esteem as an advisor of private equity funds

The assets of the DBAG funds constitute a substantial part of DBAG's investment base. The funds are organised as closed-end funds; regularly raising successor funds is therefore a requirement. This is why it is important for investors in this asset class to value us as an advisor and, for example, invest on a recurring basis. Furthermore, our funds should be sufficiently successful that we can maintain and expand our flexibility as regards fund volume and conditions. This will only succeed if investors in current funds achieve commensurate returns, and if we are perceived to be solid and trustworthy. We therefore attach great importance to open, responsible interaction with the fund investors.

Non-financial objective: Retain experienced and motivated employees

Our success thrives on the professional and personal skills of our people in all areas of the Company. We therefore pay particular importance to nurturing a corporate culture which promotes loyalty to the Company and strengthens ties to DBAG. Performance orientation and a team-based work environment are key characteristics of our corporate culture. We base our success on a culture of professionalism and mutual respect. We attach great importance to treating each other and our business partners with respect.

The private equity business requires a great amount of resilience from employees. The commitment required in this business calls for strong identification with the role. We promote this sense of identification in various ways. We foster a culture of direct communication, team-based project organisation and delegating responsibility early on, in all areas of the Company. The compensation and incentive system at Deutsche Beteiligungs AG is geared towards encouraging achievement and offering not only a motivating work environment, but also a financial incentive to retain key staff in the long run, driving DBAG's performance at the same time.

Steering and control

Enhancement of management indicators

In this Management Report, reporting on the past financial year, such as the information on the business review of the Group and the comparison between actual business developments and the forecast, largely refers to the previous performance indicators. We had forecast their development for the 2018/2019 financial year, and it was these performance indicators that were also largely used for steering purposes in the year under review.

As mentioned earlier, we have enhanced our target system. This also involved adjusting the performance indicators and developing additional performance indicators. While the new performance indicators were already relevant, they will play a more important role in our management processes in the future.

The information set out below takes into account the further development seen in recent months. As a result, we have presented the expected development for the new management indicators in the forecast report.

Key management indicator

The key management indicator is the result of the interaction of a wide range of initiatives and business processes that are aligned with our financial and non-financial objectives. In order to bring the core business objective more closely into line with the other financial and non-financial objectives than it was in the past, we have also adjusted the key management indicator; it also takes account of special features of the valuation of private equity companies that are standard in the sector.

Previous key management indicator: Return on capital employed

To date, the financial performance indicator used to steer and control the core business objective has been the return on capital employed. The Company's value was understood to have increased in the long term when, over an average of ten years, the return on the capital employed per share exceeded the cost of equity. We calculated it based on the equity per share at the end of the financial year and the equity, less dividends, at the start of the financial year.

By the nature of our business model, investments may predominate in some years, and disinvestments in others. This and the influence of external factors on value growth lead to marked fluctuations in performance from year to year. As a result, we have expressed an individual year's performance contribution by comparing it to a ten-year average to date.

We derived the cost of equity once a year on the reporting date, based on the capital asset pricing model (CAPM) from a risk-free base rate and a risk premium for the entrepreneurial risk. The risk premium was determined by also considering a risk premium for the stock market as well as DBAG's individual risk, expressed in the beta factor.

	30 Sep 2019	30 Sep 2018
Risk-free base rate *(%)*	0.1	1.1
Market risk premium *(%)*	7.0	7.0
Beta Factor	0.8	0.7
Cost of equity *(%)*	**5.7**	**6.0**

Up until only recently, the cost of equity calculated in this manner was heavily influenced by the unusually low interest rate level and DBAG's relatively modest risk position in view of its capital structure. In order to reduce the impact of the interest rate level regarding the reporting date, we applied the average cost of equity calculated from the previous ten reporting dates as a measure of our long-term success. This figure came to 6.3 per cent for the financial years from 2009/2010 to 2018/2019; over the previous ten-year period, the cost of equity had averaged 6.5 per cent.

New management indicator for the core business objective: Value of DBAG

We aim to increase the value of DBAG in the long term. We will achieve this by increasing the value of our two business segments, Private Equity Investments and Fund Investment Services. All financial and non-financial objectives will contribute to this. The value of DBAG is calculated by adding up the values of the two business segments. We are aware that every valuation is of a subjective nature. This is why we do not carry out our own valuation of DBAG. By offering the greatest possible degree of transparency, however, we aim to ensure that market participants can carry out their valuation on the most objective basis possible.

Management indicators for the other financial and non-financial objectives (from the 2019/2020 financial year onwards)

Management indicator for the financial objective "Build the value of Private Equity Investments"

The Private Equity Investments business segment is structured like a listed private equity portfolio managed by an external manager. Comparable business models are usually valued at net asset value.

We calculate and report the net asset value on a quarterly basis. It mainly consists of the gross portfolio value and short-term loans to investment entity subsidiaries for the pre-financing of acquisitions, as well as the financial resources. It is reduced by carried interest entitlements resulting from private investments made by members of the investment team in the DBAG funds.

The net asset value does not change as a result of investments and disposals; these merely produce a shift between the portfolio value and the financial resources (the loans granted for prefinancing purposes are a hybrid of the two). It changes primarily as a result of changes in the value of the portfolio. It is reduced by the distribution of the dividend, the costs associated with the stock exchange listing (including the fee for listing the shares on the Frankfurt Stock Exchange, expenses for investor relations, etc.) and the costs of portfolio management (real and synthetic fee paid to the Fund Investment Services segment). The higher the proportion of invested funds, the greater the change, in both positive and negative territory, and vice versa: the greater the share of the net asset value that is attributable to financial resources, the more stable the value is.

While the dividend allows our shareholders to participate in our success, the distribution reduces our financial resources and, as a result, the asset value. In order to make the increase in the net asset value visible in a given financial year, the opening balance of the net asset value is therefore adjusted to reflect the distribution made in that financial year.

The gross portfolio value corresponds to the market value of the portfolio companies on the relevant reporting date, which we calculate on a quarterly basis using the recognised valuation methods that are applied as standard in the industry. It is entirely possible for the gross portfolio value to fall in some years because it is also subject to influences that DBAG cannot control, such as the capital market.

Management indicator for the financial objective "Build the value of Fund Investment Services"

In order for the Fund Investment Services business segment to be successful, there have to be substantial assets under management or advisory that increase in the medium term; the volume of these assets determines the fee income from Fund Services generated by the fund investors and the Private Equity Investments business segment. In addition to this fee income, earnings before tax generated by Fund Investment Services is significantly influenced by the cost of identifying investment opportunities, of supporting the portfolio companies, and of their ultimate disinvestment. These costs include the personnel expenses for our investment team and the Group functions, as well as the expenses for our Executive Circle and for legal and other advisors.

We measure whether we have achieved the financial objective "Build the value of Fund Investment Services" by looking at the long-term development of the earnings generated by Fund Investment Services.

The earnings generated by Fund Investment Services can fall in individual periods. This is due, for one, to the fact that the calculation basis for advisory fees depends on the portfolio volume; in the disinvestment phase of a fund, for example, it decreases every time a portfolio investment is sold. It only rises again when a new fund is launched. Even if advisory fees remain constant for a longer period of time, as is generally the case during a fund's investment phase, higher costs can send results on a downward trajectory. This explains why a longer observation period is important for this management indicator, too.

Management indicator for the financial objective "Have shareholders participate in the company's success through dividends that are stable and which rise whenever possible"

We measure and manage the participation of the shareholders in our performance using the absolute dividend per share and the dividend yield. We aim for a stable distribution per share in euros that would ideally increase on an annual basis. Our shareholders should also expect to achieve an attractive dividend yield. This means that we also take the capital markets environment into consideration when determining the dividend proposal at the Annual Meeting.

Management indicator for the non-financial objective "Garner esteem as a financial investor in the mid-market segment"

We are particularly successful as an investment partner to mid-market family-owned businesses. The proportion of MBOs that involve company founders or family shareholders on the seller side is particularly high at DBAG. We aim to continue to generate a large proportion of our transactions from this environment. This is based on a market presence that generates a high-quality selection of investment opportunities in both quantitative and qualitative terms. In addition to our market presence spanning decades, our reputation and our roots in Germany, an Executive Circle and a variety of other activities help us to achieve this. We measure the achievement of this objective in particular based on the number and quality of investment opportunities that we can address each year.

Management indicator for the non-financial objective "Garner esteem as an advisor of private equity funds"

We measure and manage our reputation as an advisor of private equity funds based on the percentage of capital commitments made to a fund by investors in previous DBAG funds. A high level of esteem is generally reflected in the highest value possible. This figure is not, however, viewed in isolation from strategic considerations. It can make sense, for example, to tap into new investor groups and, as a result, make a conscious decision to accept lower values than those that could be generated from the demand of previous investors. We can only update this figure in a year in which a new DBAG fund has been launched.

Management indicator for the non-financial objective "Retain experienced and motivated employees"

We measure whether we have succeeded in retaining experienced and motivated employees on the basis of the average length of service. We conduct surveys on an ongoing basis to collect information on employee satisfaction. We also review the appropriateness of the remuneration paid compared with the market on a regular basis and offer the investment team the opportunity to participate in the performance of the DBAG funds (carried interest), as well as providing the sort of incentive system that is customary in the industry, which we also review on a regular basis to check that it can be considered appropriate.

Regular assessment of equity investments

Because of the particularities of our activity, we do not steer our business by traditional annual indicators such as operating margins or EBIT. Instead, the key management indicators at Group level are – as described above – the parameters that we can influence and that determine the value of our two business segments, Private Equity Investments and Fund Investment Services. These are the net asset value and the earnings generated by Fund Investment Services.

At the portfolio company level, traditional indicators, on the other hand, play a direct role: when making our decision to invest, we clearly define performance targets based on the business plans developed by the portfolio companies' managements – such as for revenues, profitability and debt. During the time of our investment, we conduct a valuation of our portfolio companies at quarterly intervals, using their current financial metrics (profitability indicators such as EBITDA, and net debt). On that basis, we closely follow their progress in a year-over-year and current budget comparison. We also consider other indicators, such as order intake and orders on hand.

Ensuring performance: Board of Management members involved in relevant operating processes

As mentioned, members of the Board of Management are also involved in the core processes of DBAG's business (i.e. investment, development, realisation). They are involved, in particular, in generating investment opportunities (deal flow) as well as in due diligence and negotiating acquisitions and disinvestments. Additionally, they discuss new investment opportunities and key new developments within the portfolio companies at weekly meetings with those members of the investment team who are involved in transactions or in supporting the portfolio companies.

A key instrument in ensuring performance is the investment controlling system which, by way of example, identifies deviations from the originally agreed development steps or provides information that may be useful for managing an investment portfolio, e.g. pointing to the potential negative impact that economic developments could have on the portfolio companies.

BUSINESS REVIEW OF THE GROUP

Comparison between actual business developments and the forecast

	Actual 2017/2018[1]	Reference point of the forecast[2]	Expectations 2018/2019	Actual 2018/2019	
Financial performance indicators[3]					
PRIVATE EQUITY INVESTMENTS SEGMENT					
Net income from investment activity	€31.1mn	€51.9mn	20% to 40% lower	€49.6mn	Expectation exceeded
Earnings before tax	€24.2mn	€44.5mn	20% to 40% lower	€42.1mn	Expectation exceeded
Cash flow from investing activities (excluding securities)	€(30.6)mn	€(30.6)mn	More than 20% lower	€(15.5)mn	Expectation met
of which: investments (excluding securities)	€(63.8)mn	€(63.8)mn	More than 20% higher	€(93.4)mn	Expectation met
Net asset value (reporting date)	€470.7mn	€475.1mn	Up to 10% higher	€472.1mn	Expectation not met
of which: financial resources (reporting date)	€119.0mn	€119.0mn	More than 20% lower	€69.4mn	Expectation met
Number of investments (reporting date)	29	29	Up to 10% higher	29	Expectation not met
FUND INVESTMENT SERVICES SEGMENT					
Income from fund services	€29.7mn	€29.4mn	Up to 10% higher	€28.2mn	Expectation not met
Earnings before tax	€5.6mn	€6.0mn	Up to 10% lower	€3.0mn	Expectation not met
Assets under management or advisory (reporting date)	€1,831.4mn	€1,831.4mn	10% to 20% lower	€1,704.0mn	Expectation met
GROUP					
Net income	€29.7mn	€48.0mn	20% to 40% lower	€45.9mn	Expectation exceeded
Equity (reporting date)	€443.8mn	€447.8mn	Up to 10% higher	€460.2mn	Expectation met
Earnings per share	€1.97	€3.29	20% to 40% lower	€3.05	Expectation exceeded
Equity per share	€29.50	€29.76	Up to 10% higher	€30.59	Expectation met
Return on equity per share	6.9%	14.6%	20% to 40% lower	9.1%	Expectation met
Non-financial performance indicators					
Number or employees (reporting date, including vocational trainees)		71	Unchanged	75	Expectation not met
Investment opportunities		262	Unchanged	258	Expectation not met

1 Restated in accordance with IAS 8
2 Reference point for the forecast was not adjusted for the purposes of projected/actual comparison
3 For previous indicators, refer to page 20 and to the Annual Report 2017/2018

Net gains from investment activity and hence DBAG's net income for the 2018/2019 financial year were better than expected, thanks in part to above-average success achieved on disposals. They also exceed the respective prior-year figures by more than half. Income from Fund Services declined; we had expected to receive additional transaction-based fees from DBAG ECF. The segment result was influenced by the unexpected low fee income, so that it also failed to reach the planned level.

Macroeconomic and sector-related underlying conditions

Real economy: Trade conflicts are depressing global growth – Germany in industrial recession

The macroeconomic environment has changed significantly since the beginning of the financial year. Over the course of several years, our business and that of our portfolio companies have been built on a robustly expanding global economy. In 2018/2019, however, the pace of global economic growth has slowed due to perceived risks: the exchange of goods between the US and China has fallen drastically, and intra-European trade is suffering from the turmoil surrounding the UK's withdrawal from the European Union. All in all, global trade in goods has been on a downward trend since autumn 2018. Trade conflicts are also dampening companies' willingness to invest: production levels in the manufacturing sector have been stagnating since the beginning of 2019. and for some advanced economies it has even fallen. In the German manufacturing sector, value added declined for four consecutive quarters. The industrial recession in Germany is gradually spreading to company-related service providers as well. From a global perspective, however, services continue to expand significantly in many places, largely due to robust consumer demand. Against this background, the International Monetary Fund (IMF) has repeatedly lowered its forecasts for global economic growth. It still expects an increase of only 3.0 per cent in economic output (World Economic Output)[4], the lowest rate since the 2008/2009 financial crisis. The IMF anticipates growth of 3.4 per cent for 2020. Comparing this with the growth rates forecast six months earlier for the same periods – 3.3 per cent for 2019 and 3.6 per cent for 2020[5] – shows how much momentum has softened.

This also applies to Germany in particular. The IMF states that, apart from Italy, Germany will be the industrialised country with the lowest growth rate in 2019. German economic forecasters share the same view. The six economic research institutes tasked by the German federal government to prepare a joint report estimate that economic output in Germany has shrunk in the second and third quarters of 2019.[6] Since the start of the downswing at the turn of the year 2018/2019, the previously quite significant over-utilisation of production capacity has been reduced to a large extent. The reasons for the economic slowdown are largely industry-related. The slowdown has been particularly noticeable in the automotive industry, where production has fallen by more than 20 per cent since mid-2018.[7] Besides cyclical factors, another contributing factor is likely to be the significant technological changes occurring on the global automotive market. For 2019, the economic research institutes tasked recently forecast an increase of

4 *"Global Manufacturing Downturn, Rising Trade Barriers – World Economic Outlook", International Monetary Fund, October 2019*

5 *World Economic Outlook, IMF, April 2019: Growth Slowdown, Precarious Recovery.*

6 *Joint Economic Forecast 2/19, September 2019: Industry in Recession – Forces Driving Growth Wane.*

7 *"Industry in Recession – Growth Forces Diminish", Joint Economic Forecast 2/19, September 2019, page 10*

0.5 per cent in gross domestic product of 0.5 per cent, 0.3 percentage points less than the figure posted in spring 2019. For 2020, they estimate growth to be weaker again at 1.1 per cent, compared with 1.8 per cent in spring.

Our portfolio comprises companies that are affected in varying degrees by the developments described above. In broadening our investment strategy in recent years, we have been able to reduce our risk exposure to economic and structural changes. In addition, although most of the automotive suppliers in our portfolio are not affected by the transition to new drivetrain technologies, they are nonetheless feeling the effects of the declining volumes procured by their customers because fewer vehicles are being manufactured overall. The consumer-oriented companies in our portfolio are benefiting from strong domestic demand in Germany. Although broadband telecommunications operators are benefiting from government support to expand the digital infrastructure, some of the benefits cannot be fully realised due to a shortage of skilled labour.

However, the underlying conditions for our portfolio companies were less favourable overall in the past financial year than in previous periods. Several companies are facing challenges in their respective markets, such as the automotive and wind energy industries; these are reflected, for example, in lower order intake, delays in announced projects and more demanding payment terms. While the possible withdrawal of the UK from the European Union has not had any significant impact on them yet, trade restrictions and, particularly, the reluctance to invest in equipment have been noticeably felt.

Financial markets: Financing conditions remain positive

Central banks have responded to the economic slowdown. The US Federal Reserve, for example, cut its key interest rate – the Fed Funds target range – twice in 2019, first in July and more recently in September. It was generally expected back in autumn 2018 that the European Central Bank would raise its key interest rate for the first time in the second half of 2019. In the meantime, however, the opposite has happened: the ECB has once again loosened its monetary policy and tightened penalty interest rates for banks. It has also resumed bond purchases. The ECB lowered its key interest rate in March 2019 to a record low of zero per cent, where it has remained ever since.

The prospect that the low interest rate period will continue has once again boosted equity markets, having first seen price drops and significantly declining valuations in the fourth quarter of 2018. There was a slightly negative change in valuations on the major stock markets year-on-year. The companies represented in the DAX index were valued on the reporting date at 8.7 times (median) the profit (EBITDA) expected for the current year. This multiple had been 9.2 one year earlier. MSCI World constituents were valued at 11.3 (median, 30 September 2019) and 11.4 (median, 30 September 2018).

The financing situation for the German corporate sector is particularly positive, with just under nine per cent of companies reporting difficulties in accessing credit – compared with 61 per cent which find it “easy”. A year ago, these figures were around 13 and 54 per cent, respectively. Never before have fewer companies described their access to loans as more “difficult”. In addition to strong internal financing capabilities, this situation has been helped along by low interest rates, the easing of lending standards of banks and positive business development.[8] The total volume of loans extended by banks in Germany (excluding housing loans and financing institutions) in the second quarter of 2019 was 5.4 per cent higher than in the same quarter of the previous year.[9]

The overall conditions for the financing of our portfolio companies therefore remained positive. The supply of acquisition finance, which is key to our business, also remained strong over the past financial year. Private debt funds, which extended the banks' traditional offering and meanwhile command a market share of 50 per cent, also contributed to this.[10] However, the financing institutions meanwhile appear very reticent as regards lending to industrial enterprises.

8 *“Financing climate defies economic development” and “Credit market sentiment remains strong”, KfW business surveys from July 2019 and July 2018*

9 *“The situation in corporate financing” Association of German Banks (Bundesverband deutscher Banken), September 2019*

10 *“MidCap Monitor Q2 2019”, GCA Altium, July 2019*

Currencies: Impact on portfolio value low, near-neutral in this financial year

The direct impact of exchange rate fluctuations on the value of our portfolio continues to be negligible, as we only make investments in non-euro currencies in exceptional cases. At present, our investments in four portfolio companies (duagon, mageba, Pfaudler and Sjølund) as well as those in the externally-managed foreign buyout fund Harvest Partners are exposed to currency risks. The Swiss franc and the US dollar have appreciated against the euro, while the British pound remained virtually unchanged compared to the previous reporting date. The Danish krone is pegged to the euro, and its value also remained fairly stable. The parities changed by 4.0 and 6.0 per cent and therefore at a higher rate than in the previous financial year: compared to the reporting date of 30 September 2018, the price gains led to a gross value appreciation of 3.6 million euros. This compares with the 2017/2018 financial year, when changes in exchange rates led to a gross value appreciation of 0.3 million euros.

Analysis of earnings sources pages 78ff.

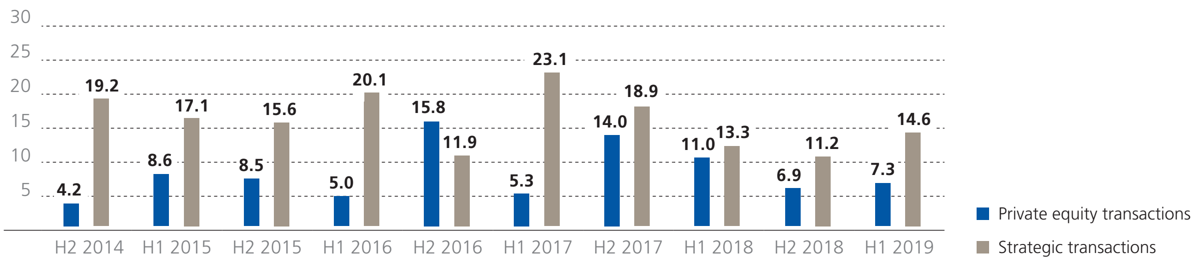
Beyond that, exchange rate fluctuations also have a direct influence on the business activities of our portfolio companies in their respective international markets. This is partly compensated for by the fact that the companies have manufacturing operations in various currency areas.

Private equity market: Number and volume of transactions stable at a high level

Due to the size and structure of the private equity market, comparisons based on short periods are only of limited informative value and at best allow us to identify trends. Transparency is limited: for every transaction for which a value is published, there is more than one for which there is none – or only unreliable, quantitative information. Market studies and other statistical information are often driven by different interests and therefore do not provide a truly representative picture of the market.

M&A-MARKET GERMANY – TRANSACTION VALUE

€bn



Having said that, the investment dynamics of the private equity market in Germany remained virtually unchanged in 2018/2019. We can see from the number of transactions executed during the twelve-month period ending on 30 June 2019 that 230 transactions involving financial investors were registered in Germany. This is only twelve fewer than in the previous twelve-month period and eight more than the year prior to that. In view of the statistical uncertainty, these differences are irrelevant. Nor did the share of the total M&A market (number of transactions) change significantly. The development of the transaction volume is exaggerated because it is defined to a greater or lesser extent in individual periods by a few, particularly large transactions.[11]

However, the change in registered disposals indicated a shift in sentiment. Out of the portfolios of financial investors, only 44 German companies were sold in the first half of 2019. This represents a sharp decline compared with 64 exits in the second half of 2018 and is also well below the average of the last ten years (51 exits). Sales to strategic investors are clearly stagnating, with the decline attributable exclusively to such transactions. Financial investors seem to be delaying selling: the average holding period – in other words, the holding period for investments sold by financial investors within a given six-month period – has extended significantly, and rose from 57 to 67 months in the first half of 2019.

Buyouts dominate private equity business in Germany. In 2018, 6.7 billion euros or around 70 per cent of all funds invested in Germany were invested in this type of majority acquisition; practically nothing has changed in this respect over the past eight years. Growth financing accounts for a good 15 per cent of investments; this share has also remained constant over the years – albeit with fluctuations.[12]

DBAG focuses largely on the mid-market segment in German-speaking regions, namely on transactions with an (enterprise) value of 50 to 250 million euros. There has been a significant increase in buyout activity in this specific sub-market. At 47 transactions, financial investors in German SMEs structured 12 MBOs more in 2018 than in 2017. This represents a new record for this segment since the beginning of analysis in 2002. Transaction volume amounted to 4.8 billion euros, compared with 4.4 billion euros in 2017. The increase went hand in hand with a structural

11 *"German Private Equity Deal Survey 2019HY1 – Activities in Germany at a glance", EY 2019, and "Private Equity – The Transaction Market in Germany, H1 2019", EY 2019*

12 *"BVK Statistics 2018", German Private Equity and Venture Capital Association, February 2019 ("Market statistics, investments by financing situation")* market change. Among the sellers of companies to financial investors, company founders and families accounted for around 40 per cent, the highest rate ever recorded, and a new record level. In 2018, 19 of the 47 MBOs in our market segment were succession solutions. This is a further increase over the two previous years which had already recorded an above-average number of buyouts from family ownership. In previous years, only one in ten transactions had a family connection. Younger company founders in particular are becoming increasingly aware of the contribution financial investors can make to further developing their companies.[13]

13 *This information is based on a survey conducted by the industry magazine FINANCE on behalf of DBAG. This includes majority takeovers in the context of MBOs, MBIs and secondary/tertiary buyouts of German companies involving a financial investor and a transaction volume of between 50 and 250 million euros.*

It is still the case that conditions in our market segment are changing slowly at most. Competition for attractive equity investments remains high and is determined above all by the high availability of capital seeking investment. Strategic buyers are competing with financial investors and other bidders with medium to long-term investment objectives, such as foundations and family offices. Furthermore, a substantial volume of acquisition financing is still available at attractive conditions. This applies all the more because, for some years now, financing has also been provided by private debt funds in addition to conventional banks. While there is a large supply of funds ready for investment, there is a limited supply of investment opportunities. For quite some time now, this has tended to lead to more demanding valuations, that is, higher purchase prices. This trend remains intact despite the overall easing of economic momentum. We are registering changes in the market structure, despite the high numbers and total volume of private equity transactions recorded in 2018. The economic slowdown, particularly in the industrial sector, is reflected in this latest development: companies from this sector of the economy currently play little or no role in private equity transactions. The willingness of the banks to finance transactions in mechanical and plant engineering or in the automotive supply industry is also currently lower than before.

The regular survey of market participants for the German Private Equity Barometer reveals that there is a continued high level of dissatisfaction, especially among buyout investors, with the entry valuations for new transactions. Of the nine climate indicators collected on a quarterly basis, only the entry-level prices are valued as significantly negative. In the latest four surveys, the business climate in the private equity market that is relevant for DBAG has continued to deteriorate overall, even though expectations have improved again recently as regards future developments.[14]

14 *"German Private Equity Barometer: Q2 2019", KfW Research and BVK, September 2019*

Business and portfolio review

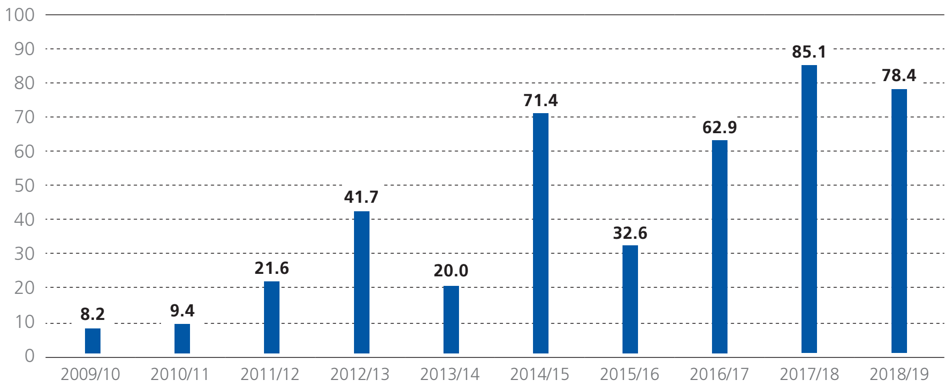
Private Equity Investments: Strong momentum at portfolio level and attractive new investment opportunities

Investment decisions in the amount of 379 million euros implemented

After DBAG's portfolio gained record new equity investments in the 2017/2018 financial year, the focus over the past financial year was on developing these recently acquired investments. We have therefore supported many acquisitions that have enabled companies to implement and accelerate their strategic development. We have also frequently provided additional funds alongside DBAG Fund VI, DBAG Fund VII or DBAG ECF.

INVESTMENT IN THE PORTFOLIO

€mn



In addition, we were again able to explore a wide range of new investment opportunities and provide support for four new MBOs. Of these MBOs, Cartonplast is the largest single investment that DBAG has ever undertaken together with one of its funds. We structured this large volume using DBAG Fund VII's top-up fund; the transaction was completed at the start of the new financial year. Cloudflight reinforces our exposure to the area of digital business models, where we can often provide support to businesses growing at a particular fast pace. The same applies to STG, another service provider for the telecommunications sector with a focus on the construction of fibre-optic networks. Sero is one of the new companies in our core automotive supplier sector. As a development and manufacturing service provider for electronic components, the company is focused in particular on a market defined by structural growth.

New equity investments were offset by four disposals agreed in the year under review. DBAG's investment portfolio at the end of the financial year thus comprises 27 companies and two meanwhile very small investments in externally-managed foreign buyout funds. The portfolio consisted of 29 investments at the end of the previous year.

DBAG invested 78.4 million euros from its balance sheet in 2018/2019 (previous year: 85.1 million euros): this sum includes not only new investments, but also increases in existing investments.

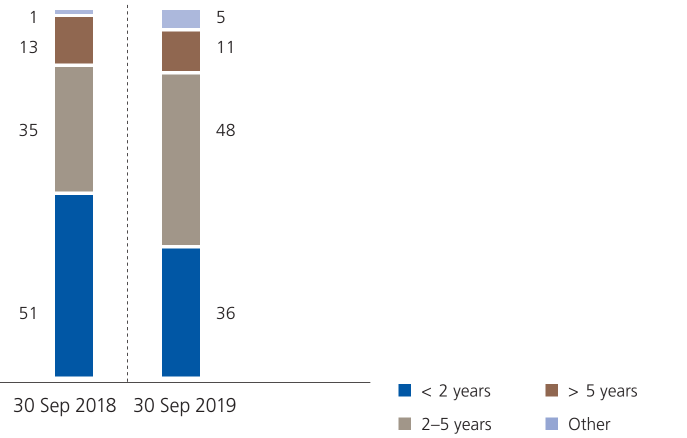
In its role as a fund manager and advisor, DBAG initiated investment decisions on equity investments in the financial year 2018/2019 of around 379 million euros (previous year: 307 million euros.) The investment decisions not only related to the new MBOs; 108 million euros was also attributable to acquisition financing by the portfolio companies and, to a lesser extent (6 million euros), to capital invested in existing portfolio companies. 86.2 million euros (previous year: 85.3 million euros) of the investment decisions was attributable to the co-investments made by DBAG (largely) alongside DBAG Fund VII and DBAG ECF.

Portfolio companies largely in the development phase

The share of investments in the portfolio for less than two years is 36 per cent on the basis of the acquisition costs (previous year: 51 per cent). Investments that we are already supporting for two to five years account for around 48 per cent (previous year: 35 per cent). This is the typical period in which the implementation of the agreed corporate strategy gains the most momentum; however economic influences, such as those that are evident in the industry for more than a year now, can lead to delays. A further 11 per cent (previous year: 13 per cent) relates to portfolio companies which we have held in our portfolio for more than five years.

STRUCTURE OF THE PORTFOLIO ON BASIS OF ACQUISITION COSTS

%



DBAG Fund VII: Several transactions completed, two new investments and two acquisitions – 67 per cent of the funds allocated

DBAG Fund VII has been investing in mid-sized companies since December 2016. The portfolio has meanwhile grown to include eight investments, including three for which the top-up fund has also been used. As at the reporting date, some 67 per cent of the funds are already called or committed to investments. Three transactions were agreed in the year under review, of which two were also completed before the reporting date; in addition, a further two transactions that had been agreed in previous financial years were completed.

The investment in **KRAFT & BAUER HOLDING GMBH** was completed at the start of the year under review, in November 2018. Kraft & Bauer develops, produces and installs fire protection systems for around 800 kinds of machine tools in the high-performance sector. It focuses on microprocessor-controlled extinguishing systems that detect fires using sensors and then initiate the extinguishing process. Kraft & Bauer not only benefits from the growing demand for new machines – and hence fire protection systems – but also from a stable service business thanks to a broad basis of more than 30,000 systems installed in Germany alone. The planned development steps include geographical expansion beyond the markets in which it is currently active. As part of the MBO, DBAG invested around 14 million euros, which means that 18 per cent of the shares in Kraft & Bauer are now attributable to DBAG.

Also in November 2018, DBAG Fund VII acquired the majority of the shares in **SERO GMBH**, a development and manufacturing service provider for electronic components especially for the automotive industry, from the founding family. Sero assembles printed circuit boards and produces electronic components for brake lights and motor sensors, as well as for high-performance microphones, heat meters and other industrial measurement products. As part of the MBO, DBAG invested around 11 million euros, which means that it now holds 21 per cent of the shares in Sero.

In May 2019, having met the legal requirements, DBAG Fund VII completed the majority investment in a radiology group that now operates as **BLIKK HOLDING GMBH.** Two radiology professional associations form the nucleus of the group. Their acquisition was already agreed in March 2017 and their medical care centres were founded by a company providing paramedical dialysis case. blikk is expected to grow through further practice acquisitions. DBAG Fund VII (principal fund and top-up fund) alongside DBAG already provided funds in this context in the course of the previous financial year to acquire two radiology practices – also through the aforementioned founding company. In the course of these acquisitions and closing of the underlying transaction in the third quarter, DBAG has invested a total of 16.5 million euros in blikk to date. In addition, the acquisition of a highly-specialised regional hospital in Berlin was agreed in September 2019; a major proportion of this hospital's revenue is generated from outpatient examinations or treatments focused on radiological services. The funds for this acquisition will be made available in the new financial year.

CLOUDFLIGHT HOLDING GMBH, an IT service provider focusing on digitalisation and cloud transformation, has been part of the DBAG Fund VII portfolio since June 2019. As part of a management buyout, the fund acquired majority stakes in Austrian firm Catalysts GmbH and Crisp Research AG. These two companies trade as Cloudflight, which will support SMEs, public-sector authorities and corporate groups in implementing and accelerating their digital transformation. DBAG co-invested around 8 million euros, which means that around 13 per cent of the shares in Cloudflight Holding GmbH are attributable to DBAG on a look-through basis.

DBAG alongside DBAG Fund VII agreed the investment in **CARTONPLAST HOLDINGS GMBH**[15] in the fourth quarter of the year under review. When the transaction is completed at the start of the new financial year, DBAG Fund VII will acquire the majority of the company's shares as part of an MBO. DBAG will invest some 26 million euros and hold around 17 per cent of the shares in Cartonplast in the future. Cartonplast primarily operates a pool of reusable and recyclable plastic layer pads on a rental basis for the transport of bottles or glass containers for drinks and other foodstuffs to the manufacturers of these bottles and containers. To this end, the company has established a closed logistics cycle within its customers' value-creation chain. Cartonplast has established itself as a European leader in a market with solid growth rates. The company benefits from the increasing trend towards outsourcing and from sustainability efforts, as well as from the growing importance of the closed cycle principle. By further internationalising its business, Cartonplast is expected to continue on its dynamic growth trajectory in the years ahead. There are also plans to expand the product range, for example, by hiring out additional plastic pallets and caps.

15 *Company name subject to being entered in the Commercial Register*

DUAGON AG, headquartered in Dietikon, Switzerland, is a leading independent supplier of network components for data communication in rail vehicles. The company's products enable communication between the individual systems of railway vehicles such as doors, brakes, air conditioning systems and the primary host computer. After merging with MEN Mikro Elektronik GmbH in May 2018, duagon acquired OEM Technology Solutions, an Australian provider of control and automation solutions for the global railway industry during the financial year under review.

The group is set to benefit from a complementary product offering, enhanced software and electronics capabilities and a global sales organisation. duagon financed the transaction using its own funds.

DBAG ECF: Diverse investments at portfolio company level – 68 per cent of the funds committed as at the reporting date

The DBAG ECF portfolio companies expedited the strategies agreed to strengthen their respective market positions in the financial year under review, in particular through various acquisitions. In some cases, they financed these from their own resources. DBAG ECF alongside DBAG financed some of the acquisitions with additional funds. Furthermore, DBAG ECF structured its seventh MBO with the investment in STG Group; 68 per cent of DBAG ECF's funds have now been committed ("Second Investment Period").

BTV MULTIMEDIA GMBH is a retail and service company that develops, produces and sells components for the construction of cable and fibre-optic networks. As one of the few full-service providers in this area, BTV Multimedia provides everything needed to set up, upgrade and operate broadband infrastructure. It pursues a buy-and-build strategy in order to consolidate its market, in the course of which it acquired three companies in the financial year under review, including its main competitor in the German market, Anedis Management GmbH (revenue: 19 million euros). DBAG has invested a further 2.2 million euros in BTV Multimedia in the course of this transaction. BTV Multimedia also acquired Holm (revenue: 9 million euros), a wholesaler of network components, and DKT (revenue: 19 million euros), a Danish manufacturer of broadband network equipment, with a market presence in Denmark and the adjacent European markets. BTV Multimedia financed these two transaction from its own resources.

The investment in **FLS GMBH**, which was already agreed in the 2017/2018 financial year, was completed in the first quarter of the year under review. The company provides software for real-time scheduling and route optimisation in service and logistics. Energy suppliers, industrial enterprises, financial service providers as well as trading and property companies can use this software for planning and optimising their field staff's and delivery vehicles' schedules and routes, in order to respond better to the customers' growing expectations of ordering and delivery processes.

DNS:NET SERVICE GMBH offers telecommunications and internet services for private and business customers using proprietary and leased fibre-optic network infrastructures. The data processing facilities for corporate customers are based on the company's own as well as on leased infrastructure in high-security locations at major internet hubs. The company is gaining new customers at rapid pace and is investing in its sales activities and the further expansion of its fibre-optic network. In order to finance further growth, DBAG invested five million euros in DNS:Net in the year under review.

NETZKONTOR NORD GMBH offers services relating to the planning and supervision of fibre-optic network construction. It also handles the network management for operators of these networks. To date, the company has focused its activities regionally in the German state of

Schleswig-Holstein. It plans to broaden this focus in the future and diversify its customer base. Having made various acquisitions in the 2017/2018 financial year, netzkontor nord concluded the takeover of BFE Nachrichtentechnik (revenue: 10.0 million euros) during the year under review. DBAG supported the acquisition with a follow-on investment of 2.6 million euros.

The MBO of **STG GROUP** is DBAG's sixth broadband communications investment since 2013: it was agreed during the financial year but has yet to be completed. As a service provider for the telecommunications sector, STG (based in Bochum, Germany) focuses on the construction of fibre-optic networks. Going forward, it is not only looking to benefit from strong market growth organically, but also through a buy-and-build strategy, via acquisitions. This will be complemented by the expansion of the business as an operator of fibre-optic networks for large telecommunications companies and the housing industry. It is envisaged that DBAG alongside DBAG ECF will invest around nine million euros, with around 36 per cent of the shares in STG attributable to it.

Agreement was reached in the fourth quarter to sell the stake in **NOVOPRESS KG**. Deutsche Beteiligungsgesellschaft mbH Fonds I KG, formerly managed by DBAG, already acquired a minority interest in Novopress back in 1990. This investment culminated in an – as yet minority – investment by DBAG ECF in 2015, through which DBAG has been invested in Novopress since then. With the disposal of its minority investment, DBAG realised a double-digit multiple on the 2.3 million euro investment made in 2015, taking into account distributions received.

In January 2019, DBAG ECF sold its investment in **PLANT SYSTEMS & SERVICES PSS GMBH** (PSS) to the majority shareholder. This was the Fund's first investment – and also its smallest, at cost of 2.3 million euros. The transaction only had a minor impact on income in the period under review; further payments and potential contributions to income may occur after a subsequent sale by the new sole shareholder.

DBAG Fund VI: Acquisitions of portfolio companies and disposals of investments

DBAG Fund VI has concluded its investment period. The focus is therefore now on supporting the development of the portfolio companies, for which the fund alongside DBAG provides additional resources where it is necessary and makes sense. Furthermore, investments are gradually being disposed of.

TELIO MANAGEMENT GMBH develops, installs and operates communications and media systems for law enforcement; these include phones in prisons and the related systems that allow prisoners to make phone calls in a controlled environment. In addition to the corresponding installations (cables, terminal devices), Telio offers software for controlling and invoicing calls, making it easier for the law enforcement officials to run the facilities. Telio acquired the French company KEAS during the second quarter of the past financial year. KEAS (2018 revenues: 11.0 million euros) develops systems that detect and jam mobile communication – for example in correctional facilities; the technical solutions that go with them represent a promising expansion of Telio's product range. DBAG supported the transaction with a follow-on investment of 0.9 million euros.

In January 2019, **UNSER HEIMATBÄCKER GMBH** filed for insolvency under self-administration. The bakery chain operates in a challenging and highly competitive market environment. DBAG Fund VI and DBAG had previously supported extensive restructuring efforts, which included not only management changes, but also additional capital investment. The insolvency proceedings have largely been concluded. No further proceeds are expected.

The sale of the investment in **CLEANPART GROUP GMBH**, which was already agreed in the 2017/2018 financial year, was completed in October 2018; the agreed purchase price was already included in the valuation of the investment as at 30 September 2018.

We were able to agree the disposal of **INFIANA GROUP GMBH** in the fourth quarter of the financial year under review. We were successful in sustainably strengthening the company's position – through organic growth following capacity expansion, broadening the product range as well as focusing its business activity following the sale of subsidiaries. The company attracted the interest of Pamplona Capital Management, a financial investor. After a holding period of a good four and a half years, DBAG managed to realise more than twice the original invested capital of 12.6 million euros.

International fund investments: Disposal of a portfolio company

The two externally-managed international buyout funds, DBG Eastern Europe and Harvest Partners IV, are meanwhile of minor importance to DBAG's portfolio: DBG Eastern Europe is still invested and we expect a closing distribution from the Harvest Partners IV fund after the last investment has been disposed of.

Fund Investment Services: Fundraising for successor funds

The second new investment period of DBAG ECF ("DBAG ECF II") started in June 2018, with the agreement on the MBO of BTV Multimedia. The fund's first new investment period (DBAG ECF I) ended prematurely after twelve months. For DBAG ECF II, investors committed funds totalling 97.0 million euros, of which a total of 39.7 million euros was attributable to DBAG's co-investment commitments. The second new investment period is expected to run until 31 December 2020 at the latest. We receive a regular fee of 1.75 per cent of the invested capital for our advisory services and a one-time fee of two per cent of the invested capital for concluding a new investment.

With nearly 70 per cent of DBAG Fund VII and DBAG ECF resources called or committed to investments, we initially prepared a successor fund for DBAG Fund VII in 2018/2019, for which we started a fundraising process. We will not continue to operate DBAG ECF after the end of the current investment period.

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Comparability of the previous year's figures

The figures as at 30 September 2018 (2017/2018 financial year) in this annual report can only be compared with the figures published in the 2017/2018 annual report to a limited extent.

The corrections in accordance with IAS 8 relate – as we have reported since the first quarter of 2018 – to the measurement of irrecoverable interest receivable from portfolio companies, and the amount of income from advising funds. As a result, net income for the 2017/2018 financial year was 3.9 million euros lower than originally reported. On balance, equity reported in the financial statements as at 30 September 2018 was burdened by 4.0 million euros (not already accounted for), bringing the adjusted figure to 443.8 million euros (previously: 447.8 million euros). As part of these restatements, feedback effects on earnings-related variable remuneration components of the Board of Management and the corresponding repayments were also taken into consideration. Please refer to Note 4 to the consolidated financial statements for further details.

Earnings position

Overall assessment: Net income up significantly on the previous year

At 45.9 million euros, DBAG's net income for the 2018/2019 financial year exceeded the previous year's earnings by more than half, thanks in part to above-average success achieved on disposals. Net gains from investment activity of 49.6 million euros were significantly above the previous year and therefore exceeded our original expectations. Income from Fund Services declined slightly due to a number of disposals, combined with lower than expected transaction-based fees. Net (negative) expenses ("Other income/expenses" in the condensed consolidated statement of comprehensive income) increased slightly to 31.5 million euros, largely as a result of higher personnel expenses.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€'000	2018/2019	2017/2018 Restated[1]
Net income from investment activity	49,629	31,098
Income from fund services	26,970	28,855
Income from fund services and investment activity	**76,599**	**59,953**
Personnel expenses	(21,042)	(18,005)
Other operating income	5,767	3,697
Other operating expenses	(16,413)	(15,557)
Net interest income	172	(357)
Other income/expense items	**(31,515)**	**(30,222)**
Earnings before tax	**45,083**	**29,731**
Income taxes	659	(18)
Earnings after taxes	**45,742**	**29,714**
Net income attributable to other shareholders	114	(25)
Net income	**45,856**	**29,688**
Other comprehensive income	(7,690)	(1,203)
Total comprehensive income	**38,181**	**28,486**

1 Restated in accordance with IAS 8

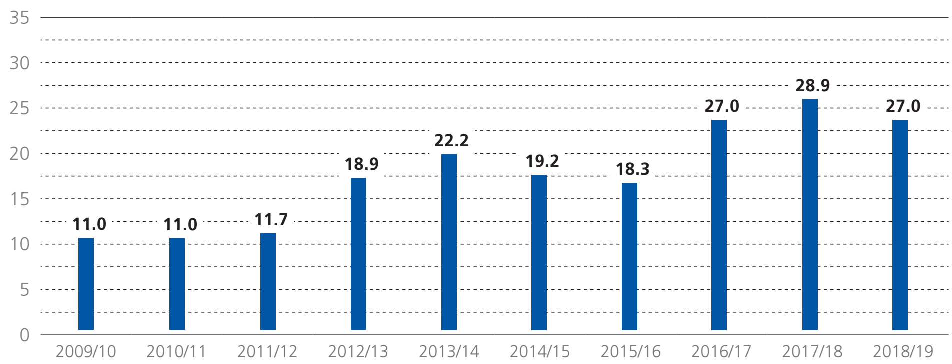
Overview: Significantly higher income from investment activity, slight decrease in income from advising funds

NET GAINS OR LOSSES FROM FUND SERVICES AND INVESTMENT ACTIVITY reached 76.6 million euros, and were therefore significantly higher than the previous year (60.0 million euros). The increase was a result of the performance of *net gains from investment activity* that mainly determine this item, both in terms of amount and volatility (for details, please refer to the information under "Net gains or losses from investment activity").

At 27.0 million euros, *income from Fund Services* was slightly lower than in the previous year (28.9 million euros). The reduction was largely due to lower income from DBAG Fund VI (8.6 million euros, after 9.7 million euros) and from DBAG Fund V (0.2 million euros, after 0.7 million euros). Investments in the DBAG Fund VI portfolio were sold, thus reducing the basis for calculating the fee. As agreed, fees are no longer paid by DBAG Fund V more than two years after the end of the customary disinvestment phase. DBAG ECF generated higher transaction-related fees during the financial year under review, as a result of several new investments.

INCOME FROM FUND SERVICES

€mn



Other income/expenses: Higher net expenses ratio

Net (negative) expenses under **OTHER INCOME/EXPENSE ITEMS** (the net amount of personnel expenses, other operating income and expenses, as well as net interest) increased slightly by 1.3 million euros year-on-year. After two years of falling cost/income ratios, this indicator was significantly higher in the 2018/2019 financial year compared to the previous year. Net management expenses (the net amount of income from Fund Services and personnel costs, net consultancy expenses and other expenses) amounted to 10.0 million euros, corresponding to 2.2 per cent of the average equity available in the financial year 2018/2019. This figure was 1.5 per cent in the previous year, on net management expenses of 6.5 million euros.

Personnel expenses were considerably higher, essentially for three reasons: firstly, a higher volume of variable remuneration of 7.2 million euros was envisaged than in the previous year (6.2 million euros). Variable remuneration is based, among other things, on the number of new investments, the development of existing investments, and the number and performance of disposed investments, as well as on net income and the related return on equity; we had also planned remuneration for successful fundraising in the previous financial year. Secondly, we track the increase in personnel expenses in general and in our sector in particular. Finally, we employed more staff, also due to a temporary duplication of functions.

The performance of *other operating income* provided relief for the balance of other income/expense items initially. They were 2.1 million euros higher, as we were able to pass on a higher share of the costs from our investment activity to the DBAG funds (4.9 million euros after 2.9 million euros in the previous year).

Higher income from the reimbursement of transaction-related advisory expenses equates to a comparable increase in this item under *other operating expenses* (6.1 million euros after 4.2 million euros). Other operating expenses totalled 16.4 million euros and were therefore only slightly higher than the previous year (15.6 million euros). Costs incurred in relation to an enforcement procedure as well as other expenses relating to another period (1.4 million euros in total) were taken into account in the previous year; other expenses were due to the subsequent adjustment of remuneration which DBAG had received for the work performed by members of the investment team on supervisory bodies of the DBAG Fund V portfolio companies since the start of the investment period.

Other comprehensive income deteriorated significantly year-on-year, by 6.5 million euros. This was due to actuarial losses from the measurement of pension obligations. The underlying assumed rate of interest declined drastically, namely from 1.54 to 0.47 per cent.

Net gains or losses from investment activity impacted by the capital market

Net gains from investment activity primarily reflect the performance of investments in the portfolio companies, which are held – with one exception (JCK) – via investment entity subsidiaries. This means that it depends not only on the earnings outlook of the portfolio companies, but also – due to their valuation based on multiples of listed reference companies (peer groups) – on developments on the capital markets. The net result also includes current income from the portfolio and the net amount of expenses and income of the investment entity subsidiaries. It also includes the profit-sharing entitlements attributable to minority partners in investment entity subsidiaries.

NET INCOME FROM INVESTMENT ACTIVITY

€'000	2018/2019	2017/2018 Restated[1]
Result of valuation and disposal	62,653	33,100
Net gain or loss attributable to other shareholders of investment entity subsidiaries	(12,414)	(7,756)
Net result of valuation and disposal	**50,238**	**25,345**
Current portfolio income	13,505	13,004
Net portfolio income	**63,743**	**38,349**
Net gains or losses from other assets and liabilities of investment entity subsidiaries	(14,114)	(7,146)
Income from other financial assets	0	(105)
Net income from investment activity	**49,629**	**31,098**

1 Restated in accordance with IAS 8

NET GAIN OR LOSS ATTRIBUTABLE TO OTHER SHAREHOLDERS OF INVESTMENT ENTITY SUBSIDIARIES

€'000	2018/2019	2017/2018 Restated[1]
Carried interest	12,289	7,573
Other comprehensive income	125	183
	12,414	**7,756**

1 Restated in accordance with IAS 8

The portfolio's **RESULT OF VALUATION AND DISPOSAL** was almost twice as high in the year under review compared with the previous year. The increase was due in part to above-average success achieved on disposals of the investments in inexio, Infiana and Novopress. These three transactions accounted for 53.4 million euros of the result of valuation and disposal. Unlike the previous financial year, developments on the capital markets did not benefit the value of the portfolio companies overall. In fact, they reduced their value by around 23.0 million euros.

SOURCE ANALYSIS 1: As at the 30 September 2019 reporting date, we determined the fair value of 22 portfolio companies (previous year: 19) using the multiples method. We based this calculation (largely) on the expected result for 2019 and the company debt levels expected at the end of the year, as well as on capital market valuations and exchange rates at the reporting date. We applied haircuts to the results expected for some companies in 2019. Three companies were recognised at the original transaction price. We valued one company that is demonstrating particularly strong growth using the DCF method. Our valuations of the foreign buyout funds were based on the valuation of the fund managers. The investment in inexio was accounted for at the disposal price that was agreed as at the reporting date but not yet realised.

RESULT OF VALUATION AND DISPOSAL BY SOURCES: SOURCE ANALYSIS 1

€'000	**2018/2019**	2017/2018
Fair value of unlisted investments		
Change in earnings	46,493	38,361
Change in debt	(12,703)	(22,271)
Change in multiples	18,321	3,609
Change in exchange rates	3,640	275
Change – other	(4,463)	10,872
	51,288	30,846
Net result of disposal	13,331	4,578
Acquisition cost	0	0
Other	(1,966)	(2,323)
	62,653	**33,100**

The contribution from the change in earnings and debt can be viewed as recognition of the operational improvements or strategic development of the portfolio companies. On balance, the value contribution from the operating performance of the portfolio companies – change in earnings and debt – of 33.8 million euros is now twice that of the previous year (16.1 million euros). Twelve investments generated a positive value contribution from their operating performance. However, ten delivered a negative value contribution.

The ratio between companies with positive and those with negative value contributions from the operating performance is on par with the previous year. Nonetheless, the value contribution from the operating performance falls short of our expectations. Individual companies made a lower value contribution than planned. The budget deviations are due for one to change processes in these companies that are slower than planned, while the impact of the poor macroeconomic environment is meanwhile clearly evident in several portfolio companies on the other. This applies, for example, to investments linked to the automotive sector. Economic momentum has eased, in part because of simmering global trade conflicts, with customers deferring or cancelling orders on a large scale. Two portfolio companies are feeling the effects of considerably lower demand for wind turbines. Unexpectedly high commodity prices are having negative consequences in one instance. All of these factors have reduced earnings and impacted upon the appreciation in the value of several portfolio companies. These factors are generally expected as a result of the change processes for realising the development potential after the participation of DBAG funds.

The economic slowdown in various industries and the resulting lower earnings or earnings forecasts of some portfolio companies are offset by positive developments among portfolio companies from other sectors. The investments, for example in the telecommunications sector with a focus on investments on broadband networks and high-speed internet, have developed very favourably recently.

The change in value in multiples includes two effects: on the one hand, we report the earnings contribution from changes to valuation multiples of listed peer group companies here, which we use for the valuation of portfolio companies. Furthermore, in this item we account for appreciation in value resulting from implied multiples which, in the case of disposals agreed upon, but not yet completed, we derive from agreed disposal prices. This led to a positive contribution of 39.7 million euros.

These investments developed differently in the course of the financial year. The multiples we use (EBITDA and EBITA) for valuing the peer group of listed automotive companies as at the reporting date of 30 September 2019, for example, is higher than one year ago. One or both multiples in other peer groups, such as mechanical and plant engineering companies, have fallen year-on-year. All in all, the change in the multiples resulted in a net negative impact of 22.7 million euros on income. The capital market developments have impacted negatively in particular on the valuation of companies from the mechanical and plant engineering sector, and on manufacturers of industrial components.

Even though value contributions from disposal processes and capital market developments cannot be planned, they can significantly influence our results. The resulting volatility in results is typical for this type of business.

Changes in exchange rates impacted on the values of the investments in duagon and mageba (Swiss francs), More than Meals (British pound), Pfaudler (US dollar) and Sjølund (Danish krone). These currency fluctutations had a positive impact in 2018/2019; they accounted for around five per cent of the net result of valuation and disposal.

We value one company using the DCF method; the resulting change in valuation is taken into account under *Change – other.* The negative value contribution of another investment is also included there: following a compliance breach at the portfolio company concerned, we applied a risk discount to that company's valuation and wrote down this investment in full as at the reporting date.

The net result of disposal, in the amount of 13.3 million euros mainly included value appreciation compared with the start of the financial year, which were realised with the disposals of Infinia and Novopress. In the previous year, this item only included proceeds from the disposal of remaining investments in international buyout funds managed by third parties and subsequent proceeds from retentions relating to investments disposed of in previous years.

The contributions to the net valuation result included in the item *Other* are attributable mainly to the insolvency of the bakery chain "Unser Heimatbäcker" in January 2019.

SOURCE ANALYSIS 2: The positive changes in value are attributable to 14 active portfolio companies (previous year: 12) and one investment (previous year: one) in an externally-managed international buyout fund. These also include five out of the six investments that were recognised at fair value for the first time on this and on the two previous reporting dates. Three investments (previous year: four) are carried at their transaction price because they have been held for less than twelve months. Ten equity investments (eleven) were valued lower than a year ago; in six cases, the valuation was negatively affected by the lower multiples of listed peer-group companies. The value contribution in one of these six cases would have been positive had the capital markets influence been neutral.

RESULT OF VALUATION AND DISPOSAL BY SOURCES: SOURCE ANALYSIS 2

€'000	**2018/2019**	2017/2018
Positive movements	103,879	66,344
Negative movements	(41,226)	(33,244)
	62,653	**33,100**

If the negative performance is not solely attributable to capital market developments, reasons specific to the company in question must be cited in each case. If the development potential is realised more slowly, the original investment approach may also be adjusted in individual cases.

SOURCE ANALYSIS 3: DBAG Group's net result of valuation and disposal was primarily impacted in the 2018/2019 financial year by the disposals that were concluded (Infiana, Novopress) and those that were agreed but not yet realised (inexio). The net disposal result also include contributions from the release of amounts retained for investments already sold in previous years and from a distribution made from the externally-managed DBG Eastern Europe buyout fund. It disposed of one of the two remaining investments and subsequently made a distribution.

RESULT OF VALUATION AND DISPOSAL BY SOURCES: SOURCE ANALYSIS 3

€'000	**2018/2019**	2017/2018
Net valuation result	9,662	20,677
Unrealised result of disposal	39,660	7,845
Net result of disposal	13,331	4,578
	62,653	**33,100**

NET GAIN OR LOSS ATTRIBUTABLE TO NON-CONTROLLING INTERESTS OF INVESTMENT ENTITY SUBSIDIARIES reduced net gain or loss from investment activity for 2018/2019 by 12.4 million euros (previous year: 7.8 million euros). This relates to carried interest entitlements of those active and former members of the DBAG investment team who have co-invested alongside the relevant funds.

These entitlements essentially reflect the balance of realised and unrealised value gains of the investments in the DBAG funds in the year under review. The carried interest changes depending on the further performance of the investments of the funds and in the course of distributions following disposals from a fund's portfolio, provided that the contractual conditions are met. Carried interest payments will extend over a number of years depending on the degree to which the individual investments appreciate in value.

For the purpose of these financial statements, carried-interest entitlements relate to DBAG Fund V, DBAG Fund VI and DBAG ECF. DBAG Fund VII first started investing in April 2017. There was no carried interest to be taken into account for this fund at the reporting date, and no carried-interest entitlements were paid out in the 2018/2019 financial year.

CURRENT PORTFOLIO income mainly relates to interest payments on shareholder loans and profit distributions we received from two portfolio companies.

NET GAINS OR LOSSES FROM OTHER ASSETS AND LIABILITIES of investment entity subsidiaries amounted to -14.1 million euros (previous year: -7.1 million euros). This item includes the fees payable to the manager of DBAG Fund VI and DBAG Fund VII based on DBAG's invested/committed capital (5.3 million euros). A negative amount of 4.9 million euros is attributable to taxes payable on capital gains at the level of the investment entity subsidiaries.

TEN-YEAR SUMMARY OF EARNINGS

€mn	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	**2018/2019**
						11 months	Restated[1]	Restated[2]	Restated[2]	
Net income from investment activity	53.2	(4.5)	51.3	41.0	50.7	29.2	59.4	85.8	31.1	49.6
Income from fund services	–	–	–	–	22.2	19.2	18.3	27.0	28.9	27.0
Other income/expense items[4]	(15.5)	(15.4)	(4.0)	(7.3)	(24.5)	(21.3)	(28.4)	(30.9)	(30.2)	(31.5)
EBT	37.6	(19.9)	47.0	33.8	48.4	27.1	49.3	82.0	29.7	45.1
Net income	34.1	(16.6)	44.5	32.3	48.0	27.0	49.5	82.0	29.7	45.9
Other comprehensive income[5]	(3.3)	0.7	(6.2)	(3.7)	(6.4)	0.4	(6.5)	2.9	(1.2)	(7.7)
Total comprehensive income	30.8	(15.9)	38.3	28.6	41.6	27.4	43.0	84.9	28.5	38.2
Return on equity per share *(%)*	12.7	(6.2)	16.7	11.5	15.9	9.6	14.9	24.1	6.9	9.1

1 Restated due to amendments to IFRS 10 (see note 3 of the notes to the consolidated financial statements 2016/2017)
2 Restated in accordance with IAS 8
3 Net result of valuation and disposal as well as current income from financial assets
4 Net amount of other income and expense items; up to and including FY 2012/2013, including income from fund investment services
5 Actuarial gains/losses on plan assets are recognised directly in equity, through other comprehensive income.

Liquidity position

Overall assessment: Funding of investment projects secured for the 2019/2020 financial year

In addition to cash and cash equivalents of 43.9 million euros, DBAG's financial resources of 69.4 million euros also consist of units in fixed-income and money market funds amounting to 25.5 million euros. These funds are available for investment. The investment entity subsidiaries hold additional financial resources – exclusively cash and cash equivalents – amounting to 6.0 million euros.

In line with our financing strategy, we maintain liquid funds at approximately the equivalent of an average one-year investment programme. DBAG finances its activities over the long term through the capital market and not by way of bank debt. The Company aims to be able to fulfil its co-investment agreements with the DBAG funds at all times and to take advantage of attractive investment opportunities. Pending commitments for co-investments alongside DBAG Fund VII and DBAG ECF amounted to approximately 130 million euros as at 30 September 2019. Based on the investment progress projected for the new financial year and the following two years, the average annual liquidity requirement for investments is around 90 million euros; actual requirements can fluctuate considerably.

The following statement of cash flows based on the IFRS shows the changes in cash and cash equivalents.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

INFLOWS (+)/OUTFLOWS (-)

€'000	**2018/2019**	2017/2018 Restated[1]
Net income	45,856	29,688
Valuation gains (-)/losses (+) and gains (-)/losses (+) on disposal of financial assets, as well as loans and receivables	(43,825)	(22,888)
Other non-cash changes	(14,330	3,058
Cash flow from operating activities	**(12,298)**	**9,858**
Proceeds from disposals of financial assets and loans and receivables	62,183	30,302
Payments for investments in financial assets and loans and receivables	(93,412)	(63,826)
Proceeds from disposal of other financial instruments	53,544	36,546
Payments for investments in other financial instruments	(37,779)	(33,644)
Cash flow from investing activities	(15,465)	(30,641)
Proceeds from (+)/payments for (-) investments in securities	70,113	(62,434)
Other cash inflows and outflows	(173)	(125)
Cash flow from investing activities	**54,475**	**(93,200)**
Payments to shareholders (dividends)	(21,814)	(21,062)
Cash flow from financing activities	**(21,814)**	**(21,062)**
Net change in cash and cash equivalents	20,363	(104,404)
Cash and cash equivalents at beginning of period	23,571	127,976
Cash and cash equivalents at end of period	**43,934**	**23,571**

1 Restated in accordance with IAS 8

FINANCIAL RESOURCES in accordance with IFRS, which exclusively comprise cash and cash equivalents, increased in the 2018/2019 financial year by 20.4 million euros to 43.9 million euros (reporting date 30 September 2018: 23.6 million euros). In the course of the financial year, we received proceeds from three disposals; we also disposed of some securities.

The negative **CASH FLOWS FROM OPERATING ACTIVITIES** can mainly be attributable to two factors. The biggest impact came from changes relating to the collection of fees for advisory services to DBAG Fund VII: unlike in the current period, the previous year already included fees of 4.1 million euros for advisory services to the fund prior to the reporting date, which related to the first quarter of the new 2018/2019 financial year. This revenue was therefore absent from the year under review. In addition, the fees for advising the fund for the fourth quarter of 2018/2019 have not yet been drawn on (3.3 million euros), with the result that the inflow of funds from advising the fund in 2018/2019 was significantly lower than was recognised in income for the financial year. Furthermore, income taxes of 5.5 million euros were withheld in the 2018/2019 financial year, which will only be refunded in subsequent years.

CASH FLOW FROM INVESTING ACTIVITY was negative in the reporting period. Cash outflows of 15.5 million euros consisted of total proceeds and payments for financial assets, and loans and receivables of -31.2 million euros, and total proceeds and payments for other financial instruments in the amount of 15.8 million euros. In the previous financial year, investment activity generated cash outflows of 30.6 million euros. This volatility is due in part to reporting date factors and is also the result of cash flows being concentrated on fewer, yet sizeable amounts of transaction business, which is typical of our business model.

Proceeds from the disposal of financial assets and loans and receivables are mainly attributable to four transactions: the investment entity subsidiaries for DBAG Fund VI distributed the proceeds from the disposal of the investments in Cleanpart and Infiana, while those for DBAG ECF distributed the proceeds from the disposal of the investment in Novopress. In addition, a further investment entity subsidiary distributed excess liquidity from realised profits and disposals of securities.

Payments for investments in financial assets and loans and receivables related to capital calls made by investment entity subsidiaries for new investments made by DBAG Fund VII (blikk, Cloudflight, Karl Eugen Fischer, Sero) and DBAG ECF (FLS) as well as for follow-on investments in DBAG ECF portfolio companies (DNS:Net, netzkontor nord, Rheinhold & Mahla, BTV Multimedia) and DBAG Fund VI (Telio). DBAG's investment in duagon (DBAG Fund VII) in the course of the final structuring of the investment financing is also recognised as a cash outflow.

The repayment of the short-term loans granted by DBAG as part of the follow-on investment in duagon and for the investments in Karl Eugen Fischer, Kraft & Bauer and Sero is recognised as a cash inflow from the disposal of other financial instruments.

DBAG once again granted short-term loans in connection with the structuring of its investments in blikk, Cloudflight, Kraft & Bauer and Sero, all of which were completed in the course of the financial year. The resulting cash outflows are recognised as payments for investments in other financial instruments.

During the past financial year, we used funds previously held in securities and bond and money market funds to finance investments, and disposed of these securities accordingly. This resulted in a cash inflow of 70.1 million euros.

A dividend payment at the end of February 2019 (21.8 million euros) led to a reduction in financial resources.

TEN-YEAR SUMMARY OF CASH POSITION

€mn	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	**2018/2019**
						11 months	Restated[1]	Restated[2]	Restated[2]	
Cash flows from operating activities	(12.8)	0.9	(9.6)	(12.0)	0.0	7.1	(0.6)	(0.5)	9.9	(12.3)
Cash flows from investing activities	(44.4)	33.1	(18.2)	18.7	67.9	20.1	1.9	95.1	(93.2)	54.5
Cash flows from financing activities	(13.7)	(19.1)	(10.9)	(16.4)	(16.4)	(27.4)	23.5	(18.1)	(21.1)	(21.8)
Net change in financial resources[3]	(70.9)	14.9	(38.8)	(9.8)	50.9	(0.1)	24.8	76.6	(104.4)	20.4

1 Restated due to amendments to IFRS 10 (see note 3 of the notes to the consolidated financial statements 2016/2017)
2 Restated in accordance with IAS 8
3 Financial resources: cash and cash equivalents and long-term securities, excluding financial resources of investment entity subsidiaries

Asset position

Overall assessment: Increase in assets based on portfolio performance, with intensive investment activity

Total assets at 30 September 2019 were 10.3 million euros higher than at the start of the financial year, mainly due to the increase in financial assets and equity. In 2018/2019, too, investing in new investments clearly outweighed the proceeds from the sale of existing portfolio companies. Added to this was the performance of investments still under management. Financial resources declined further, following the investments made in the previous financial year, but still account for around 14 per cent of the Group's assets, which otherwise largely consist of the investment portfolio.

CONDENSED STATEMENT OF FINANCIAL POSITION

€'000	30 Sep 2019	30 Sep 2018
		Restated[1]
Financial assets including loans and receivables	385,693	318,931
Long-term securities	0	55,458
Other non-current assets	883	1,277
Deferred tax assets	658	0
Non-current assets	**387,233**	**375,666**
Other financial instruments	17,002	32,766
Receivables and other assets	7,398	1,475
Short-term securities	25,498	40,000
Cash and cash equivalents	43,934	23,571
Other current assets	10,550	7,840
Current assets	**104,382**	**105,653**
Total assets	**491,615**	**481,319**
Equity	460,152	443,790
Non-current liabilities	19,677	12,389
Current liabilities	11,787	25,140
Total equity and liabilities	**491,615**	**481,319**

1 Restated in accordance with IAS 8

Asset and capital structure: Financial assets are dominant in terms of asset type, capital structure largely unchanged

In total, the value of investments increased in the 2018/2019 financial year. Four (completed) disposals (Cleanpart, PSS, Infiana, Novopress) and one disposal as a result of insolvency (Unser Heimatbäcker) were offset by five – some of them major – new (completed) equity investments (FLS, Kraft & Bauer, Sero, blikk, Cloudflight). This resulted not only in an extension of the balance sheet but also in a change in the asset structure. Financial assets increased significantly, while financial resources (cash and cash equivalents and short-term securities) declined. As at 30 September 2019, 79 per cent of all assets were invested in financial assets (previous year: 66 per cent). Around 14 per cent of assets (previous year: 25 per cent) are attributable to funds earmarked for future investments. Short-term loans granted by DBAG to investment entity subsidiaries as part of the structuring of its investment in new portfolio companies, amounting to 17.0 million euros as at the reporting date, are recognised as other financial instruments and included under current assets. The increase in receivables and other assets is mainly attributable to the deferral of payment of fees from DBAG Fund VII and the outstanding fees from another DBAG fund. The change in other current assets is due to higher refund claims from capital gains tax already paid.

The most recent, dramatic fall in interest rates required additions to provisions for pension liabilities in the amount of 6.5 million euros; accordingly, non-current liabilities are markedly higher than in the previous year.[16]

Current liabilities mainly include provisions for performance-related remuneration. In the previous year, this item included a liability from a capital call not yet served and fees already received from a DBAG fund relating to a subsequent period.

The ratio of financial assets to financial resources continued to move in the desired direction. As at the reporting date of 30 September 2019, the ratio stood at 5.6 : 1 (30 September 2018: 2.7 : 1).

Equity increased by 16.4 million euros to 460.2 million euros compared with the reporting date of 30 September 2018, reflecting the higher net income. Equity per share increased from 29.50 euros to 30.59 euros. Based on equity per share (reduced by the dividend payment) at the beginning of the financial year, this corresponds to an increase of 9.1 per cent; the previous year a return on equity of 6.9 per cent (restated) was achieved.

The **CAPITAL STRUCTURE** once again remained largely unchanged compared to the end of the previous financial year; the equity ratio rose from 92.2 to 93.6 per cent. Equity covers non-current assets in full (as it did on the three previous reporting dates), and current assets at 70 per cent (previous year: 65 per cent). Part of the liquidity was invested in fixed-income and money market funds.

The 50 million euro **CREDIT LINE** in place since the beginning of 2016 was not drawn down during the course of the past financial year, nor at the reporting date. This credit line runs until 2023.

16 Discount rate based on interest rates of 0.47 per cent (previous year: 1.54 per cent) using the iBoxx corporate AA10+ benchmark index. This change is due to the change in interest rates on corporate bonds. In contrast to this, German Commercial Code (HGB) financial statements are based on an interest rate of 2.82 per cent (2017/2018): 3.34 per cent); these interest rates were fixed by Deutsche Bundesbank.

Financial assets and loans and receivables: Significant increase in portfolio value following investments

Financial assets, including loans and receivables, are largely determined by the **VALUE OF THE PORTFOLIO**. The main reasons behind the increase as at 30 September 2019 include portfolio additions and an increase in the value of existing investments.

Change in portfolio value page 88f.

FINANCIAL ASSETS INCLUDING LOANS AND RECEIVABLES

€'000	**30 Sep 2019**	30 Sep 2018 Restated[1]
Portfolio value (including loans and receivables)		
gross	422,109	348,650
Interests of other shareholders in investment entity subsidiaries	(39,850)	(27,344)
(net)	382,260	321,306
Other assets and liabilities of investment entity subsidiaries	3,359	(2,450)
Other non-current assets	74	75
Financial assets including loans and receivables	**385,693**	**318,931**

1 Restated in accordance with IAS 8

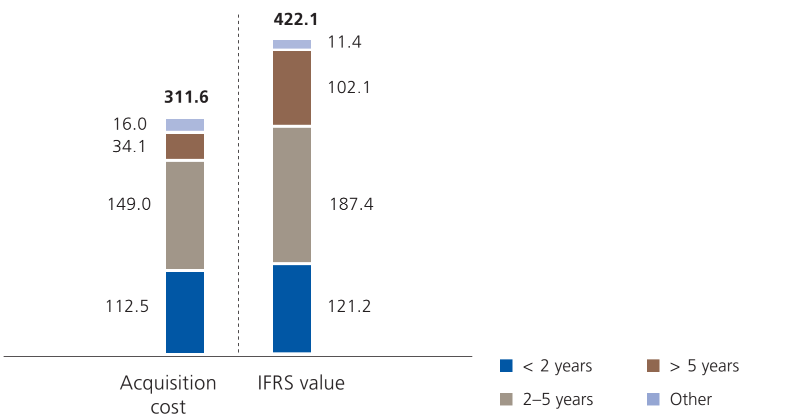
THE SHARE OF NON-CONTROLLING INTERESTS IN INVESTMENT ENTITY SUBSIDIARIES increased by 12.5 million euros compared with the start of the financial year. The change in value takes into account the increase in performance-related profit shares from private equity investments of members of the investment team on account of the increase in value of the DBAG Fund VI and DBAG ECF portfolios.

The **OTHER ASSETS/LIABILITIES OF THE INVESTMENT ENTITY SUBSIDIARIES** include cash and cash equivalents of 6.0 million euros and receivables from investments in loans and interest in the amount of 12.8 million euros, offset by liabilities from other financial instruments and unpaid advisory fees of 15.4 million euros.

Portfolio and portfolio value

At 30 September 2019, the DBAG **PORTFOLIO** consisted of 27 equity investments along with two investments in international private equity funds managed by third parties that we entered into in 2000 and 2002, respectively. All but one of the investments are held indirectly via investment entity subsidiaries – with one exception (JCK). The portfolio contains 21 MBOs and six investments with the purpose of financing growth. One of the two international private equity funds now holds only one portfolio company, the other has sold all of its investments and is about to be liquidated; its share of the portfolio value is still 0.4 per cent (previous year: 0.6 per cent).

PORTFOLIO VALUE BY AGE STRUCTURE
€mn at 30 September 2019



As at 30 September 2019, the value of the 27 investments, including the loans and receivables extended to the portfolio companies and excluding short-term interim financing, amounted to 409.0 million euros (30 September 2018: 339.4 million euros). In addition, there were entities with a value of 13.1 million euros through which representations and warranties on previous disposals are (largely) settled ("Other investments"), and which are no longer expected to deliver any appreciable value contributions (30 September 2018: 9.3 million euros). These also include the two international private equity funds managed by third parties. This brought the portfolio value to a total of 422.1 million euros (30 September 2018: 348.7 million euros). The value of the 27 investments, including loans to and receivables from portfolio companies, and excluding short-term bridge financing, amounted to (as in the previous year) 1.4 times the original cost.

During the course of the financial year, the portfolio value increased in gross terms by 73.5 million euros. The additions amounting to a total of 78.4 million euros due to the new investments alongside DBAG Fund VII (Kraft & Bauer, Sero, blikk and Cloudflight) and DBAG ECF (FLS), the conversion of the short-term loans for the bridge financing of the investments in Karl Eugen Fischer and duagon, and follow-up investments in existing portfolio companies, as well as the changes in the value of 49.3 million euros, are offset by disposals totalling 54.3 million euros. The disposals mainly relate to the disposal of investments in Cleanpart, Infiana and Novopress.

The 15 largest investments accounted for around 79 per cent of the portfolio value as of 30 September 30 2019 (30 September 2018: 77 per cent). The table shows these 15 investments in alphabetical order.

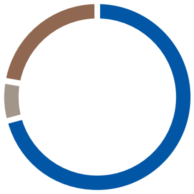
PORTFOLIO STRUCTURE (15 LARGEST INVESTMENTS)

Company	Cost	Equity share DBAG	Investment type	Sector
	€mn	%		
blikk Holding GmbH	15.0	12.1	MBO	Healthcare
DNS:Net GmbH	11.4	15.7	Expansion capital	Broadband/telecommunications
duagon AG	23.8	21.3	MBO	Industrial components
Gienanth GmbH	3.9	11.4	MBO	Industrial components
inexio KGaA	7.5	6.9	Expansion capital	Broadband/telecommunications
JCK KG	8.8	9.5	Expansion capital	Consumer goods
Karl Eugen Fischer GmbH	22.6	21.0	MBO	Mechanical and plant engineering
Kraft & Bauer GmbH	14.1	17.9	MBO	Industrial components
netzkontor nord GmbH	9.1	35.9	MBO	Broadband/telecommunications
Oechsler AG	11.2	8.4	Expansion capital	Automotive suppliers
Pfaudler Group	13.3	17.8	MBO	Mechanical and plant engineering
Polytech Health & Aesthetics GmbH	13.3	15.0	MBO	Industrial components
Telio GmbH	14.3	15.6	MBO	Other
vitronet GmbH	4.5	41.3	MBO	Broadband/telecommunications
von Poll Immobilien GmbH	11.7	30.1	MBO	Services

The following information on the structure of the portfolio is based on the valuation and resulting portfolio value as at the reporting date of 30 September 2019. The investments in international buyout funds and in companies through which retentions for representations and warranties from exited investments are held, are recognised under "Other". The debt (net debt, EBITDA) relates to the expected debt at the end of the financial year 2019 and the EBITDA of the portfolio companies that is expected for this year, or for 2018/2019 if the reporting date falls during the year.

PORTFOLIO VALUE BY VALUATION METHOD

%



Multiples method	71
Transaction price	7
Other (incl. DCF)	22

PORTFOLIO VALUE BY SECTORS

%

Mechanical and plant engineering	10
Automotive suppliers	10
Industrial components	24
Broadband/ telecommunications	31
Other focus sectors	8
Other	17

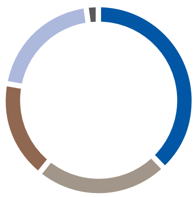
PORTFOLIO VALUE BY NET DEBT/EBITDA OF PORTFOLIO COMPANIES

%

< 1.0	10
1.0 to < 2.0	8
2.0 to < 3.0	27
3.0 to < 4.0	18
> 4.0	21
Other	16

CONCENTRATION OF PORTFOLIO VALUE

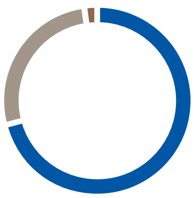
Size categories %



Top 1–5	38
Top 6–10	23
Top 11–15	17
Top 16–27	20
Other (incl. externally managed international buyout funds)	2

PORTFOLIO VALUE BY TYPE OF INVESTMENT

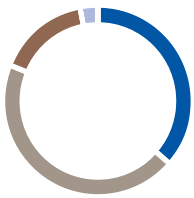
%



Management buyouts	71
Growth financing	27
Other (incl. externally managed international buyout funds)	2

PORTFOLIO VALUE BY AGE

Categories %



< 2 years	36
2–5 years	45
> 5 years	16
Other (incl. externally managed international buyout funds)	3

TEN-YEAR SUMMARY OF THE STATEMENT OF FINANCIAL POSITION

€mn	31 Oct 2010	31 Oct 2011	31 Oct 2012	31 Oct 2013	31 Oct 2014	30 Sep 2015	30 Sep 2016	30 Sep 2017	30 Sep 2018	30 Sep 2019
							Restated[1]	Restated[2]	Restated[2]	
Financial assets including loans and receivables	129.9	93.5	150.7	166.8	163.4	247.7	316.3	254.2	318.9	385.7
Securities/cash and cash equivalents	140.7	155.6	105.8	98.3	140.7	58.3	72.6	161.6	119.0	69.4
Other assets	45.5	30.8	42.5	45.6	28.5	21.2	15.2	48.2	43.4	36.5
Equity	273.9	238.9	266.2	278.4	303.0	303.1	369.6	436.4	443.8	460.2
Liabilities	42.2	41.0	32.8	32.3	29.6	24.1	34.5	27.5	37.5	31.5
Total assets	316.1	279.9	299.0	310.7	332.6	327.2	404.2	464.0	481.3	491.6

1 Restated due to amendments to IFRS 10 (see note 3 of the notes to the consolidated financial statements 2016/2017)
2 Restated in accordance with IAS 8

Business performance by segment

Private Equity Investments segment: Net result significantly above the previous year

SEGMENT EARNINGS STATEMENT – PRIVATE EQUITY INVESTMENTS

€'000	2018/2019	2017/2018
		Restated[1]
Net income from investment activity	49,629	31,098
Other income/expense items	(7,578)	(6,936)
Earnings before tax	**42,050**	**24,163**

1 Restated in accordance with IAS 8

Earnings before tax in the Private Equity Investments segment amounted to 42.1 million euros, 17.9 million euros more than in the previous year. The reason for this was the significantly higher income from investment activity, which in the previous year was more heavily burdened than in the reporting year by lower capital market multiples across the portfolio as a whole. Please refer to the notes on this item in the section on "Earnings position".

Net expenses from other income/expenses (net amount of internal management fees, personnel expenses, other operating income and expenses and net interest expense) deteriorated by 0.7 million euros compared with the same period last year, due in part to higher personnel expenses. The figure includes internal management fees of 1.2 million euros for the Fund Investment Services segment.

Net asset value increased slightly year-on-year. For an explanation of the changes to financial assets, please refer to the section on net assets and financial position.

NET ASSET VALUE AND AVAILABLE LIQUIDITY

€'000	30 Sep 2019	30 Sep 2018 Restated[1]
Financial assets including loans and receivables	385,693	318,931
Other financial instruments	17,002	32,766
Financial resources	69,432	119,029
Net asset value	**472,126**	**470,727**
Financial resources	69,432	119,029
Credit line	50,000	50,000
Available liquidity	**119,432**	**169,029**
Co-investment commitments alongside DBAG funds	**129,733**	**198,477**

1 Restated in accordance with IAS 8

Around 53 per cent (previous year: 60 per cent) of the commitments are covered by existing financial resources (cash and cash equivalents including short-term securities). A 50 million euro credit line is available to compensate for the irregular cash flows resulting from our business model. It is provided by a consortium of two banks and runs until 2023.

The surplus of co-investment commitments over the available funds amounts to three per cent of financial assets; as at 30 September 2018, this figure was nine per cent. We expect to be able to cover this surplus with further disposals over the next few years.

Fund Investment Services segment: Lower results following disposals

The Fund Investment Services segment closed the year with earnings before tax of 3.0 million euros, compared to 5.6 million euros in the previous year. Income from Fund Services fell by 1.5 million euros compared with the previous year. As expected, lower fees were generated from DBAG Fund VI, DBAG Fund V and DBAG ECF. In particular, transaction-related fees for DBAG ECF were significantly lower (0.3 million euros compared to 1.1 million euros previously) because only one transaction was agreed for this fund in 2018/2019. The segment information also takes into account internal income from the Private Equity Investments segment, in the amount of 1.2 million euros (previous year: 0.9 million euros).

SEGMENT EARNINGS STATEMENT – FUND INVESTMENT SERVICES

€'000	2018/2019	2017/2018
		Restated[1]
Income from fund services	28,181	29,707
Other income/expense items	(25,148)	(24,138)
Earnings before tax	**3,033**	**5,568**

1 Restated in accordance with IAS 8

Net expenses for other income/expenses deteriorated by 1.0 million euros compared with the previous year, predominantly due to higher personnel expenses (+2.9 million euros) as a result of higher variable remuneration, duplicated functions and general salary developments. By contrast, a one-off effect amounting to 0.9 million euros had a negative impact on the segment result for the previous year. This was due to the subsequent adjustment of remuneration which DBAG received for the work performed by members of the investment team serving on the supervisory boards of DBAG Fund V portfolio companies.

ASSETS UNDER MANAGEMENT OR ADVISORY

€'000	30 Sep 2019	30 Sep 2018
Funds invested in portfolio companies	1,088,298	862,076
Funds drawn but not yet invested	0	23,387
Short-term bridge financing for new investments	94,492	145,086
Outstanding capital commitments of third-party investors	452,212	681,799
Financial resources (of DBAG)	69,432	119,029
Assets under management or advisory	**1,704,434**	**1,831,378**

1 Restated in accordance with IAS 8

The amount of assets under management and under advice declined slightly in the course of the financial year as a result of several disposals, the dividend payment and the net operating expenses of DBAG; no new investment commitments had been made by the reporting date. Please refer to the “Financial position” section for information on changes to DBAG's financial resources.

BUSINESS REVIEW OF DEUTSCHE BETEILIGUNGS AG (NOTES ACCORDING TO THE HGB)

The management report on Deutsche Beteiligungs AG and the Group management report for the 2018/2019 financial year are presented combined, in conformity with section 315 (5) in conjunction with section 298 (2) sentence 2 of the HGB. The presentation of the economic position of DBAG is based on a condensed statement of financial position and a condensed profit and loss account derived from the statement of financial position and profit and loss account as prescribed by the HGB. The complete annual financial statements of DBAG based on HGB are published in the online version of the Federal Gazette, together with the consolidated financial statements.

The annual financial statements are available at www.dbag.com/investor-relations/publications and can be requested from DBAG.

Comparison of actual and forecast business performance

	Actual 2017/2018[1]	Basis for the forecast	Expectations 2018/2019	**Actual 2018/2019**	
Net income	€9.9mn	€9.9mn	More than 20% higher	€29.1mn	Expectation exceeded
Dividend	€1.45	€1.45	Unchanged	€1.50	Expectation exceeded

Earnings position

Overall assessment: Net gains for the year significantly higher than the previous year due to satisfactory disposals results

At 29.1 million euros, net income for 2018/2019 significantly exceeded the previous year's net income. While there were no disposals completed in 2017/2018, five investments were completed in the past financial year – in particular the disposals of Cleanpart, Novopress and Infiana contributed to the satisfactory results. Fluctuations like these are typical for the private equity business. The balance of the other income/expense items fell because, inter alia, personnel expenses significantly exceeded the previous year's figure.

Net result from fund services and investment activity: Significantly above previous year's level

The net result from fund services and investment activity is generally determined by gains or losses from the disposal of investments and by the balance of write-downs or write-ups on investments. The latter are carried out according to the lowest of cost or market principle and the applicable procedure for the reversal of impairment losses according to HGB.

The current *net result of valuation and disposal* mainly includes profit contributions from the disposal of the investments in Cleanpart and Infiana (DBAG Fund VI) and Novopress (DBAG ECF); these three transactions accounted for 35.8 million euros. A write-down of 9.5 million euros on an affiliated company, which had distributed 8.5 million euros to the parent company for liquidity management reasons, had the opposite effect. There had been no material disposals of companies in the previous year; the net result of disposal had largely comprised the results of a disposal from Harvest Partners IV, an international buyout fund managed by a third party, plus follow-on results from earlier disposals.

Significant components of *current income from financial assets* are the aforementioned dividend distribution by the subsidiary Deutsche Beteiligungs GmbH as well as profit distributions (in particular from DBAG ECF) and interest from portfolio companies. The subsidiary also paid a comparably high dividend the previous year following a cash inflow from a disposal.

CONDENSED PROFIT AND LOSS STATEMENT OF DEUTSCHE BETEILIGUNGS AG (BASED ON THE HGB)

€'000	**2019/2018**	2017/2018
Net result of valuation and disposal[1]	25,487	1,340
Current income from investments	11,053	11,067
Income from fund services	24,628	26,096
Total income from fund services and investment activity	**61,168**	**38,504**
Personnel expenses		
Other operating income (excluding write-ups)	(21,713)	(17,953)
Other operating expenses	1,174	2,277
Depreciation and amortisation on intangible fixed assets and property, plant and equipment	(8,907)	(9,755)
Income from other securities, or loans and advances held as financial assets	(582)	(682)
Other interest and similar income	138	507
Interest and similar expenses	541	344
Total other income/expense items	(2,684)	(3,295)
Total other income/expense items	**(32,032)**	**(28,556)**
Earnings before tax	**29,135**	**9,948**
Income taxes	0	(17)
Other taxes	(8)	(7)
Net income for the year	**29,128**	**9,924**

1 The net result of valuation and disposal comprises the income statement items „Income from disposal of investments of 36.1 million euros (previous year: 1.9 million euros), offset by the two items „Losses from disposal of investments“ and „Write-downs of financial assets“ in the aggregate amount of 10.6 million euros (previous year: 0.6 million euros.

Income from Fund Services did not match the previous year's levels. The assessment basis for calculating fees has fallen following the disposal of certain companies. Because DBAG ECF 2018/2019 structured fewer transactions, fee income from agreed transactions was also lower than previously. While the gross income from Fund Investment Services is taken into account in the consolidated financial statements, this item includes net income less the expenses of the subsidiaries involved in management and fund advisory services.

Income from Fund Services page 76

Other income/expenses: Balance slightly higher due to higher personnel expenses

The (negative) balance of other income/expenses deteriorated by 3.5 million euros compared with the previous year. Personnel costs, other operating income excluding write-ups and other operating expenses were largely influenced by the same factors as in the Group. Personnel expenses were higher – irrespective of the overall increase in wages and salaries – because more staff were employed and, in the course of the financial year, some positions were temporarily filled twice as a result of changes. In addition, higher provisions were made for variable remuneration of the staff and the Board of Management. In contrast to the consolidated financial statements, the additional expense for pension allocations is recognised under personnel expenses, due to the lower interest rate level[17]; pension expenses therefore increased by 0.9 million euros to 1.4 million euros.

Earnings position pages 75ff.

17 *Basis for discount rate were 2017/2018 interest rates of 3.34 per cent, 2018/2019 interest rates of 2.82 per cent (ten years). Interest rates are fixed by the Deutsche Bundesbank. In contrast, the discount rate of 0.47 per cent (previous year: 1.54 per cent) used for the consolidated financial statements is based on the iBoxx corporate AA10+ benchmark index. This is due to the change in interest rates on corporate bonds.*

The change in other operating income is almost entirely attributable to the reversal of provisions for performance-related employee remuneration established in previous years: At 1.2 million euros in 2017/2018, this reversal was significantly higher than the 0.1 million euros in the reporting year. Other operating expenses declined, reflecting markedly lower expenses for the audit of the financial statements, advice related to the audit, and tax advice (0.6 million euros, down from 1.0 million euros in the previous year – that figure reflected expenses for support provided in connection with the enforcement procedure). Overall consulting expenses in 2018/2019 were also lower than before (0.9 million euros compared to 1.1 million euros).

The **FINANCIAL RESULT** improved from -2.4 million euros to -2.0 million euros, mainly due to the change in the fair value of plan assets used to finance the pension obligations. Other interest income includes income from interim financing of capital calls for co-investments alongside DBAG Fund VII.

Net income for the year: 29.1 million euros

Deutsche Beteiligungs AG generated net income of 29.1 million euros for the 2018/2019 financial year. Including the profit carried forward from the previous year and the dividend payment, the retained profit amounted to 178.1 million euros, of which 3.8 million euros are barred from distribution on account of statutory requirements.

Asset position

Total assets of DBAG largely consist of the investment portfolio as well as securities and cash and cash equivalents. Assets increased only slightly in 2018/2019, by 0.1 million euros, compared with the previous reporting date. The Company distributed 21.8 million euros to shareholders in February 2019.

CONDENSED STATEMENT OF FINANCIAL POSITION OF DEUTSCHE BETEILIGUNGS AG (BASED ON THE HGB)

€'000	**30 Sep 2019**	30 Sep 2018
Equity shares in associates	309,406	253,132
Investments	3,413	3,414
Investment securities	0	55,559
Other non-current assets	883	1,277
Non-current assets	**313,702**	**313,383**
Receivables and other assets	46,918	63,659
Securities held as current assets	25,335	40,002
Cash and cash equivalents	38,918	7,668
Current assets	**111,171**	**111,329**
Prepaid expenses	**492**	**566**
Total assets	**425,366**	**425,278**
Subscribed capital	53,387	53,387
Capital reserves	175,177	175,177
Revenue reserves	403	403
Retained profit	178,080	170,766
Equity	**407,046**	**399,732**
Provisions	**17,737**	**13,986**
Liabilities	**582**	**11,560**
Total equity and liabilities	**425,366**	**425,278**

Assets: Marked increase following brisk investment activity

INTERESTS IN ASSOCIATES represent the largest item in DBAG's non-current assets. Associates are, for example, the entities through which DBAG co-invests; the co-investments alongside the respective DBAG funds are bundled in these co-investment vehicles. Other major non-current asset items are **DIRECTLY HELD INVESTMENTS** that are shown in "Investments" as well as **SHORT-TERM SECURITIES**, which constitute key components of DBAG's financial resources.

The increase in interests in associates during the 2018/2019 financial year was mainly attributable to five new investments totalling 84.8 million euros. This was offset by disposals which led to returns from investment entity subsidiaries in the amount of 18.1 million euros.

Investment securities were partly sold during the year under review, and reclassified to short-term securities, given that cash and cash equivalents invested in these securities were required to finance investments.

Current assets: Significant change in structure following investment of cash funds

The structure of current assets has changed considerably. In the previous year, cash and cash equivalents accounted for only seven per cent of current assets. Due to high cash inflows following disposals, cash and cash equivalents accounted for around 35 per cent of current assets as of 30 September 2019. Further components of current assets were receivables from a loan to a DBAG Fund VII company for the interim financing of capital calls, through which the fund intends to ultimately finance its investments in blikk, Cloudflight, Kraft & Bauer and Sero, as well as receivables from advisory and management companies for DBAG funds.

Higher provisions for pension liabilities

The increase in provisions compared with the last reporting date reflects two developments. The provisions to cover pension obligations were much higher. Compared with 4.6 million euros previously, they now amount to 7.2 million euros as at the reporting date; thus, the present value of the pension obligations exceeds the plan assets. The majority of the other provisions are associated with performance-related remuneration with regard to personnel. At 7.2 million euros, these were slightly above the figure at the start of the financial year (6.6 million euros).

Liabilities: Unusually high the previous year, due to the reporting date

The difference in the disclosure of liabilities is due to a reporting date impact from the previous year: In 2017/2018, an addition to investments had already been recognised, but the capital call associated with it had not yet been served because the transaction took place right on the reporting date.

Liquidity position

Financial resources were always more than adequate and sufficiently high to fulfil co-investment agreements and to finance the Company's operations.

Particularities in assessing the liquidity position: Cash flows characterised by irregular outflows

The financial resources of 64.3 million euros reported at the end of the financial year (securities held as current assets amounting to 25.3 million euros and cash and cash equivalents of 38.9 million euros) may be used to meet investment commitments. Based on the investments planned for the new financial year and the two following years, DBAG will have an annual average liquidity requirement for investments of around 90 million euros; the actual requirement may fluctuate strongly.

Capital structure: No liabilities to banks

DBAG funded its activities in the 2018/2019 financial year using existing financial resources or its own cash flow. In order to be able to take advantage of investment opportunities at any time, there is also a 50 million euro credit line in place. It ensures DBAG's ability to co-invest alongside the DBAG funds at all times, in addition to creating greater efficiency of the statement of financial position. The credit line had not been draw down during the financial year, nor at the reporting date. The increase in shareholders' equity to 407.0 million euros as of 30 September 2019 is attributable to the inflow of funds following successful disposals, which exceeded the dividend payout. As of 30 September 2018, equity amounted to 399.7 million euros, of which 21.8 million euros were distributed to shareholders as dividends in February 2019. At 95.7 per cent (previous year: 94.0 per cent), the **EQUITY RATIO** remained very high at the reporting date.

OPPORTUNITIES AND RISKS

Objective: Contribution to value creation by balancing opportunities and risks

Deutsche Beteiligungs AG is exposed to multiple risks through its Fund Investment Services and Private Equity Investments business segments. These are founded, among other things, on the expected returns that are customary in the private equity business, on our geographical focus, our sector focus and on the new investment volume targeted annually. In its more than 50-year history, DBAG has proven its ability to successfully balance the risks and rewards of its business. We want to exploit our opportunities and moderately take on the exposure to the risk involved. Risk that endangers the continuity of the Company must basically be avoided.

DBAG's risk profile is influenced by our risk propensity. We steer it using the risk management activities that are set out in this report; they are meant to contribute to value creation by specifically balancing opportunities and risks. As a private equity company, we consider risk management to be one of our core competencies. Our risk propensity derives from our objective of augmenting the value of DBAG; as described, we measure our performance by the long-term increase in the value of the Company. To that end, we pursue a conservative approach, which, among other things, is mirrored in DBAG's statement of financial position structure by its high equity ratio. DBAG's activities are financed in the long term by equity; bank liabilities are only entered into in the short term to bridge discrepancies between cash inflows and outflows.

Risk management system

We consider risk management to be a proactive and preventative process for controlling risk. Risk, in our opinion, refers to potentially negative events that ensue from possible hazards. Hazards, in turn, are either non-predictable events or basically predictable, but nevertheless coincidental, events.

The risk management system is an integral part of our business processes. It takes into account the statutory requirements set out by legislation and resulting from court decisions, the German Corporate Governance Code and international accounting standards.

The system is based on our values and our experience, and it serves the objective described of contributing to value creation by balancing rewards and risks. This will be achieved when our risk management ensures a comprehensive overview of the Group's risk profile. Particularly events involving material negative financial implications must be recognised promptly so that action can be taken to avoid, mitigate or control these risks.

Structures: Decentralised organisation of risk management

Risk management is the direct responsibility of the Board of Management. It is overseen by the Audit Committee of the Supervisory Board. Furthermore, the Internal Audit department, as an independent constituent, monitors the efficacy of the risk management system; DBAG has delegated the internal audit services to an auditing firm.

The Risk Committee, which reflects the decentralised organisation of risk management within DBAG, plays a key role. It consists of the Board of Management and the Risk Manager, who reports directly to the Chief Financial Officer, and also comprises risk officers at the level below the Board of Management. The Managing Directors in charge of the individual corporate departments support the Risk Manager in identifying and assessing risk in their areas of responsibility.

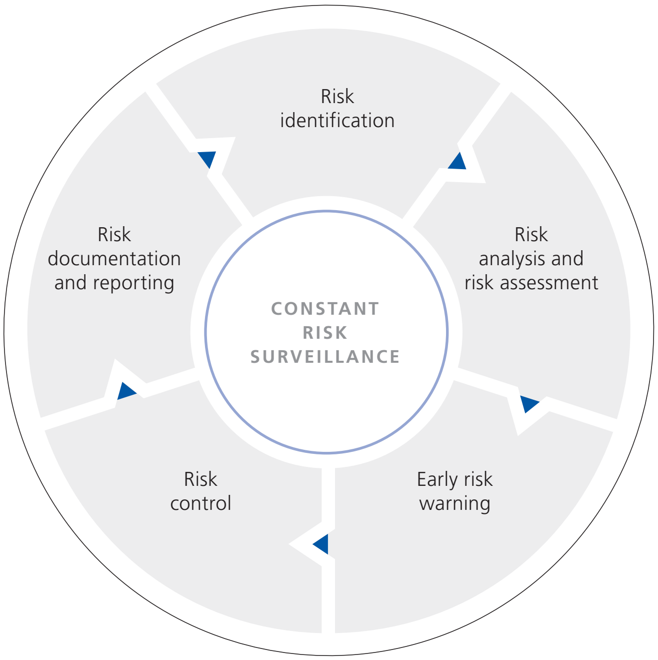
The Risk Manager develops the risk management system on an ongoing and systematic basis. The manual was most recently checked to ensure that it was up to date in July 2018, and adjusted, for example, to include the changes to our organisational structure. The objective of our risk management system is to inform the Board of Management and the Supervisory Board about the risks involving high and very high expected values ("significant risks"; expected value is a combination of probability of occurrence and extent of impact). The risk assessment criteria are aligned with the Board of Management's risk strategy. Risks are recorded, monitored and managed on an ongoing basis. The aim is to avoid, mitigate or transfer the negative effects of risks.

Instruments: Risk register with 45 risk factors

The basis of the risk management system is a risk management manual and a risk register. The manual contains company-specific principles on the methodology of risk management, and describes the risk management instruments and their mode of operation. The risk register presents and analyses all the risks that we consider significant. It is updated on a quarterly basis; at the period ending 30 September 2019, it contained 45 individual risks (previous year: 42). The significant risks, their causes and effects, as well as the specified actions required to control and monitor these risks, are also documented in a risk report addressed to the corporate bodies of DBAG.

Processes: Risk identification in individual corporate departments

Risk management is an ongoing process that is firmly integrated into our workflows. The risk management process has been devised to ensure that risks are identified early on and risk management instruments are used appropriately; it is structured according to the following procedure:



Risks are identified directly at a departmental level by the Managing Directors responsible for these units. Particular attention is paid to risks that may jeopardise the continuity of the Company as well as risks of major significance to the asset, financial and earnings position of DBAG. To that end, appropriate early warning indicators are employed – measures, in other words, that are either themselves indicators of changes in a risk or suitable as measurement tools to identify changes in risk-driving factors. Such indicators include, for instance, the number of transaction opportunities screened, the employee turnover rate or employee satisfaction.

During the risk analysis and assessment process, identified risks are classified by the responsible Risk Administrator in coordination with the Risk Manager on the basis of a matrix. First, they are categorised according to the probability of their occurrence on a four-point scale. The probability of occurrence is designated as "unlikely" (less than 20 per cent), "low" (20 to 50 per cent), "possible" (50 to 70 per cent) or "likely" (greater than 70 per cent). In addition, the impact is classified according to the severity of financial consequences, reputational consequences, regulatory consequences or management action required; the potential impact is assessed subsequent to the action taken to avoid or mitigate the risk.

EXPECTED VALUE (COMBINATION OF PROBABILITY AND IMPACT)

PROBABILITY			1 Low	2 Moderate	3 High	4 Very high
> 70%	**Likely**	**4**	Moderate	High	Very high	Very high
50 to 70%	**Possible**	**3**	Very low	Moderate	High	Very high
20 to 50%	**Seldom**	**2**	Very low	Moderate	High	High
< 20%	**Unlikely**	**1**	Very low	Very low	Moderate	High

	1 Low	**2 Moderate**	**3 High**	**4 Very high**
Financial consequences	< €10mn	€10–50mn	€50–100mn	> €100mn
Reputational consequences	Isolated negative media coverage	Broader negative media coverage	Extensive negative media coverage and temporary loss of confidence by investors	Extensive negative media coverage and long-term loss of confidence by investors
Regulatory consequences	Conditional caution	Reorganisation	Reorientation of business activity	Suspension of business activity
Management action required	Event covered by normal routine	Critical event addressed with existing resources	Critical event requiring more extensive management action	Disaster requiring significant management action

IMPACT

The Risk Manager subsequently examines the individual risks and the actions adopted to diversify the risks to ascertain their completeness and effectiveness. The implementation of this action as well as its management and monitoring is the responsibility of the Risk Administrators in the respective corporate units.

Risk control basically pursues the objective of keeping the overall risk at acceptable and manageable levels for DBAG. The objective of risk control is therefore not to completely preclude risk, but rather to ensure that a targeted risk level is not exceeded. Suitable action to control risk may avoid, reduce or transfer risks.

Risk avoidance means completely precluding risk. Since complete avoidance of risk generally also means precluding opportunities for reward, this form of risk intervention cannot be applied across the board, but only to risks for which security takes priority over other corporate objectives. Measures taken to *reduce risk* are meant to decrease the probability of the occurrence of the risk and/or limit the impact. The residual risk that remains after the action has been implemented is consciously accepted or transferred to third parties. Insurance contracts, a classical risk management instrument, serve to *transfer risk*. Special contractual arrangements and financial instruments are also examples of transferring risk to third parties.

Risks are reported to the complete Board of Management on a quarterly basis. In addition, the entire Board of Management is involved in risk management through the Risk Committee. Risks that are identified outside of these regular intervals are reported to the Risk Manager immediately. This ensures a comprehensive and current analysis of risk exposure at all times. Once every financial year, the Board of Management extensively informs the Audit Committee about DBAG's risk exposure. In the event of an unexpected material change in the exposure to risk, the Board of Management informs the Audit Committee of the Supervisory Board immediately.

Explanation of individual risk factors

The table on page 103 describes all risks with a "high" expected value, based on our definition, which is determined by the probability of occurrence and extent of impact; the risks with a high expected value are the same as those reported at the reporting date for the financial year 2017/2018. In our estimation and assessment, there are still no risks with a "very high" expected value.

We have allocated operational risks to the business segment that is most strongly affected by the risk. However, over the long term, the consequences of risks allocated to the Fund Investment Services segment would also affect the Private Equity Investments segment and vice versa. In addition to the risk factors described, there are further risks that we regularly monitor and control. These risks have an influence on whether and to what extent we achieve our financial and non-financial objectives.

Risks of the Fund Investment Services segment

Inability to cover the personnel requirement

Performance in private equity business is closely linked to the people acting in the field. Investors in funds also base their capital commitment decision on the stability and experience of the investment team. Dissatisfied employees or a high staff fluctuation rate can cause greater workloads for other employees; if DBAG were to earn a negative reputation as an employer, this would be detrimental to the Company's personnel recruitment. We address the risk of possible staff turnover by systematically developing the skills and knowledge of our people, as well as using a competitive remuneration scheme that fits to standard practice in the industry and allowing members of the investment team to make private investments in the DBAG funds, enabling them to enjoy participation in fund performance that is disproportionate to the profit-sharing awards (carried interest). We regularly offer individualised training programmes; personality-based training activities are an integral constituent of career plans.

We regularly measure employee satisfaction in a survey. In view of the Company's current position, we do not expect bottlenecks to occur over the short or medium term.

Inability to raise capital commitments from external investors to DBAG funds

We will be able to pursue our strategy in its present form in the long term only if we succeed in soliciting capital commitments to DBAG funds. This requires that the Company or its investment team establishes a proven track record of successful investment activity yielding attractive returns, which depends on the solid performance of the investments and on the investment progress of a fund. Further influencing factors are the macroeconomic environment, the sentiment in the stock markets and general readiness of private equity investors to make new capital commitments. Fundamental changes to tax legislation that would lead to taxes being imposed on foreign partners of German fund entities would have serious disadvantages for DBAG. Without further capital commitments, the stability of the management and staff that we need to support the portfolio would not be ensured.

We address this risk, among other things, by a regular dialogue with existing and potential investors in DBAG funds. In selecting investors, we place special emphasis on their ability to possibly also invest in follow-on funds. Additionally, we regularly review our investment strategy.

Extraordinary termination of investment period of one or several DBAG funds or extraordinary liquidation of a fund

The investment period of DBAG funds ends automatically when Fund Investment Services are no longer provided by certain key persons defined in the fund agreements (the leading members of the investment team). Moreover, the fund investors have the right (typically with a 75 per cent majority) to end the investment period of that respective fund. The reasons that could cause them to initiate such a resolution include an unsatisfactory performance of the fund's investments, insufficient investment progress or a fundamental lack of confidence. In cases involving serious contractual breaches, investors have the right to replace the fund management company or liquidate the fund.

Ending the investment period of a fund would consequently lead to a considerable reduction in fee income for advisory services to that fund. Should fund investors revoke DBAG's advisory mandate for a DBAG fund, DBAG would forfeit the fee income from that fund. Should this happen with all funds, it would forfeit fee income from Fund Investment Services altogether. Furthermore, DBAG would no longer be able to exert any influence over the management of the investments entered into with the fund in question. Without the funds at its side, DBAG's opportunities to make its own investments would also be limited. Ongoing communication and early response to the wishes of fund investors serve to mitigate this risk. Above all, however, our sustained investment performance counteracts this risk.

Risks of the Private Equity Investments segment

Investment strategy proves to be unattractive or its implementation is inadequate

A key prerequisite for our performance is an attractive investment strategy. Without successful investing activity, it would not be possible to generate the targeted returns on equity, investors would withdraw their committed capital and new commitments to funds could not be raised. In order to mitigate this risk, the Board of Management and the investment team examine on a regular basis the extent to which our sector focus and geographical emphasis provide an adequate deal flow and a sufficient number of promising investment opportunities.

Moreover, we regularly review our investment strategy and monitor the market. The investment team discusses experience with consultants and service providers gleaned from due diligence processes on a regular basis in order to avoid incorrect due diligence results. The standardisation of internal processes and the accelerated transfer of knowledge within the investment team also help us to achieve this.

Insufficient access to new, attractive investment opportunities

Access to new investment opportunities is crucial for our operations. If we did not make new investments, the structure of our statement of financial position would change. The portfolio value and, as a result, the net asset value would exhibit slower growth and the proportion of financial resources on the statement of financial position that hardly bear interest would increase – both would come at the expense of the return on equity. In the medium term, the performance of the Fund Investment Services segment would also be adversely affected: the investors in the funds expect investment progress that is commensurate with the committed fund size. If this progress was not achieved, our chances of raising a successor fund would be diminished, thus impacting the performance of Fund Investment Services in the medium term.

However, we have no influence on developments in the private equity market. With a view to the persistent low interest rate phase and the abundant stream of capital associated with it, we are competing not only with strategic investors, but also with foundations and family offices seeking more profitable investment opportunities. By contrast, the maintenance of our network and our marketing efforts are aspects that we can influence ourselves.

Our ability to mitigate the risks arising from a decline in the number of potential transactions is very limited. If we invest less, the potential for value growth in the segment of Private Equity Investments will decline in the medium term. We address this risk, among other things, by originating investment opportunities that are not broadly available in the market. We have implemented an ongoing process to improve how we identify investment opportunities. This also includes the constant expansion of our network of M&A consultants, banks and industry experts.

Transaction opportunities are not transformed into investments

Even if there is a sufficient supply of attractive investment opportunities, there is a risk of these not culminating in concrete investments. One reason for this may be a lack of competitiveness – because we react too slowly due to insufficient processes or are unable to arrange the acquisition financing. To avoid the consequences arising from this risk – inadequate investment progress, negative effects for future DBAG funds – we continually strive to improve our internal knowledge transfer and to adapt the relevant processes to a changed competitive environment.

External risks

Negative impact of the general economy and economic cycles in individual sectors on portfolio companies

The development of our portfolio companies is influenced by market factors such as geographical and sector-related economic cycles, political and financial changes, commodity prices and exchange rate trends. These market factors, in turn, are subject to a variety of influences themselves. Cyclical impacts in the wake of political instability or limited capability of the banking system can also affect the portfolio companies' earnings, financial and asset position. Technological changes can also have a negative impact on individual companies or on the companies operating in a certain sector. This could extend the holding periods of investments, resulting in the gains on disposal being postponed or reduced. In extreme cases, it could lead to a total loss of capital for individual investments. In such an event, our reputation would be at stake.

Market factors, in particular, sometimes change at very short notice, and our ability to address them is limited. Short-term results, however, are not decisive for success in private equity business. Our investment decisions are based on plans that target value development over a span of several years. The holding periods for investments generally extend beyond the duration of individual cyclical phases.

Information on the holding periods of current investments page 70

The notably lower growth momentum we are seeing for now in most of the important economic areas leads us to assume that the probability of this risk occurring is no longer "low" (as before) but now "possible". If appropriate – as was sometimes the case over the last financial year – we adapt our value development approach to an individual investment. This requires closely monitoring the portfolio companies' progress. The portfolio's diversification basically already counters the risk arising from cyclical trends in individual sectors.

Lower valuation level on the capital markets

Valuation ratios on the capital markets are reflected in the measurement of the fair value of our portfolio companies and, thereby, the portfolio value. A lower valuation level, expressed in lower valuation multipliers, generally results in a lower portfolio value. They can be a burden on the prices at which we are able to divest companies and thus impair our profitability.

We cannot avert the risk arising from the capital markets. We can, however, mitigate that risk by avoiding high entry prices. Achieving an improved strategic position of the portfolio companies would justify a higher multiple. Since sectors are rarely all equally affected by changes in the equity market, diversifying the portfolio also counters exposure to this risk.

Access to stock and credit markets is not ensured

DBAG finances its activities in the long term by way of the stock market; over the short term, a credit facility may be used to cover temporal discrepancies between expected cash inflows and outflows. The capital increase and agreement on a credit line in the financial year 2015/2016 also have to be viewed within this context. Corporate action can only succeed if DBAG is considered an attractive investment opportunity. Rising market prices for and sufficient liquidity in our shares – both requirements for the membership of DBAG shares in the S-DAX – facilitate future corporate actions. Additionally, without adequate access to the financial, credit and stock markets, DBAG's autonomy would be jeopardised in the long run.

We therefore foster an intensive dialogue with current and potential investors. In addition to ongoing investor relations work – the dividend policy, for example, which has stable, rising dividends as its goal, preferably on an upward trajectory, also aims to make shares in DBAG more attractive.

Endangerment of DBAG's independence

A sub-par valuation of DBAG shares could enable the entry of a principal shareholder and result in them exerting control in the Company. But since the investors in DBAG funds expect the DBAG investment team to provide their advisory services free from the influence of third parties, this loss of independence would basically jeopardise DBAG's business model: investors would neither commit to new DBAG funds – on the contrary, they could terminate existing advisory agreements –, nor would another capital increase be possible on attractive terms. As described above, investors could also end the funds' investment period if (e.g. through the control of a principal investor) the key personnel defined in the fund agreements were no longer materially involved in investment services to the funds.

By fostering intensive contact with current and potential investors we also mitigate this risk. We have additionally set out a legal structure that shields the Fund Investment Services business from the influence of third parties. In the event that such control is exerted, the management authority of DBAG can be revoked for the Group company charged with providing advisory and management services to DBAG funds.

Operational risks

Insufficient protection of confidential data against unauthorised access

Our business not only requires suitable software and hardware, but also effective data security as well as data access by authorised persons at any time. Of key significance is secure protection against unauthorised access, for instance, to sensitive information about potential transactions, the portfolio companies or the economic data of DBAG. There is a risk of such unauthorised access through cyberattacks, weak spots in our network or, for example, through installation of undesirable software by DBAG staff. Our knowledge advantage would be lost, and we could be open to extortion.

DBAG has its own qualified IT specialists; they are supported by external consultants, if needed. DBAG responds to the continually growing IT risk by, among other things, conducting regular internal and external reviews. In an additional security audit in September 2018, consultants verified that, in their opinion, DBAG's network was sufficiently protected against cyberattacks. We encrypt our communication channels through state-of-the-art technologies and use the latest virus protection software and security technology.

RISK FACTORS WITH A HIGH EXPECTED VALUE

	Risk exposure vs previous year	Probability of occurrence	Extent of impact
Risks of the Fund Investment Services segment			
Inability to cover the personnel requirement	Unchanged	Low	High
Inability to raise capital commitments from external investors to buyout funds	Unchanged	Unlikely	Very high
Extraordinary termination of investment period or extraordinary liquidation of one or several DBAG funds	Unchanged	Unlikely	Very high
Risks of the Private Equity Investments Segment			
Investment strategy proves to be unattractive	Unchanged	Low	High
Insufficient access to new, attractive investment opportunities	Unchanged	Low	High
Transaction opportunities not tranformed into investments	Unchanged	Low	High
External risks			
Negative impact of general economy and economic cycles in certain sectors on earnings, financial and asset position of portfolio companies	Higher	Possible	High
Lower valuation level on the capital markets	Unchanged	Possible	High
Access to stock and credit markets is not ensured	Unchanged	Low	High
Threat to DBAG's independence	Unchanged	Unlikely	Very high
Operational risks			
Insufficient protection of confidential data against unauthorised access	Unchanged	Possible	High

Material changes compared with the preceding year

Compared with the end of the financial year 2017/2018, we now see a greater likelihood that the risk of a "negative impact of the general economy and economic cycles in individual sectors on portfolio companies" will materialise. The expected value of this external risk – which is beyond our control – therefore remains "high".

Description of opportunities

Opportunity management is an integral constituent of our operating business. Value creation largely occurs in our core activities of investing, developing and realising our investments. We therefore place special emphasis on continually improving our business processes. We do not actively pursue opportunity management outside of ordinary business operations, such as optimising investments of cash and cash equivalents.

Private Equity Investments: Strategic advancement with investments deploying only our own financial resources (Principal Investments)

In the past financial year, we decided to envisage investments deploying only our own financial resources, i.e. not alongside any funds, as an additional investment programme. These investments will typically be longer-term minority shareholdings that do not fit the DBAG funds' investment strategy. The programme was designed with family-owned businesses in mind that require equity investments of between 20 and 150 million euros; such businesses would primarily be positioned in the upper Mittelstand, generating annual revenues upwards of 100 million euros. With this new proposition, DBAG has broadened its range of services and opened the door for new investment opportunities.

Details concerning our investment strategy pages 50ff.

Competition for attractive investment opportunities has become more intense in recent years. A factor that is sometimes crucial in the competitive field is the ability to come to an agreement with the vendor within a tight time frame. Rapid availability of the required funding can shorten the acquisition process. In that respect, opportunities could arise from DBAG's solid financial resources, which enable the Company to make financing commitments under its own steam.

Fund Investment Services: possibility of higher fee income from successor fund

Income from investment services to funds is readily forecastable, because fee agreements are largely fixed for a fund's term. After the start of the investment period of DBAG Fund VII in December 2016, fee income from buyout funds is therefore capped initially until the end of the investment period, which will last for six years at the most. Opportunities could, however, arise from positive investment performance. We remain committed to making continuous improvements to our business processes and strengthening the performance of our investment team. This will make us more competitive, in a market where those players able to assess business models and exploit transaction opportunities quickly have the edge. This benefits our investment progress. Less than four years into the investment period, around 68 per cent of the fund has been allocated. If we manage to launch a successor fund with a similar (or larger) volume earlier than prior to the end of the initial investment period of six years, DBAG will receive higher fee income from advisory services provided to this successor fund earlier as well.

Opportunities are also arising from our new programme for investments made from our own resources. For larger investments, co-investors are set to be included, who would then pay advisory or structuring fees.

External changes: Increase in value thanks to higher capital market multiples; positive effect from higher interest rates

The value of our portfolio companies at a specific reporting date is significantly influenced by stock market conditions. This was again evidenced in the past financial year. The result of valuation and disposal was hit by lower capital market multiples in an approximate amount of 23 million euros. Multiples are subject to constant change. If the assessment of the companies' outlook were to improve again, this would augment valuation multiples – which, in turn, have an influence on our valuations.

A higher interest rate level would allow us to reverse an additional part of our pension provisions; this would increase the equity per share by way of an increase in other comprehensive income.

General statement on opportunities and risks

In 2018/2019, DBAG's business model, which is geared towards a long-term view, has proved its worth once again. There was no material change in the exposure to risks and opportunities compared with the preceding year. In our estimation, there are currently no recognisable individual or cumulative risks that would endanger the continuity of DBAG or the Group as a going concern. This estimation is based on an analysis and assessment of the material individual risks to which the Company is exposed, as well as on the risk management system in place. We do not currently perceive any extraordinary opportunities.

Key features of the accounting-related internal control and risk management system (sections 289 (4) and 315 (4) of the HGB)

The internal control system (ICS) is an integral constituent of the risk management system at Deutsche Beteiligungs AG. It is oriented around the internationally recognised framework document for internal control systems issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The extent and design of the internal control and risk management system are aligned with the special requirements of the Fund Investment Services and Private Equity Investment businesses. The duty of the internal audit – which has been delegated to an external service provider – is to monitor the functioning and effectiveness of the ICS independently of processes in a multi-year examination scheme within the Group and at Deutsche Beteiligungs AG, and to thereby promote ongoing improvements to business processes. The accounting-related part of the ICS is a component of the annual audit within the scope of a risk-oriented audit approach. Finally, the Supervisory Board's Audit Committee oversees the ICS, as required by section 107 (3) of the AktG.

DBAG prepares its separate and consolidated financial statements in conformity with the applicable accounting policies of the HGB and the International Financial Reporting Standards (IFRS). The internal accounting guidelines are set out in an accounting manual and in measurement/valuation guidelines; they consider the different principles of the IFRS and HGB. New accounting rules are regularly reviewed to ascertain the implications for DBAG and its subsidiaries, and if necessary, the accounting guidelines are adapted.

Moreover, DBAG possesses clearly defined organisational, control and surveillance structures. Explicit assignments within the accounting process are in place. The IT systems used in accounting are largely operated with standard software products; these are protected against unauthorised internal and external access by comprehensive access permissions. All individuals involved in the accounting process are qualified for their assignments. The number of individuals working here is sufficient to handle the workflow. The aim is to minimise the risk of erroneous accounting. Staff regularly participate in further education programmes and professional training sessions on tax- and accounting-related topics. Additionally, advice from external experts is solicited on specific accounting issues.

Material accounting-related processes are regularly examined analytically in respect of the availability and operability of the installed internal controls. The completeness and validity of accounting data are regularly reviewed manually, based on random samples and plausibility checks. For processes that are particularly relevant in accounting, the principle of dual control is consistently employed.

The internal controls are designed to ensure that the external financial reporting by DBAG and the Group is reliable and in conformity with the valid accounting rules. The aim is to minimise the risk of possible misstatements on the actual asset, financial and earnings position. We also gain important insight into the quality and operability of accounting-related internal controls through the annual audit of the separate and consolidated financial statements, as well as a review of the half-yearly consolidated financial statements.

REPORT ON EXPECTED DEVELOPMENTS

Period covered by this report: short-term predictions do not do justice to business model

Our business lends itself to a medium- to long-term planning and forecast horizon. That applies both to the co-investment activity and to Fund Services.

Events or trends that were not predictable at the beginning of a financial year frequently have a significant impact on the earnings contribution of our investment activities. These include realisations that, at times, achieve prices clearly in excess of their most recent valuation, as well as unexpected developments in portfolio companies' consumer markets or in the stock market.

DBAG funds have a term of ten years. With the exception of DBAG ECF, the fees we receive for management or advisory services are methodically fixed over that term. That is why fee income is readily projectable over the short term, but at the same time it is also capped. Increases can only result from a follow-on fund, as a matter of principle. Its size and, consequently, its income potential, is orientated around the former fund's investment performance, meaning that the income potential can only be judged conclusively at the end of the term. This, too, is indicative of the long-term orientation of our business.

As a result, we will be forecasting key figures not only for the current, new financial year 2019/2020. We will also take this forecast as a basis in order to set out our expectations regarding further development over the next two financial years.

The forecast is based on our medium-term planning for 2022, which consists of a projected profit and loss statement, a projected statement of financial position, and a projected statement of cash flows. For the Private Equity Investments segment, it is based on detailed assumptions on future co-investments alongside the DBAG funds and on own balance-sheet investments, as well as on the holding period and the expected capital multiplier for each individual portfolio company. We use this information to predict the development of the cost and fair values of the portfolio and, based on these figures, the net result of valuation and disposal based on the IFRS, the net result of disposal based on the German Commercial Code and – at the level of the individual DBAG fund via which the Company made investments in the companies – the development of carried interest. We do not assume a linear increase in the value of the individual portfolio companies over the holding period. Rather, we apply a standardised value appreciation trend that includes smaller increases in value at the start of the holding period and larger ones towards the end.

In the Fund Investment Services segment, we take into account the development in fee income from Fund Services and other income/expense items, i.e. mainly personnel expenses, variable remuneration and advisory expenses, as well as expenses for fundraising in individual years. We prepare detailed plans for expenses in the first planning year; thereafter, the various expense items are projected based on aggregate assumptions.

Irrespective of our dividend policy, we are not planning to make any changes to the dividend for the time being. All plan assumptions that have an impact on cash are included in the projection of cash and cash equivalents.

Type of forecast: qualified and comparative based on individual points of reference

The change in net asset value is determined to a considerable degree by the net gain or loss from investment activity, which can fluctuate considerably from year to year. Over the last five years, this has amounted to values of between 29.2 million euros and 85.8 million euros. As we expect net income to continue to show marked volatility over the current medium-term planning period, neither an interval forecast nor a point forecast of these indicators is feasible. As a result, we have limited ourselves – as before – to making a qualified comparative forecast[18] on expected developments.

18 *German Accounting Standard No. 20 (GAS 20) provides for three types of forecasts: the disclosure of a numerical value ("point forecast"), a range between two numerical values ("interval forecast") and a change in relation to the actual value of the reporting period stating the direction and intensity of that change ("qualified comparative forecast").*

As far as net gain or loss from investment activity and net income are concerned, a qualitative and comparative forecast based on the values for the previous year does not make sense, due to the very volatile nature of our results. Thus, the respective average value of the last five years is used as a reference for the forecast of those indicators mentioned. We use the prior-year values based on the carried portfolio for the other financial and non-financial key indicators, making adjustments for factors that would not recur on a regular basis.

In line with this approach, in this forecast we also classify changes in net gain or loss from investment activity and net income differently from the other key performance indicators for this forecast, as in the previous year. We use the following system for these very volatile indicators. We describe changes of up to 20 per cent as "slight", changes of more than 20 per cent but less than 40 per cent are "moderate", and changes of 40 per cent and more as "significant".

Changes in the other key indicators are still evaluated within a narrower range. Deviations of up to ten per cent are considered "slight", and changes of more than ten per cent but less than 20 per cent are termed "moderate". Changes of 20 per cent and more are "significant".

Expected development of underlying conditions

Market: No change in a competitive environment that remains intense

Based on the dynamic of the investment opportunities we have learned of during the past twelve months, we expect to see constant demand – in terms of number and volume – in our market, as far as the current financial year 2019/2020 and the next two financial years are concerned.

Borrowings: Constant supply based on unchanged conditions

The debt market for acquisition finance is diverse. Debt funds have increased the supply; they offer financing through unitranches or mezzanine. The gap created by the withdrawal of some banks following the financial crisis has now been closed. The business in leveraged finance for transactions in the private equity field is attractive. As a result, we expect to see a sufficient supply of this sort of financing over our forecast horizon; as far as the 2019/2020 financial year is concerned, we generally expect to see a constant supply at conditions that are largely unchanged. We cannot, however, rule out that bank willingness to finance transactions in mechanical and plant engineering or in the automotive supply industry will continue to be challenging, hampering transactions in these sectors.

Asset class of private equity: No radical changes in the short term

Private equity is firmly rooted as an asset class worldwide. It is an integral part of the investment strategy of many institutional investors. The proportion of private equity in the dissemination of assets is not constant and may even decrease. Recent surveys amongst investors (June 2019) suggest that close to 50 per cent plan on allocating equivalent funds to private equity investments as in the previous year; 40 per cent even more.[19] With a view to the persistent low interest rate policy in the US and Europe, we think it likely that shifts in investor asset allocation will not be to the detriment of private equity. This suggests at least a consistent offer of investment commitments for private equity funds.

19 *Preqin Investor Update: Alternative Assets H2 2019, August 2019*

Our experience shows that the attractiveness of DBAG funds is less dependent on investors' general view of the market, and more on their sentiment toward specific sub-markets (Europe, Germany, industrial, services, etc.) – and in particular on the investment performance DBAG funds have delivered so far. Feedback from the ongoing fundraising for the DBAG Fund VII and DBAG ECF successor funds supports our view: given its investment history and under current market conditions, DBAG can assume that it will succeed in launching successor funds in due time before the end of the investment period, with sufficient capital commitments solicited.

Macroeconomic environment: "Industry in recession, growth drivers abating"

The underlying macroeconomic conditions have worsened during the past twelve months, with many economies in which our portfolio companies produce or sell their products encumbered by dwindling global growth, trade conflicts, Brexit and uncertainties in foreign economics.[20]

20 *"Global Manufacturing Downturn, Rising Trade Barriers – World Economic Outlook", International Monetary Fund, October 2019*

In Germany, economic development is torn in two: while the global industrial and investment weakness in particular has been weighing on German industry exports and the German industry has dipped into recession, the domestic economy remains intact, employment and income are on the rise, and the construction sector is booming. In spite of the outlook being muted, an economic crisis is not on the horizon.[21]

21 *"Industry in recession, growth drivers abating", Gemeinschaftsdiagnose project group 2/19, September 2019*

Our portfolio companies operate in numerous markets and geographical regions. This holds all the more true following expansion of our sector spectrum to include new focus sectors over recent years. This means that our investments are subject to very different cyclical influences: for companies such as JCK or More than Meals, domestic demand in Germany is of much greater influence than for Gienanth, Pfaudler or Silbitz, which offer their goods and services on a global scale. Some are strongly affected by developments in certain commodity prices. Our investments that are involved in the expansion of the fibre-optic network in Germany, on the other hand, are subject to entirely different influences. The level of economic growth is unlikely to determine their success to any considerable extent, at least in the short term, but the availability of labour will. We have not included the impact of changes in commodity prices or exchange rates in our forecast.

Compared with the end of the financial year 2017/2018, we are now faced with a macro-economic environment characterised by significantly greater uncertainty. Some risks that we considered a possible threat six or twelve months ago have materialised: in particular concerning investments with a direct or indirect link to the automotive industry, but also concerning the two foundries and other industrial companies in our portfolio. In a best-case scenario, we expect business for companies with a cyclical business model and automotive-related investments to stagnate. The remaining portfolio companies should enjoy generally favourable framework conditions during the new financial year 2019/2020. However, it remains impossible to assess whether the recovery tendencies that various players have referred to, and the corresponding growth drivers, will materialise; the same applies to the impact of Brexit and the future course of international trade conflicts.

Information on economic risks pages 107f.

Expected business development

The point of reference used for the forecast in the table below corresponds – in line with the comments on the type of forecast – either to the actual value for 2018/2019 or to the average value over the last five years for the performance indicator in question.

Our forecasts are based on the expectations regarding developments on the private equity market, the capital markets and developments within the economy as described above. A scenario in which the circumstances described in the risks mentioned would materialise to a greater degree is not reflected in our planning. If trade disputes between major economies are exacerbated further, if a chaotic Brexit becomes a reality, and valuations on the capital markets decrease significantly, we will not be able to achieve our forecasts. This scenario could result not only in a lower net gain or loss from investment activity, but also delays in investment progress and the disposal of mature portfolio companies.

FORECAST FOR FURTHER BUSINESS DEVELOPMENT

	Actual 2018/2019	Reference point for the forecast	**Expectations for 2019/2020**	**Ambitions until 2021/2022 vs. 2019/2020**
Financial performance indicators				
PRIVATE EQUITY INVESTMENTS				
Net asset value[1] (reporting date)	€472.1mn	€472.1mn	Up to 10% lower	More than 20% higher
Net income from investment activity[2]	€49.6mn	€51.0mn	More than 40% lower	More than 40% higher
Cash flow from investing activities	€(15.5)mn	€(15.5)mn	More than 20% lower	More than 20% higher
FUND INVESTMENT SERVICES				
Income from fund services	€28.2mn	€28.2mn	More than 20% higher	More than 10% higher
Net income from Fund Investment Services[1]	€3.0mn	€3.0mn	More than 20% higher	More than 10% higher
Assets under management or advisory (reporting date)	€1,704.0mn	€1,704.4mn	More than 20% higher	More than 10% lower
SHAREHOLDERS				
Dividend per share	€1.50	€1.50	Unchanged	Unchanged
Non-financial performance indicators				
PRIVATE EQUITY INVESTMENTS				
Investment opportunities	258	258	Unchanged	Unchanged
FUND INVESTMENT SERVICES				
Share of capital commitments of returning investors	75%	75%	Unchanged	Unchanged
EMPLOYEES				
Average length of company service	7.6 years	7.6 years	Unchanged	Unchanged
Other indicators				
Net income in accordance with IFRS[2]	€45.9mn	€46.8mn	20 than 40% lower	More than 40% higher
Net income in accordance with the HGB	€29.1mn	€29.1mn	More than 10% higher	

1 Also used as a management indicator for the core business objective
2 The forecast is based on the average value of the previous five financial years.

In light of economic developments and having weighed up the opportunities and risks, we anticipate a below-average increase in the portfolio value in 2019/2020. Against this background and taking into account the distribution in February 2020 – 22.6 million euros are proposed – the **NET ASSET VALUE** as at the reporting date 30 September 2020 will be down slightly on recent levels. Due to the quality of the overall portfolio and planned investments, we then expect to see this value increase in the following two years, meaning that by the end of the financial year 2021/2022, net asset value should have significantly surpassed the number as at the end of the ongoing new financial year. **CASH AND CASH EQUIVALENTS**, which form part of net asset value, will drop significantly in 2019/2020, due mainly to planned investments and distribution being higher than the returns from planned divestments.

NET GAIN OR LOSS FROM INVESTMENT ACTIVITY is the item that has the greatest impact on the Private Equity Investments segment. Net asset value – adjusted for the dividend distribution of any given year – can only increase if the net income exceeds the amount earmarked for distribution. At the same time, net gain or loss from investment activity is the item with the greatest budgetary and forecast uncertainty. It is determined to a considerable degree by the net result of valuation and disposal; current income from financial assets and loans and receivables is of lesser significance.

Projections of the earnings contribution for the portfolio are based on current assumptions regarding the holding period and, as explained above, on a standardised annual increase in the value of the investments during this holding period. Here, we take into account deviations from the initial premises with regard to the temporal course and the absolute value contribution of the change measures initiated in the portfolio companies.

The net valuation result represents the net amount of positive and negative value movements of the portfolio companies. These value movements derive from the change in the fair value of an investment in comparison to the preceding reporting date. In the past, there were instances when sizeable capital gains were realised on disposal of investments, for example because industrial buyers were willing to pay premiums on the estimated fair value for strategic reasons or because financial investors paid such premiums after intense competition among bidders. Such events are not predictable. This is why we have assumed that the sale price corresponds to the fair value calculated in each case. Current income from financial assets and loans and receivables is also not forecast individually. We assume that earnings generated from the portfolio companies are ploughed back in and therefore flow into the achievable market price to the same extent.

Based on our assumptions, we expect net gain or loss from investment activity to be considerably, i.e. more than 40 per cent, lower than the forecast. In the next two years (2020/2021 and 2021/2022), we then expect to see values that are significantly higher than the values expected in the coming financial year.

On the basis of the co-investment agreements with DBAG funds and our latest strategic developments to include Principal Investments, we are planning investments for 2019/2020 to be slightly higher than the previous year. At the same time, we expect the decline in inflows from disposals, recapitalisations and dividend distributions from portfolio companies to be down moderately on recent levels (in other words between 10 and 20 per cent); we do not predict any gains on disposals as a general rule, but rather assume that investments will be sold at their fair value. This will produce another negative **CASH FLOW FROM INVESTMENT ACTIVITY** in 2019/2020; the consumption of funds will be significantly higher than in 2018/2019.

INCOME FROM FUND SERVICES is substantially determined by the volume of funds. The terms and conditions that govern the compensation for our management and advisory services are usually fixed for a fund's entire term. This makes it easy for us to budget for this income. Thanks to the investment progress achieved for DBAG Fund VII and DBAG ECF, we expect a successor fund to be closed in 2019/2020 and the investment period for this fund to start in the new financial year. Accordingly, we expect 2019/2020 income from Fund Services to significantly exceed 2018/2019's level. Furthermore, by the end of 2021/2022, we anticipate a further moderate increase over the 2019/2020 level. We expect to see a significantly higher result in the Fund Investment Services segment in 2019/2020. Earnings will initially continue to rise significantly, and in the last year of the forecast period they will approximately reach the level of the current, new financial year. **ASSETS UNDER MANAGEMENT OR ADVISORY** will, first of all, significantly increase in the current financial year, assuming a successful fundraising for the DBAG Fund VII and DBAG ECF successor fund. It will then decline due to further disposals from the portfolio. For the 30 September 2022 reporting date we expect assets under management and advisory to be moderately lower than for the coming reporting date.

General forecast

Net asset value slightly lower, significantly higher earnings from Fund Investment Services, net income moderately lower than the point of reference used for the forecast

The forecast for the new, current financial year is, however, subject to significantly greater uncertainty than in previous years due to the overall environment. Taking this into account, we expect a negative contribution to enterprise value made by the change in net asset value. However, income from the Fund Services (which determines the value of Fund Investment Services) is expected to be significantly higher. Net income 2019/2020 is expected to be moderate, i.e. between 20 and 40 per cent, lower than forecast. This means that the financial year 2019/2020 will be more of an average year, measured against a ten-year average. Looking ahead to the 2020/2021 and 2021/2022 financial years, we anticipate results which will be significantly higher – that is, more than 40 per cent above the level for the current financial year.

Profit for 2019/2020 according to the German Commercial Code up moderately year-on-year

Deutsche Beteiligungs AG is reporting a net retained profit in accordance with the German Commercial Code of 178.1 million euros at 30 September 2019. 22.6 million euros of this amount is to be distributed in February 2020. Our dividend policy provides for a dividend that remains stable and increases whenever this is possible Over the medium-term planning period, we expect the dividend to be constant to start off with. We expect that our retained profit for the coming year and the next two years will allow us to make distributions in the planned amounts.

Frankfurt/Main, 3 December 2019

The Board of Management