Financial review of Deutsche Beteiligungs AG (commentary based on the German Commercial Code – HGB)

The management report on Deutsche Beteiligungs AG and the Group management report for the 2016/2017 financial year are presented combined, in conformity with § 315 (3) HGB in connection with § 298 (3) 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 HGB. The complete annual financial statements of DBAG based on HGB are published in the "Bundesanzeiger" (Federal Gazette), together with the consolidated financial statements.

The separate financial statements are accessible at https://www.dbag.com/investor-relations/publications/; a printed version is also available on request.

Earnings position

Overall assessment: net income for the year reaches highest level in the Company's history

The financial year 2016/2017 is one of the most successful in the history of Deutsche Beteiligungs AG: DBAG's net income for the year rose to a record value that is well in excess of the prior-year result. Over the last financial year, seven divestments were completed, five of them with disposal proceeds that were, in some cases, well above average in relation to the capital multiplier. In 2015/2016, on the other hand, divestments of only two larger portfolio companies were completed, with one of them resulting in a disposal loss. Other operating expenses rose, among other things, due to higher transaction-related expenses and higher spending on external employees.

Net result of fund services and investment activity: seven divestments with disposal proceeds that were, in some cases, well above-average

The net result of fund services and investment activity is fundamentally determined by gains or losses on disposals of investments and net write-ups/write-downs on investments. The latter are performed at the lower of cost or market and the applicable procedure for reversals of impairment losses, based on HGB. The current net result of valuation and disposal includes 147.8 million euros stemming from the disposal of a total of six investments agreed in 2016/2017 (Grohmann Engineering, FDG, Romaco, Formel D, ProXES and Schülerhilfe), as well as from a transaction in the previous financial year that has now been settled (Broetje-Automation). The amount is reduced by carried interest of 29.5 million euros (disposals from the DBAG Fund V portfolio: Broetje-Automation, FDG, Romaco, Formel D and ProXES). In the previous year, two companies were disposed of, although one of these transactions resulted in a loss.

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

€'000	2016/2017	2015/2016
Net result of valuation and disposal[1]	147,197	2,336
Current income from financial assets	4,732	7,629
Fee income from fund management and advisory services	23,544	18,136
Net result of fund services and investment activity	**175,474**	**28,101**
Personnel expenses	(20,873)	(17,133)
Other operating income (without write-ups)	2,284	2,081
Other operating expenses	(10,697)	(10,102)
Depreciation and amortisation on intangible assets and property, plant and equipment	(712)	(672)
Income from other securities and loans within financial assets	581	309
Other interest and similar income	662	67
Interest and similar expenses	(2,366)	(644)
Total other income/expenses	**(31,122)**	**(26,093)**
Result of ordinary activity	**144,352**	**2,008**
Income taxes	0	171
Other taxes	(9)	(11)
Profit for the year	**144,342**	**2,167**

1 The net result of valuation and disposal is composed of profit-and-loss items "Income from disposals of investments" of €147.8mn (previous year: €12.6mn) and write-ups in the financial year of €0.0mn (previous year: €1.1mn) that are recognised in item "Other operating income". "Losses on disposals of investments" and "Write-downs on financial assets" in the amount of €0.6mn (previous year: €11.3mn) were deducted.

Key components of *current income from financial assets* include profit distributions and interest income from portfolio companies.

The *fee income from fund management and advisory services* rose to well above the level seen in the financial year 2015/2016. The fact that advisory fee income was collected from a larger fund following the start of the investment period of DBAG Fund VII made a particular contribution to this development.

Other income/expenses: net amount much higher due to higher personnel costs

The net amount of total other income/expenses deteriorated by 5.0 million euros year-on-year. *Personnel costs, other operating income excluding write-ups* and *other operating expenses* were largely influenced by the same factors as the Group. The rise in personnel expenses is chiefly due to the fact that wages and social contributions were paid for more employees in 2016/2017 and that higher provisions were made for performance-related income components for the staff and the Board of Management in view of the Company's good performance. Other operating income includes 0.9 million euros from the reimbursement of consultancy expenses by the DBAG funds; in the previous year, this time had included 1.3 million euros from the reversal of provisions for performance-related emoluments. Other operating expenses were higher because higher transaction-related consultancy costs were incurred. 0.6 million euros are recognised as an expense for external staff that we used to cover temporary personnel requirement peaks owing to illness and maternity leave.

Earning position page 85ff.

The **FINANCIAL RESULT** worsened from -0.3 million euros to -1.1 million euros. This is primarily due to the change in the actuarial rate for the remeasurement of pension obligations. The pension provisions had to be increased in line with the increase in the interest rate.[18] Other interest income includes income from deferred purchase price interest from a disposal in the financial year 2015/2016.

18 *The discount rate in 2016/2017 was based on an interest rate of 3.77 percent (ten years). The interest rate is determined by the Deutsche Bundesbank. By contrast, the actuarial rate used in the consolidated financial statements of 1.55 percent (previous year: 0.80 percent) is based on the i-boxx corporate AA10+ interest rate index. Its change results from interest-rate changes on corporate bonds.*

Profit for the year: 144.3 million euros

Deutsche Beteiligungs AG is reporting net income of 144.3 million euros for the 2016/2017 financial year. Including the profit carried forward from the previous year and the dividend payment, the retained profit amounted to 181.9 million euros, of which 3.3 million euros are barred for distribution pursuant to statutory requirements.

Asset position

Total assets of DBAG largely consist of the investment portfolio as well as securities and cash and cash equivalents. In 2016/2017, assets rose considerably by 128.6 million euros compared to the preceding financial year. The increase in assets can be traced back to the cash inflows following successful disposals, in particular. In February 2017, a sum of 18.1 million euros was distributed to shareholders.

CONDENSED BALANCE SHEET OF DEUTSCHE BETEILIGUNGS AG (BASED ON HGB)

€'000	30 Sept. 2017	30 Sept. 2016
Equity shares in associates	202,883	194,256
Investments	4,488	6,595
Long-term securities	33,714	20,750
Other non-current assets	1,820	2,077
Non-current assets	**242,905**	**223,678**
Receivables and other assets	65,489	30,756
Cash and cash equivalents	119,721	44,973
Current assets	**185,210**	**75,729**
Prepaid expenses	**510**	**664**
Assets	**428,625**	**300,071**
Subscribed capital	53,387	53,387
Capital reserve	175,177	175,177
Retained earnings	403	403
Retained profit	181,904	55,614
Equity	**410,870**	**284,580**
Provisions	**17,461**	**14,985**
Liabilities	**294**	**507**
Liabilities and shareholders' equity	**428,625**	**300,071**

Assets: significance of directly held investments declines once again

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

The increase in interests in associates in the financial year 2016/2017 is the result of the investments in six new companies (54.8 million euros). The divestments and repayments of bridge-over loans (46.2 million euros) had the opposite effect.

The value of directly held investments declined due to divestment of Grohmann Engineering. In addition, investments are now being made indirectly via co-investment vehicles.

Investment securities increased due to the purchase of further securities to invest cash and cash equivalents that were not required for investments in the first instance.

Current assets: marked increase due to fund inflows from divestments

At the reporting date, 65 percent of current assets were attributable to cash and cash equivalents, which were up considerably on the prior-year level due to the substantial fund inflows following the divestments. Other components included receivables from a loan granted to a company of DBAG Fund VII to provide bridge-over financing for capital calls that the fund intends to use to complete the financing of the investments in More than Meals and duagon, and receivables from consultancy and management companies of the DBAG funds.

Provisions: increase due to pension obligations

The increase in provisions as against the previous reporting date is due primarily to higher provisions for pension obligations. Provisions rose from 0.7 million euros to 2.3 million euros; they exceed the plan assets to this extent. The majority of the other provisions are associated with performance-related remuneration with regard to personnel. They were unchanged year-on-year, amounting to 11.0 million euros on the reporting date: 10.0 million euros thereof are attributable to the preceding financial year, and provisions of around 1 million euros have been set up over the last ten financial years, but were still subject to a payout stop at the reporting date.

Liquidity position

Particularities in assessing liquidity position: cash flows characterised by irregular outflows

The **FINANCIAL RESOURCES** reported at the period end of 153.4 million euros (investment securities of 33.7 million euros and cash and cash equivalents of 119.7 million euros) are available to meet investment commitments. Based on the investments planned for the new financial year and the two following years, DBAG will have an average liquidity requirement of around 70 million euros annually; the actual requirement may fluctuate strongly.

Capital structure: no liabilities to banks

In financial year 2016/2017, DBAG financed its activities predominantly from its existing financial resources and/or its cash flows. In order to take advantage of investment opportunities at all times, there is also a 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. A temporary drawdown of 10 million euros was made against the credit line at the beginning of the fourth quarter of the year to ensure that the Company did not have to sell any securities in light of upcoming major cash inflows. The strong increase in shareholders' equity to 410.9 million euros at 30 September 2017 mirrors the inflows from the divestments. At 30 September 2016, shareholders' equity totalled 284.6 million euros, of which 18.1 million euros were distributed to shareholders as dividends in February 2017. The **CAPITAL-TO-ASSETS RATIO** of 95.9 percent at the period end (previous year: 94.8 percent) remained very high.

Comparison of actual and projected business performance

Net income for the year up considerably on the previous year in line with projections

In 2015/2016, the net income for the year was the result of a financial year with only two divestments – one of which generated average results and one of which resulted in a more considerable loss on disposal being incurred. Based on two successful divestments that had already been agreed at the beginning of the financial year, we had expected to achieve results in 2016/2017 that would be much higher than in the previous year. This forecast was clearly confirmed: the profit for the year is several times higher than in the previous year. The unexpectedly successful divestments meant that personnel costs also exceeded the forecast. The fee income from fund management and advisory services developed as expected. The retained profit corresponds to several times the amount we plan to distribute based on our dividend policy, meaning that our dividend capacity is definitely ensured.