NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR FINANCIAL YEAR 2013/14

GENERAL INFORMATION

1. PRINCIPAL ACTIVITY

Deutsche Beteiligungs AG (DBAG) raises closed-end private equity funds ("DBAG funds") for investments in equity or equity-like instruments chiefly in unquoted companies. As a financial investor, it enters into investments using its proprietary capital alongside these private equity funds. As a co-investor and fund manager ("adviser"), it focuses its investment activity on German "Mittelstand" businesses. DBAG generates its income by providing investment services to funds and by appreciating the value of the companies in which it is invested. The subsidiaries of the Group pursue the same business activities or provide supporting services.

Deutsche Beteiligungs AG is domiciled at Börsenstrasse 1 in 60313 Frankfurt/Main, Federal Republic of Germany.

2. BASIS OF PREPARATION

The consolidated financial statements of Deutsche Beteiligungs AG at 31 October 2014 have been prepared in conformity with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union. The relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC) have also been applied. Additionally, the commercial law requirements stipulated in § 315a (1) of the German Commercial Code (HGB) have also been taken into account.

The consolidated financial statements fairly present the asset, financial and earnings position. To that end, the information contained therein constitutes a faithful representation of the effects of transactions, other events and conditions in conformity with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the IFRS framework.

The consolidated financial statements of Deutsche Beteiligungs AG consist of the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of financial position, the consolidated statement of changes in equity and these notes to the consolidated financial statements.

The consolidated financial statements have been structured in conformity with the rules of IAS 1.

As compared with the consolidated financial statements for the period ended 31 October 2013 (see page 144 ff. of the Annual Report), we have refrained from presenting a separate consolidated income statement and, in line with the one-statement approach, have instead presented "profit or loss" within the consolidated statement of comprehensive income. This is meant to enhance the clarity of the Group's results in the period. The change in presentation does not change the amounts or earnings per share (diluted and basic) shown for past periods.

The consolidated net income is structured based on the nature of expense method. For the sake of presenting information that is relevant to the business of DBAG as a private equity company, the net result of investment activity has been disclosed instead of revenues. Fee income from fund management and advisory services of T€21,736 (previous year: T€18,889) were contained in item "Other operating income" in the past. "Other operating income" therefore no longer includes these amounts (see note 13). Separate disclosure of this position is in recognition of the importance that fee income from fund management and advisory services has on income. Items of other comprehensive income are stated after taking into account all tax effects in that context as well as the respective reclassified amounts. Reclassifications between other comprehensive income and profit or loss are presented in the notes to the consolidated financial statements.

In the consolidated statement of cash flows, inflows and outflows are differentiated according to operating activities and investment and financing activities (see note 33). Inflows and outflows ensuing from disposals of, or investment in long- and short-term securities are allocated to cash flows from investment activities. As per 31 October 2014, cash-relevant changes in long- and short-term securities will be presented by the direct method. This results in a reduction in cash flows from investment activities of T€106 (previous year: T€199) and an increase in cash flows from operating activities in equal amounts.

The presentation in the consolidated statement of financial position differentiates between short- and long-term assets and liabilities. Assets and liabilities are categorised as short-term, if they fall due or are met within twelve months after the closing date.

For the sake of clarity, individual items on the consolidated statement of comprehensive income and on the consolidated statement of financial position have been presented together. These items are disclosed and discussed separately in the notes to the consolidated financial statements. At 31 October 2014, this applies for the first time to "Depreciation and amortisation on property, plant and equipment and intangible assets" of T€416 (previous year: T€419). Because of their subordinate importance for the consolidated statement of comprehensive income, they will now be contained in "Other operating expenses" (see note 14). Consequently, "Other operating expenses" increased to T€21,229 (previous year: T€18,205).

The consolidated financial statements have been drawn up in euros. Except when stated otherwise, all amounts are presented in thousands of euros (T€). Commercial rounding has been used (round half up). Rounding differences may occur.

On 19 December 2014, the Board of Management of Deutsche Beteiligungs AG authorised the consolidated financial statements and the combined management report for issue to the Supervisory Board. The Supervisory Board will pass a vote on 20 January 2015 as to its approval of the consolidated financial statements.

3. CHANGES IN ACCOUNTING METHODS DUE TO AMENDED RULES

Standards and interpretations and amendments to standards and interpretations applicable for the first time that had effects on the reporting period ended 31 October 2014

In the consolidated financial statements at 31 October 2014, the following new standards and interpretations or amendments to standards and interpretations that had an impact on the reporting period were applied for the first time:

- IFRS 13 "Fair value measurement"
- Amendments to IAS 19 "Employee benefits"

IFRS 13 "Fair Value Measurement"

IFRS 13 "Fair Value Measurement" replaces and standardises the different definitions and measurement methods of fair value contained in the various standards and establishes a single source of guidance. Fair value as in IFRS 13 is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Moreover, the standard introduces additional disclosure requirements on fair value measurement: for example, these relate to the valuation methodology and input factors as well as – for fair values classified in level 3 of the hierarchy – the effects on consolidated net income and on other comprehensive income. The first-time adoption of IFRS 13 does not have a material effect on the consolidated statement of comprehensive income, the consolidated statement of financial position and the consolidated statement of cash flows. The extended disclosures according to IFRS 13 are presented in note 35 of these notes to the consolidated financial statements.

Amendments to IAS 19 "Employee Benefits"

The amended standard IAS 19 eliminates the corridor method as an option under which actuarial gains and losses were recorded. As DBAG has not been applying the corridor method since financial year 2009/10, this change has no effects on the consolidated financial statements. Additionally, IAS 19 amended requires determining the interest income from plan assets using the same discount rate that is used to determine the present value of pension obligations. Through this methodological change, interest income is calculated on the basis of higher expected returns (2.94 percent, following 1.35 percent in the preceding year). This had a positive effect on consolidated net income of T€446. Since the actual return on plan assets did not increase in financial year 2013/14, an appropriately greater loss is recognised in other comprehensive income in line item "Gains/(losses) on remeasurements of the net defined benefit liability (asset)".

IAS 19 amended requires for the first time a sensitivity analysis for each significant actuarial assumption, a narrative description of any asset-liability matching strategies to manage risk and a description of the impact of the defined benefit plan on the Company's future cash flows. We refer to the disclosures on "Amount, timing and uncertainty of future cash flows" in note 30.

Standards and interpretations and amendments to standards and interpretations applicable for the first time that had no impact on the reporting period ended 31 October 2014

In the consolidated financial statements at 31 October 2014, the following amendments to standards were mandatorily applicable for the first time:

- annual improvements to IFRS "2009 to 2011 Cycle"
- amendments to IFRS 1 "First-time Adoption of IFRS"
- amendments to IFRS 7 "Financial instruments Disclosures"
- amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

Annual Improvements to IFRS "2009 to 2011 Cycle"

The following five standards were amended within the scope of the annual improvement project 2009 to 2011:

- AS 1 "Presentation of Financial Statements"
- IFRS 1 "First-time Adoption of IFRS"
- IAS 16 "Property, Plant and Equipment"
- IAS 32 "Financial Instruments: Presentation"
- IAS 34 "Interim Financial Reporting"

These primarily relate to terminology or editorial amendments aimed at clarifying guidance. The first-time adoption of the amendments had no effect on the consolidated financial statements for the periods presented.

Amendments to IFRS 1 "First-time Adoption of IFRS"

The amendments to IFRS 1 relate to a new exception concerning the retrospective adoption of the IFRS for first-time adopters and new regulations for those cases where a company was unable to apply IFRS rules for some time because its functional currency was subjected to hyperinflation. Both amendments are irrelevant for Deutsche Beteiligungs AG.

Amendments to IFRS 7 "Financial Instruments: Disclosures"

The amendments to IFRS 7 pertain to extended disclosure requirements in conjunction with the clarification of the rules of IAS 32 for offsetting financial assets and financial liabilities. The new disclosure requirements are meant to allow a better comparison with financial statements prepared in accordance with US GAAP. With the exception of pension obligations and plan assets, financial assets and financial liabilities are not offset in the consolidated financial statements of Deutsche Beteiligungs AG for the periods presented. The extended disclosure requirements under IFRS 7 therefore do not have an effect on the consolidated financial statements of Deutsche Beteiligungs AG.

IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

IFRIC 20 sets out when and how to account for costs arising from stripping activity in surface mining operations. The rules are irrelevant for Deutsche Beteiligungs AG.

New standards and interpretations that have not yet been applied

a) Endorsed by the European Union

The following standards and interpretations were issued by the IASB and IFRIC and endorsed by the European Commission for application in the European Union. The effective date, indicating when the respective standard or interpretation is required to be applied, is stated in parenthesis. Deutsche Beteiligungs AG intends to initially apply the respective standards and interpretations for the annual period that starts after that effective date. No use will therefore be made of voluntary early application of these standards and interpretations.

Annual Improvements to IFRS "2011 to 2013 Cycle" (1 January 2015)

The following four standards were amended within the scope of the annual improvement project 2011 to 2013:

- IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- IFRS 3 "Business Combinations"
- IFRS 13 "Fair Value Measurements"
- IAS 40 "Investment Property"

These primarily relate to editorial amendments aimed at clarifying guidance. The first-time adoption of the amended standards is not expected to have an impact on the consolidated financial statements.

IFRS 10 "Consolidated Financial Statements" (1 January 2014)

The new standard IFRS 10 "Consolidated Financial Statements" replaces the sections of IAS 27 "Consolidated and Separate Financial Statements" relating to group accounting and the rules of SIC-12 "Consolidation – Special Purpose Entities". It standardises the basis for consolidation by redefining control. This will apply to all entities, including special purpose entities. The principle of control as in IFRS 10 comprises three elements:

- power to direct the relevant activities
- variability of returns
- link between returns and power

It follows that parent-subsidiary relations may be based on voting rights or result from contractual arrangements. Consolidation decisions according to the rules of IFRS 10 are to be taken at the beginning of the period in which IFRS 10 is applied for the first time.

Based on IFRS 10, subsidiaries of investment entities are exempt from full consolidation. Instead, an investment entity is basically required to value its interests in subsidiaries at fair value through profit or loss in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" or IFRS 9 "Financial Instruments". Consolidation is only required for those subsidiaries of investment entities that operate as service providers for other investment entities or fund entities. As a private equity company, Deutsche Beteiligungs AG meets the definition of an investment entity as in IFRS 10.

Based on the new control concept, the following two entities qualify as subsidiaries for the first time and will be required to be consolidated beginning in financial year 2014/15:

- DBG Management GP (Guernsey) L.P.
- DBG Fund VI GP (Guernsey) L.P.

These entities act as the manager or investment manager for DBAG Fund VI. We assume that the consolidation of these two entities will not have a material impact on the presentation of the asset, financial and earnings position of the DBAG Group.

Based on the exemption for investment entities, the following four subsidiaries will no longer be consolidated beginning in financial year 2014/15, but instead be held at fair value through profit or loss in the consolidated financial statements:

- DBG Fourth Equity Team GmbH & Co. KGaA
- DBAG Fund V Konzern GmbH & Co. KG
- DBAG Expansion Capital Fund Konzern GmbH & Co. KG
- DBAG Fund VI Konzern (Guernsey) L.P.

These entities are investment vehicles for co-investments of DBAG with DBAG Fund IV, DBAG Fund V, DBAG Expansion Capital Fund and DBAG Fund VI.

The assets of these entities largely consist of the investments in the portfolio companies, which in the past have already been recognised at fair value in the consolidated accounts. We therefore do not expect material effects on the asset, financial and earnings position of the Deutsche Beteiligungs AG Group from deconsolidation of these entities.

IFRS 11 "Joint Arrangements" (1 January 2014)

IFRS 11 revises the accounting for joint arrangements. It supersedes IAS 31 "Interests in Joint Ventures". The previous option of proportionately consolidating jointly controlled entities has been eliminated. IFRS 11 requires using the equity method for consolidating jointly controlled entities. Application of the equity method is geared to the rules of IAS 28 "Investments in Associates and Joint Ventures". At present, one jointly controlled company (Q.P.O.N. Beteiligungs GmbH) is proportionately consolidated in the Group's financial statements. Based on the size of this jointly controlled company (proportionate total assets at 31 October 2014: T€13), the change in the accounting for this jointly controlled company from proportionate consolidation to the equity method will not have a material effect on the consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities" (1 January 2014)

This standard sets out the disclosure requirements for interests in subsidiaries, joint arrangements and associates. The new disclosure requirements are considerably more comprehensive than those that were previously required under IAS 27, IAS 28 and IAS 31. The effects of the adoption of IFRS 12 on the presentation of the asset, financial and earnings position of the Deutsche Beteiligungs AG Group are currently still being analysed. A conclusive assessment of the impact of this standard is not yet possible.

Amendments to IAS 27 "Separate Financial Statements" (1 January 2014)

The consolidation rules previously set out in IAS 27 "Consolidated and Separate Financial Statements" will be superseded by the new IFRS 10. IAS 27 amended now exclusively relates to the rules for separate financial statements. The provisions of IAS 27 concerning separate financial statements were not relevant for Deutsche Beteiligungs AG in the past; no impact is therefore expected from the amendments to IAS 27 relating to separate financial statements.

Amendments to IAS 28 "Investments in Associates and Joint Ventures" (1 January 2014)

The introduction of IFRS 11 "Joint Arrangements" abolishes the option of proportionately consolidating joint ventures. The equity method in accounting for joint ventures as stipulated under IFRS 11 is required to be implemented in conformity with the rules of IAS 28. To that end, the scope of IAS 28 was extended to include joint ventures and the standard was renamed. Moreover, the accounting treatment for planned disposals of portions of an investment in an associate or joint venture was changed. The portion of an investment held for sale is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

Application of IAS 28 amended is not expected to have a material impact on the presentation of the asset, financial and earnings position of the DBAG Group.

Amendments to IAS 32 "Financial Instruments: Presentation" (1 January 2014)

The amendments to IAS 32 clarify several requirements for offsetting financial assets and financial liabilities. The offsetting model currently valid under IAS 32 fundamentally remains unchanged. The adoption of IAS 32 amended is therefore not expected to have a material effect on the consolidated financial statements.

IFRIC 21 "Levies"

IFRIC 21 provides guidance on the recognition of levies imposed by a government that are accounted for in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The rules are irrelevant for Deutsche Beteiligungs AG.

b) Not yet endorsed by the European Union

The following standards have been issued by the IASB and the IFRIC, but have not yet been endorsed by the European Commission for adoption in the European Union.

Annual improvements to IFRS "2010 to 2012 Cycle"

The following seven standards were amended within the scope of the annual improvement project 2010 to 2012 cycle:

- IFRS 2 "Share-based payment"
- IFRS 3 "Business Combinations"
- IFRS 8 "Operating Segments"
- IFRS 13 "Fair Value Measurement"
- IAS 16 "Property, Plant and Equipment"/ IAS 38 "Intangible Assets"
- IAS 24 "Related Party Disclosures"

These primarily relate to editorial amendments aimed at clarifying guidance. The first-time adoption of the amended standards is not expected to have an impact on the consolidated financial statements.

Annual improvements to IFRS "2012 to 2014 Cycle"

The following standards were amended within the scope of the annual improvement project 2012 to 2014 cycle:

- IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"
- IFRS 7 "Financial instruments: Disclosures"
- IAS 19 "Employee Benefits"
- IAS 34 "Interim Financial Reporting"

These primarily relate to editorial amendments aimed at clarifying guidance. The first-time adoption of the amended standards is not expected to have an impact on the consolidated financial statements.

IFRS 9 "Financial Instruments"

The new IFRS 9 is to replace the present standard IAS 39 "Financial Instruments – Recognition and Measurement". Like IAS 39, IFRS comprises the topics of classification and measurement, impairment and hedging transactions.

Classification and measurement of financial assets in accordance with IFRS 9 are based on the business model at the date of acquisition and the contractual cash flow characteristics. The combination of these two criteria determines the classification to one of three categories: "at amortised cost", "at fair value through other comprehensive income" or "at fair value through profit or loss".

The new impairment concept in IFRS 9 requires recognising expected credit and/or interest default events prospectively (so-called expected-loss model).

The new rules for hedging transactions provide for a closer alignment of risk management and hedge accounting.

The impact of the adoption of IFRS 9 on the asset, financial and earnings position of the Deutsche Beteiligungs AG Group is currently being analysed. A conclusive assessment of the effects of this standard on the consolidated financial statements is not yet possible.

Amendments to IFRS 11 “Joint Arrangements”

The amendments to IFRS 11 clarify guidance on the accounting treatment for initial acquisitions and additional acquisitions of interests in joint operations in which the activity constitutes a business as defined in IFRS 2 “Business Combinations”. The amendments to IFRS 11 are not relevant for Deutsche Beteiligungs AG.

IFRS 14 “Regulatory Deferral Accounts”

The new IFRS 14 standard permits IFRS first-time adopters to continue to account for regulatory deferral account balances in accordance with their national GAAP in their IFRS-formatted financial statements. The new rules are not relevant for Deutsche Beteiligungs AG.

IFRS 15 “Revenue from Contracts with Customers”

The new standard superseded IAS 11 “Construction Contracts” and IAS 18 “Revenue” and the associated interpretations. The new IFRS 15 standardises past IFRS rules with those applied under US GAAP. IFRS 15 contains a new model for revenue recognition arising from contracts with customers. According to IFRS 15, revenue is considered realised when the customer acquires control over the agreed goods and services and is able to obtain the benefits from them. The impact arising from the adoption of IFRS 15 on the presentation of the asset, financial and earnings position of the Deutsche Beteiligungs AG Group is currently being analysed. A conclusive assessment of the effects on the consolidated financial statements is not yet possible.

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets”

The amendments to IAS 16 and IAS 38 clarify guidance on acceptable methods of depreciation and amortisation on property, plant and equipment and intangible assets. The clarification relates in particular to revenue-based depreciation. The amendments are not expected to have any effects on the consolidated financial statements.

Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture”

The amendments to IAS 16 and IAS 41 comprise rules on the accounting treatment for bearer plants. The rules are irrelevant for Deutsche Beteiligungs AG.

Amendments to IAS 19 “Employee Benefits”

The amendments to IAS 19 introduce an option regarding the accounting for employee contributions to defined benefit plans. Employee contributions that are linked to service can be attributed to periods of service as a negative benefit. However, recognition of employee contributions in the period in which the corresponding service is rendered remains permissible. Deutsche Beteiligungs AG assumes that the amendments to IAS 19 will not have a material impact on the consolidated financial statements.

Amendments to IAS 27 “Separate Financial Statements”

The amendments to IAS 27 reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in IFRS-formatted separate financial statements. The rules of IAS 27 on separate financial statements have not been relevant for Deutsche Beteiligungs AG in the past; no impact is therefore expected from the amendments to IAS 27 relating to separate financial statements.

4. CONSOLIDATED GROUP OF COMPANIES

Principles for consolidation of Group companies

In addition to the parent company, Deutsche Beteiligungs AG, all material **SUBSIDIARIES** are fully consolidated. Subsidiaries are those Group companies in which Deutsche Beteiligungs AG is able to exert control. Control is defined as when the power exists to govern the financial and operating policies of an enterprise in order to obtain benefits from its activities. This is generally the case when DBAG indirectly or directly holds more than half of the voting rights in a company.

The criterion for the materiality of subsidiaries is whether these are able, individually or collectively, to influence the economic decisions that users make on the basis of the financial statements. We consider subsidiaries to be immaterial in the following cases:

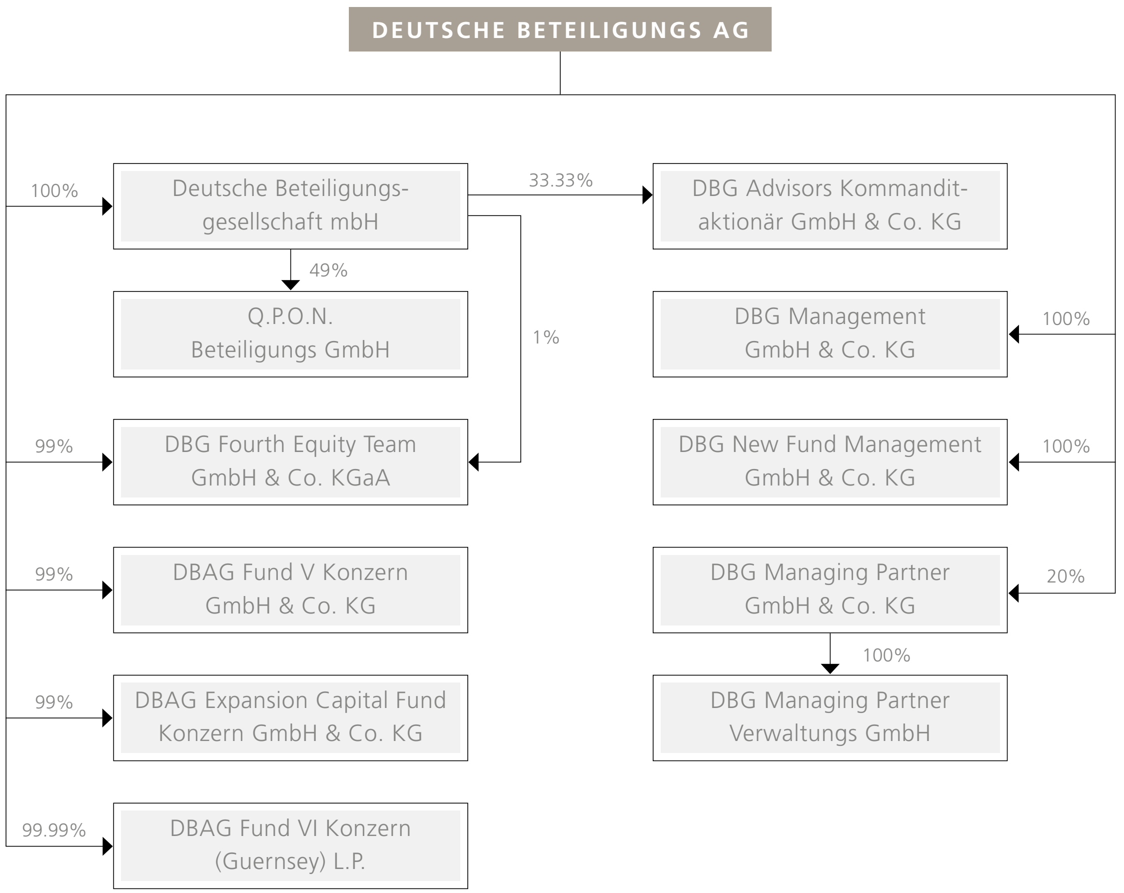
- The subsidiary is a shelf company that has not yet taken up activities after being founded. Shelf companies are usually founded with nominal capital of T€25. Shelf companies are used later on as a NewCo within the scope of investment transactions and sold for a price near book value.
- The subsidiary has discontinued operations and is to be liquidated. The entity is deconsolidated at a time when the remaining assets and liabilities are of subordinate significance.
- The subsidiary pursues only minor operating activities, e.g. as a personally liable partner in a limited partnership without a capital contribution, and the entity has no appreciable assets or liabilities.

In addition to the material subsidiaries, all **SPECIAL PURPOSE ENTITIES** are fully consolidated if they are controlled by DBAG under the aspect of obtaining an economic benefit. Control is assumed if DBAG is entitled to the majority of opportunities and risks from the operating activities of these entities.

DBAG is proportionately invested as a partner company in a jointly controlled company. This **JOINT VENTURE** is recognised in the consolidated financial statements on a pro rata basis (proportionate consolidation).

Reasons for the consolidation or non-consolidation of companies in the Group

The following companies were consolidated in the Group's financial statements at 31 October 2014:



The percentages relate to the proportionate share of equity.

DBG Beteiligungsgesellschaft mbH, in which Deutsche Beteiligungs AG indirectly holds 100 percent of the voting rights, was not consolidated, since the commercial risk for its business activities – and, consequently, the business policy – lies with other non-Group companies.

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

DBG Advisors Kommanditaktionär GmbH & Co. KG, in which a subsidiary of Deutsche Beteiligungs AG holds an equity share of 33.33 percent, was consolidated despite a minority interest, because DBAG has the power to appoint or remove the majority of the members of the executive body.

DBG Managing Partner GmbH & Co. KG, in which Deutsche Beteiligungs AG holds an equity share of 20 percent, was consolidated, since Deutsche Beteiligungs AG obtains the majority of the benefits from the activities of this company. We refer to note 40.

Q.P.O.N. Beteiligungs GmbH, a joint venture, was proportionately consolidated at a rate of 49 percent. Attributable to the 49-percent share are non-current assets and non-current liabilities of 0 euros (previous year: 0 euros), current assets of T€13 (previous year: T€15), current liabilities of T€1 (previous year: T€3), income of 2 euros (previous year: 0 euros) and expenses of T€1 (previous year: T€2).

Associates

Associates are companies in which DBAG is able to exert significant influence on the financial and business policies and yet which do not constitute either subsidiaries or jointly controlled companies. Associates are therefore the portfolio companies in which DBAG is invested as a financial investor and in which it holds, indirectly or directly, from 20 to 50 percent of the voting rights in that company.

For information on the number of associates, we refer to the list of shareholdings pursuant to § 313 (2) German Commercial Code (HGB), note 45.3. In financial year 2013/14, there was one disposal (Homag Group AG) among the associates.

Disclosures on list of shareholdings pursuant to § 313 (2) HGB

The disclosures on the list of shareholdings pursuant to § 313 (2) German Commercial Code (HGB) can be found in note 45.

5. PRINCIPLES OF CONSOLIDATION

In addition to DBAG, eight of the other consolidated companies draw up their separate annual financial statements as at 31 October. The remaining consolidated companies' reporting date is concurrent with the calendar year. For consolidation purposes, these companies prepare interim financial statements as at the reporting date of DBAG.

The financial statements of consolidated companies are drawn up based on uniform accounting policies.

Capital consolidation is performed using the purchase method based on the date that DBAG obtains control over the subsidiary (acquisition date). The carrying amounts are amortised in the subsequent periods. Acquisition costs are offset by the fair value of the acquired identifiable assets and assumed liabilities as well as contingent liabilities. Goodwill required to be capitalised has not yet occurred.

Intra-Group profits and losses and transactions as well as all unrealised income and expenses are eliminated when preparing the consolidated financial statements. Deferred income taxes are taken into account in consolidation procedures.

Jointly controlled companies are included in the Group financial statements by way of proportionate consolidation. To that end, the proportion of all of a jointly controlled company's assets, liabilities and income attributable to DBAG is taken together within the relevant items in the financial statements of DBAG. Assets or liabilities are not offset against other liabilities or assets. The same applies to income and expenses.

6. ACCOUNTING AND VALUATION POLICIES

The accounting and valuation policies as well as the commentary and disclosures in the consolidated financial statements are applied consistently, except when IFRS rules necessitate making changes (see note 3).

Recognition of assets and liabilities

Non-financial assets are recognised in the Group accounts if it is probable that the future economic benefit will flow to DBAG, and when their cost or other value can be reliably measured.

Non-financial liabilities are recognised in the Group accounts if it is probable that the settlement of a present obligation will require an outflow of resources embodying economic benefits, and when the amount of the settlement can be reliably measured.

Regular way purchase or sale of financial assets or financial liabilities as well as equity instruments (generally termed financial instruments under IAS 32) are consistently recognised or derecognised for all categories of financial instruments on the settlement date.

Categories of financial instruments

Financial instruments in the DBAG Group are designated in accordance with the categories defined in IAS 39. Financial instruments classified in level 3 are also classified by sectors. The sector categories are formed based on the market risks of the portfolio companies.

For financial assets that are measured at fair value through profit or loss, only such assets exist as are designated to this category upon initial recognition. These mainly relate to the investments. Financial assets classified as held for trading or as held to maturity do not exist.

Fair value measurement of financial assets through profit or loss

Due to the operating activities of the DBAG Group as a financial investor, the consolidated financial statements are largely characterised by the measurement of financial assets at fair value through profit or loss. Financial assets chiefly comprise:

- interests in associated companies (interests in portfolio companies with a proportion of the voting rights between 20 and 50 percent)
- other interests in portfolio companies, i.e. shares in portfolio companies with a proportion of the voting rights of less than 20 percent
- fund investments
- shelf companies

As a private equity firm in terms of IAS 28, DBAG makes use of the option of measuring the interests in associates in conformity with the rules of IAS 39 at fair value through profit or loss. Thus, no associates are carried at equity.

For other interests in portfolio companies, fund investments (shares in closed-end private equity funds) and shelf companies, use is made of the option of designating these at fair value through profit or loss upon initial recognition (fair value option in accordance with IAS 39.9).

Investments in financial assets are made by means of a documented risk management strategy. Their value movement is assessed at fair value in the DBAG Group. The requirements for opting to recognise these at fair value through profit or loss have thus been met.

The financial assets are measured initially and at all subsequent quarterly and annual reporting dates at fair value by a Valuation Committee. The Valuation Committee includes the members of the Board of Management, the Head of Finance and Accounting and the Accounting Officer.

Valuation guidelines have been adopted for the application of fair value accounting. DBAG employs valuation procedures that are commonly used by market participants in the private equity industry to value portfolio companies. This industry standard is detailed in the recommendations of the "International Private Equity and Venture Capital Valuation Guidelines" (IPEVG) dated December 2012.[1]

At initial recognition, the fair value corresponds to the transaction price. Ancillary costs of the transactions are not capitalised, but are immediately expensed. Ancillary costs attributable to a transaction include fees paid to intermediaries, consultants (e.g. legal or corporate consultants), agents and brokers, charges paid to regulatory authorities and stock exchanges as well as taxes and fees incurred in connection with the transaction. At subsequent reporting dates, the fair value is measured on a going-concern basis.

As far as possible, the fair value of a portfolio company is measured based on prices from transactions in the market that were observed on the valuation date or immediately prior to that date. This is normally possible for companies whose shares are quoted on the stock exchange. In determining prices, the principal market or the most advantageous market is used as the relevant stock exchange. These portfolio companies are valued at the closing rate on the valuation date or the closing rate on the last day of trading prior to this date. The fair value thus determined is neither reduced by discounts or premiums attached to the sale of larger blocks of shares, nor by deductions for disposal costs.

Should the sale be subject to contractually agreed restrictions (lock-up), a risk-adjusted deduction is made on the observed transaction price. The amount of the risk-adjusted deduction is at the discretion of the Valuation Committee. For unquoted companies, a valuation methodology may be considered that is based on a signed purchase agreement or a binding purchase bid, if the completion of the purchase agreement is sufficiently assured or if the purchase bid seems sufficiently realisable. If appropriate, valuations can be based on the price at which a significant amount of new investments into the portfolio company was made (financing rounds) or on significant comparative prices of recent transactions that have taken place in the market. If the transaction price observed in the market at the valuation date or the price of the most recent investment made prior to the valuation date does not constitute a sufficiently reliable method – for instance, for reasons of lacking liquidity in the market or in the event of a forced transaction or distressed sale – the fair value is measured based on the valuation methodologies recommended by the IPEVG and applied by market participants in the private equity sector. These are the multiples method for interests in established companies, the discounted cash flow method (DCF method) for strongly growing companies, and, for interests in funds, either the net asset or DCF method.

For the multiples methods, the enterprise value is determined by applying a multiple to an appropriate indicator of the company's value. That indicator is generally the company's earnings before interest, taxes and amortisation (EBITA) and/or earnings before interest, taxes, depreciation and amortisation (EBITDA). The indicator derives from a portfolio company's current financial metrics. To arrive at a maintainable indicator of value, these metrics are adjusted for special effects such as non-recurring expenses or discounts for risk projects. In addition, discounts or premiums are made on the applied indicators if there is current information that is not yet reflected in these financial metrics. The multiple is derived from the market capitalisation of a peer group. Companies are selected for the peer group that are comparable with the investee business to be valued as to their business model, the geographical focus of their operations as well as their size. If the company to be valued differs in certain aspects compared with features of companies in the peer group, discounts or premiums are applied to the relevant multiple. As long as these differences between the portfolio company to be valued and the peer group companies exist, these discounts or premiums are applied consistently. For reconciliation to the net asset value, which corresponds to the fair value, net liabilities are deducted from the enterprise value.

1 See http://www.privateequityvaluation.com / (Edition December 2012)

In determining the fair value, critical judgments on the part of the Valuation Committee will become necessary to a certain extent, i.e. assumptions and estimates are required to be made. These are constructively substantiated by the Valuation Committee and documented in the valuation records. To that end, the assumptions and estimates are based on the premises of current knowledge and the experience of the Valuation Committee and are consistently applied without arbitrariness. If the portfolio company's actual performance or the underlying conditions differ from the trend expected at the preceding valuation date, the premises and, if appropriate, the fair value are adjusted at the next valuation date.

In the DCF method, fair value is determined by discounting expected future cash flows. The portfolio company's existing budgeting is used as the basis for projecting future cash flows. This is adjusted by discounts or premiums, if current findings exist that were not yet considered in the budgets. If there is no suitable basis for transition to a terminal value at the end of the forecast period, a less detailed trend phase follows. For the time following the forecast period and, if appropriate, the trend phase, a terminal value is used that may be adjusted by a growth rate. We derive the discount rate by the capital asset pricing model (CAPM) from a risk-free base rate and a risk premium to capture the business risk involved. For valuations of interests in international funds using the DCF method, the expected proceeds from the sale of portfolio companies are discounted to the present value by applying the appropriate rate.

Recognition of revenues

Due to the particularities arising from the operating activities of the DBAG Group as a financial investor, the net result of fund and investment activity is presented instead of revenues in the consolidated statement of comprehensive income. It consists of "Fee income from investment services to funds", the "Net result of valuation and disposal of financial assets and loans and receivables" and "Current income from financial assets and loans and receivables".

FEE INCOME FROM INVESTMENT SERVICES TO FUNDS is recognised when the services are delivered.

The **NET RESULT OF VALUATION** comprises movements in the fair value of financial assets and loans and receivables that are derived at each valuation date using the valuation principles described above.

The **NET RESULT OF DISPOSAL** contains profits that were realised upon disposal of financial assets and loans and receivables. For regular-way sales, disposals are recognised at the settlement date. The profits achieved on the sale are therefore recorded on that date. The settlement date is the day on which the contractually agreed obligations between the selling and purchasing parties to the contract have been fulfilled. In the DBAG Group, this is usually the transference of the interests in the divested portfolio company in exchange for the receipt of cash, a purchaser's loan or other financial assets. In the event of contractually agreed retentions on the purchase price for representations and warranties or other risks, these are recognised at a future date at which claims to warranty obligations or other risks are no longer probable. This may also be done on a contractually agreed pro rata basis in partial amounts per period.

CURRENT INCOME comprises dividends and interest payments from portfolio companies as well as securities. This income is recognised on the day that dividends are declared, or, for interest payments, on a pro rata temporis basis or in the period in which they accrue.

Impairment test for financial assets at fair value outside profit or loss

An impairment test for financial assets measured at fair value outside profit or loss is conducted at each reporting date. At DBAG, these relate to financial assets falling under the categories of "loans and receivables" as well as "financial assets available for sale". The impairment test is designed to identify whether there is objective evidence that an asset is impaired. Such objective evidence could be:

- significant financial difficulty of the issuer or obligor
- breach of contract, for example, default or delinquency in interest and principal payments
- concessions by the DBAG Group to a borrower for economic or legal reasons relating to the borrower's financial difficulty

- the probability that the borrower will enter bankruptcy or other financial reorganisation
- the disappearance of an active market for that financial asset because of financial difficulties
- observable data, such as the payment status of borrowers or adverse changes in national or local economic conditions, indicating that there is a measurable decrease in the estimated future cash flows from the financial asset

Impaired financial assets are derecognised when there is objective evidence that a receivable is uncollectible or that future cash flows can no longer be expected.

Intangible assets/property, plant and equipment

Intangible assets and property, plant and equipment are valued at amortised cost, less regular straight-line depreciation based on normal useful life as well as any impairment losses.

Useful life for intangible assets is determinable and extends from two to five years. For property plant and equipment, useful economic life is termed from three to thirteen years. Additions are depreciated pro rata temporis beginning in the month of acquisition.

Beyond that, intangible assets and property, plant and equipment are subject to impairment review, if certain events and/or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss amounting to the difference between the carrying amount and the recoverable amount is recognised. The recoverable amount is the higher of an asset's fair value (less costs to sell) or its utility value.

Loans and receivables

Item "Loans and receivables" comprises loans, shareholder loans and receivables with a fixed term and without an embedded derivative requiring separation.

Loans and receivables relate to financial assets within the meaning of IAS 39. These are designated to the category of "loans and receivables" and are carried at amortised cost. Loans and receivables are subject to an impairment test at each reporting date (see also section on impairment test above). Impairment losses on loans and receivables are recognised in item "Other operating expenses" in the consolidated statement of comprehensive income.

Securities

Securities comprise interest-bearing bonds. They are designated to the category of "available-for-sale financial assets". Securities are designated to the category of "available-for-sale financial assets" because these may possibly be sold at any time to cover liquidity requirements arising from DBAG's investment activity. The securities are initially recognised at fair value, which corresponds to their cost at the time of the transaction, and at fair value directly in "Other comprehensive income" at the subsequent reporting dates. Changes in fair value are recognised in "Retained earnings and other reserves" in the consolidated statement of financial position and in "Unrealised gains/(losses) on available-for-sale securities" in the consolidated statement of comprehensive income. An impairment test is conducted at each reporting date (see also section on impairment test above). If there is objective evidence of impairment, the aggregate loss recognised in reserves is reclassified to "Other operating expenses" through profit or loss in the consolidated statement of comprehensive income, even if the securities were not derecognised. An impairment account is used to record impairments. Gains and losses realised on disposal of securities of this category are reclassified accordingly, insofar as this has not occurred at earlier reporting dates by way of an impairment test.

Other assets

"Other assets" comprise receivables from portfolio companies or DBAG funds, other receivables as well as prepaid expenses. Where applicable, this item also contains the net asset position arising from offsetting plan assets with pension obligations. With the exception of prepaid expenses, value-added tax and the net asset position arising from offsetting plan assets with pension obligations, these relate to financial assets as defined in IAS 39.

These financial assets are allocated to the category "available-for-sale financial assets" or "loans and receivables". They are initially recognised at cost and are tested for impairment at the subsequent reporting dates (see section on impairment test). If there is objective evidence of impairment, the loss is recognised in "Other operating expenses" in the consolidated statement of comprehensive income.

Receivables

Line item "Receivables" contains receivables from portfolio companies. These relate to financial assets that are allocated to the category of "loans and receivables" upon initial recognition. They are initially valued at cost and are tested for impairment at the subsequent reporting dates (see section on impairment test). If there is objective evidence of impairment, the loss is recognised in item "Other operating expenses" in the consolidated statement of comprehensive income.

Other financial instruments

Item "Other financial instruments" contains equity shares in companies that will shortly be sold to the management of portfolio companies. These are financial assets within the meaning of IAS 39. Depending on their characteristics as equity or liability instruments, they are allocated either to the category "financial assets at fair value through profit or loss" or "loans and receivables". In the event of an equity instrument, the fair value is measured in correspondence to the fair value of the portfolio company in item "Financial assets". Changes in fair value are recognised either in "Other operating income" or in "Other operating expenses" of the consolidated statement of comprehensive income. For debt instruments, an impairment test is conducted at every reporting date (see section on impairment test). If there is objective evidence of impairment, the loss is recognised in item "Other operating expenses" in the consolidated statement of comprehensive income.

Income tax assets

Item "Income tax assets" contains receivables from corporation and investment income tax. These relate to current taxes resulting from taxable income. Income tax assets are recognised in the relevant amount for tax purposes.

Cash and cash equivalents

"Cash and cash equivalents" relates to cash in banks, time deposits and overnight money. These are allocated to the category of "loans and receivables" and carried at amortised cost.

Deferred taxes

According to the IFRS, deferred taxes are recognised on temporary differences arising between the tax bases of assets and liabilities and their IFRS carrying amounts in the accounts (balance sheet-orientated method). Temporary differences based on the IFRS are any differences that are not of a permanent nature. The IFRS require recognition of both deferred tax assets and liabilities, if the criteria for recognition exist.

Additionally, expected tax reductions from loss carryovers are capitalised in the IFRS format, if an appropriate level of taxable income is expected to be achieved in the foreseeable future against which unused tax loss carryovers may be offset. The tax rates expected to apply at the balance sheet date are used to determine deferred taxes.

Changes to deferred taxes are basically recognised in profit or loss, insofar as the circumstances to which they relate were recognised in profit or loss and were not charged or credited to equity.

Minority interest

Minority interest is carried as a financial liability pursuant to IAS 39. Initial and subsequent valuation is at fair value. Item "Minority interest" in the consolidated statement of financial position contains the minority share ownership belonging to other investors in companies that are fully consolidated in the Group accounts. "Minority interest" is disclosed in liabilities, since it concerns shares in partnerships which do not meet the definition of equity in accordance with the IFRS.

Provisions for pension obligations and plan assets

Pension obligations arising from defined benefit plans exist at two Group companies. Application of the plans is subject to the date at which the respective employee joined the company. The amount of retirement benefits depends on the relevant pension scheme, the employee's compensation and years of service.

Pension obligations of Group companies are set against assets of a legally independent entity ("contractual trust arrangement" in the form of a bilateral trust), which must be used exclusively to cover the pension commitments given and are not accessible to creditors (qualified plan assets).

Pension obligations arising from defined benefit plans are measured based on the projected unit credit method. For this method, future obligations are valued by the benefits proportionately accrued up to the reporting date. They show that part of pension obligations that has been recognised through profit or loss up to the reporting date. The measurement accounts for expected future trends in certain actuarial parameters, such as the life expectancy of beneficiaries, future salary and benefit increases and the discount rate. The discount rate is calculated based on the returns that are valid at the reporting date for long-term industrial bonds with a comparable maturity of issuers with highest credit ratings.

Plan assets are measured at fair value.

For the presentation in the financial statements, the present value of pension obligations is netted against the fair value of plan assets of the respective Group company. The resulting company-related net asset or liability positions are neither aggregated nor offset. Should the fair value of plan assets exceed the present value of pension obligations, a net defined benefit asset is recognised in "Other non-current assets". A net defined benefit liability is recognised in "Provisions for pension obligations".

Service cost is recognised in "Personnel costs" and net interest on the net defined benefit liability (asset) in "Interest expenses". Net interest comprises interest expenses on pension obligations and interest income on plan assets. It is calculated using the discount rate for pension obligations.

Remeasurements of the net defined benefit liability are recognised in "Other comprehensive income". They comprise actuarial gains and losses from changes in financial and demographic assumptions as well as from experience-related changes.

Other provisions

Other provisions are carried in liabilities, if a third-party obligation and the probability of an outflow of resources to settle the obligation exist. Non-current provisions are discounted.

Other liabilities

Liabilities of the Group are carried in "Other liabilities" in conformity with IAS 39. They are initially recognised at cost. Subsequent measurement for discounted loans is at amortised cost using the effective interest method.

Other financial commitments, contingent liabilities and trusteeships

Other financial commitments are recognised outside the balance sheet. They ensue to the extent that a legal or constructive third-party obligation exists for DBAG at the reporting date. This is measured on initial recognition at fair value.

Existing obligations arising from rental and lease contracts are carried as permanent debt obligations outside the balance sheet. Future payment commitments are discounted.

Contingent liabilities are disclosed at the settlement amount and trusteeships at their fair value in the notes to the consolidated financial statements.

Net result of valuation and disposal of financial assets and loans and receivables

This item contains realised gains and losses arising from disposals of financial assets and from changes in the fair value of financial assets. This caption also includes impairment losses on loans and receivables carried at amortised cost.

Other comprehensive income

In addition to net income, other comprehensive income is the second component of total consolidated comprehensive income. Through other comprehensive income, transactions are recognised outside profit or loss. Other comprehensive income is net of minority interest in the DBAG Group.

Offsetting

In preparing the consolidated statement of financial position and the consolidated statement of comprehensive income, assets and liabilities as well as income and expenses are basically not offset, unless this is stipulated or expressly permitted by a requirement.

Leases

Only operating lease commitments exist. Lease payments are recognised as an expense.

Foreign currency

Receivables and liabilities stated in foreign currency are recognised in the consolidated income statement using the closing-rate method. Since the group of consolidated companies of Deutsche Beteiligungs AG does not include foreign-based companies, there are no effects from currency translations in this context.

7. JUDGMENTS IN APPLYING THE ACCOUNTING POLICIES

The preparation of the consolidated financial statements in conformity with the IFRS requires the Board of Management to make accounting judgments. These judgments can materially influence the reported amounts in the financial statements. The accounting, valuation and consolidation methods applied that were based on judgments are detailed in notes 2 to 6. The amounts recognised in the financial statements were most significantly influenced by the decision to measure financial assets in accordance with IAS 39 at fair value through profit or loss (see "Fair value measurement of financial assets through profit or loss" in note 6). This has the advantage that the central performance measures in the private equity business, the total value and the value appreciation of the portfolio are easily perceptible directly from the consolidated financial statements.

8. FUTURE-ORIENTED ASSUMPTIONS AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

Preparation of the consolidated financial statements in accordance with the IFRS requires the use of future-oriented assumptions and estimations. These can have a material impact on the carrying amounts of consolidated statement of financial position items as well as the level of income and expenses. Future-oriented assumptions and estimations both involve uncertainty about outcomes. The Board of Management takes decisions on assumptions and estimations after careful consideration of the most recently available reliable information and past experience. Assumptions and estimations also relate to issues on which the Board of Management has no influence, for instance, economic or financial market conditions. The actual outcomes can differ from the assumptions and estimations underlying these consolidated financial statements. In the event that new data and information become available or that changes take place, the assumptions and estimations are adjusted accordingly. The effects of a change in an assumption or estimation is recognised in the financial year that the change takes place and, if appropriate, in later financial years in the carrying amount of that consolidated statement of financial position item as well as in the consolidated statement of comprehensive income.

The IFRS require the disclosure of which assets and liabilities, due to assumptions about the future and other major sources of estimation uncertainty, have a significant risk of resulting in a material adjustment to the carrying amounts within the next financial year. We judge the materiality by means of the effects on the consolidated net assets. We would consider an adjustment to the carrying amount in the range of three percent of total shareholders' equity as being material.

A significant risk exists in financial assets and other financial instruments the fair value of which was determined using inputs not based on observable market data (hierarchy level 3, see note 35.2). These are contained in "Financial assets" in an amount of T€ 134,695 (previous year: T€ 110,713) and in "Other financial instruments" in an amount of T€ 2,245 (previous year T€ 2,401). They concern that part of financial assets and other financial instruments that is largely valued by the multiples method. The extent of possible effects in the event of a necessary adaption of assumptions and estimations is not quantifiable. However, should the underlying multiples change by +/- 1, this would result, ceteris paribus, in a fair value adjustment for this part of financial assets of +/- T€ 17,186 (previous year: T€ 12,037). This equates to six percent of total shareholders' equity.