



MEMBERS OF THE BOARD OF MANAGEMENT

From left to right:

DR ROLF SCHEFFELS, TORSTEN GREDE (Spokesman), SUSANNE ZEIDLER

Frankfurt/Main, 20 January 2015

Dear Shareholders,

For Deutsche Beteiligungs AG, 2015 will be a very special year. This autumn, we will be looking back on 50 years of investing in Germany's "Mittelstand". Five decades during which we have financed growth through customised equity solutions and have driven change processes. Five decades during which we have backed farsighted entrepreneurs and courageous managers in developing their companies. In other words, five decades during which DBAG has played a leading role in private equity in Germany. We, too, have moved forward over time. With our successful investment activities as a point of departure, we have developed a growing fund business in recent years. The result is that we now create value in two ways: by providing investment services to private equity funds and, as always, by investing in portfolio companies.

DBAG today is one of Germany's most successful private equity company, and there are surely a number of reasons for that. One of them is that we have remained true to our investment principles: we invest in strong companies that have growth potential, an excellent market position and a seasoned management.

Investing, developing and, finally, realising created value – that is the triad that defines our business. In 2013/14, we exited two long-standing investments, realising the value that had been built over many years. Our "young" portfolio is developing much to our satisfaction: most of our portfolio companies made good progress and very satisfactory value contributions. That is actually what we expect of the companies in which we recently invested. Please allow us to expound here on the three aspects of our business:

To begin with, the realisations. As has so often been the case in the past, we were able to draw the attention of buyers for whom our investments had a strategic value. And that was clearly reflected in the purchase prices. DBAG invested in Homag Group AG in 1997. In 2007, we led

the company to an IPO; the proceeds from that alone considerably exceeded the invested capital. In finalising the disinvestment this past summer, we completed a transaction that – measured in absolute terms – was one of the most profitable in DBAG’s history. It provides the basis for the surplus dividend, which we are again recommending – for the ninth time in ten years. In October 2014, we divested another successful investment after 39 years in our portfolio: automotive dealership Dr. Vogler. Once again, the company was sold to a strategic buyer.

As for the development of the portfolio, it encompassed 15 active investments at the end of the period: ten management buyouts and five expansion capital investments. Two figures illustrate how well the companies have performed. They increased revenues by an average of nine percent compared with the preceding year. The improvement in their earnings power was even more impressive: an average of twelve percent. This was a key reason for the past financial year’s good valuation result. The recent additions to the portfolio in particular made good on their potential. Eight of the 15 active investments have been in the portfolio for less than two years – representing some 45 percent of the portfolio value. Momentum also came from the stock market: part of the value gain comes from higher valuation multiples.

Finally, the investments. These lay the foundation for positive value contributions in coming years. In 2013/14 we invested 20 million euros from DBAG’s balance sheet. We acquired a stake in a bakery chain and provided further funding to our portfolio companies for their expansion plans. “Unser Heimatbäcker” is one of the ten largest bakery chains in Germany. The company is growing rapidly and is proactively driving change in its market. After “Schülerhilfe” last year, this is the second company whose development is fuelled to a large degree by Germany’s domestic market and consumer demand. Both sectors – tutoring services and bakeries – are generally considered non-cyclical. This represents a positive change to the risk profile of our portfolio, which is also more balanced in terms of size now that we have exited what was our largest investment by far.

The investment team considered many interesting companies in 2013/14, and we would have liked to invest more. Yet one principle remains unchanged: we do not want to invest in as many companies as possible, but in the best companies possible. Additionally, competition has intensified. Strategic investors are expanding their companies through add-on acquisitions. Driven by low interest rates, players such as foundations and family offices are approaching attractive companies. Our response is to continuously improve our processes. Moreover, we have expanded our investment team once again.

We are very pleased with financial year 2013/14. The consolidated net income of 47.8 million euros exceeds our expectations. It represents a return on net asset value of 15.8 percent, nearly doubling our forecast of at least eight percent. 2013/14 is another in a series of successful financial years: over a ten-year period, we increased the net asset value per share by an average of 15.3 percent per year.

In addition to realisation profits and the portfolio companies' value growth, a significant contributor to consolidated net income was fee income from fund management and advisory services – which increased yet again and is now almost double the amount it was five years ago. Within a decade, it has more than tripled. These developments show the value institutional investors attach to the “Deutsche Beteiligungs AG” brand, its investment team and its wealth of experience. The assets we manage and advise amount to nearly one billion euros – not counting the capital that you, the shareholders, have entrusted to us. This, too, represents a significant increase compared to 2004.

You have profited time and again from our investment activity in the form of sizeable distributions. Our policy is to be able to pay a base dividend even in years when we do not generate special realisation profits. Successful realisations of the kind seen in 2013/14 then make surplus dividends possible. The Supervisory Board and the Board of Management therefore recommend distributing 2.00 euros per share, which includes a surplus dividend of 1.60 euros per share. We will be celebrating another anniversary this year: December 2015 will mark the 30th anniversary of the initial stock market listing of DBAG shares. Anyone who has held DBAG shares since 1985 and who reinvested the dividends in DBAG will be very pleased about the annual return of some 9.6 percent which DBAG shares delivered. Those who became DBAG shareholders later on were also well rewarded. Over the past ten-year period DBAG shares returned an average of 16 percent annually, or nearly double the amount of investments in the Dax or S-Dax. This past financial year, DBAG shares delivered a total return of nearly 20 percent.

To continue this development, the companies in our portfolio will keep to the course mutually agreed at the outset of our investment. One of the key objectives was often growth. For that reason, the motto of this year's Annual Report is “Driving expansion, ensuring continuity”. What this means is illustrated by looking at Broetje-Automation, a mechanical

engineering and plant construction company (page 26). In a magazine, you can retrace 50 years of Deutsche Beteiligungs AG (page 40). Looking back, one thing becomes evident: DBAG has always been committed to Germany's "Mittelstand".

That commitment endures. We frequently find our investments in sectors for which the "Mittelstand" is known throughout the world. The investments we agreed at the beginning of the new financial year are prime examples. The three companies have a more than 100-year history: a manufacturer of specialised films and a mechanical engineering company can now take advantage of growth opportunities, unfettered by corporate constraints; and a foundry will develop its potential with support from DBAG. All in all, a solid start on the investment side.

What can you expect of DBAG in its anniversary year 2014/15? As always, great dedication on the part of the investment team to augmenting the value of the existing portfolio companies and to investing in new ones. Also as in the past, a steady flow of transparent information – with the stock market as a watchful motivator. And consolidated net income which, on a comparable basis, should slightly exceed that of the previous year – that is, without the effects of the Homag realisation. Disinvestments can rarely be planned in our business, neither the timing, nor the price. For that reason we have based our one-year forecast on our costing, the expected fee income from investment services to funds, and the valuation contribution of our portfolio. The latter component is the least certain of the three since portfolio companies are not immune to cyclical influences. Distortions or a shift in sentiment in the stock markets can change company valuations quickly and significantly, thereby greatly impacting our annual net income. Both risks have, in our estimation, increased.

We measure the performance of each investment at the end of the holding period, which is not one year, but usually from four to seven years. During that time, we aim to make our portfolio companies more valuable – thereby continuing to create value for you. Our 50 years of success are no reason for us to sit back and relax. Instead, they are a reason – a mandate – to press on, ensuring that the next 50 are equally rewarding.



Torsten Grede



Dr Rolf Scheffels



Susanne Zeidler