# OPPORTUNITIES AND RISKS

## OPPORTUNITY AND RISK MANAGEMENT SYSTEM

### Objective: Optimise the reward/risk profile

The business policy of Deutsche Beteiligungs AG is targeted at increasing the value of DBAG by making profitable investments in portfolio companies. In other words: we take advantage of opportunities to invest in promising companies. To exploit these opportunities, it is crucial to have an effective opportunity management system in place, for instance, through ongoing market observation and structured analysis of identified and feasible potential investments.

Our risk management system has the objective of providing a comprehensive overview of the Group's risk profile. Events involving material negative financial effects for the Group in particular must be recognised promptly so that we can define and take counteraction to avoid, mitigate or manage these risks.

The management of opportunities and risks is our daily routine: we understand it as an integrated continual entrepreneurial process. The objective is to optimise the reward-risk profile. Risk that endangers the continuity of the Company must be avoided.

### Strategy: Appropriately monitor all phases of investment activity

The purpose of the risk management system is to identify, analyse, control and monitor risk exposure. In that context, the individuals responsible develop recommendations on the design of risk management processes, on an appropriate estimation of business-specific rewards and risk, and on utilising opportunities and risk.

Key risks and opportunities in our business relate to the four phases involved in our investment activities: the identification, acquisition, holding and disposal of investments. The management of opportunities and risks therefore considers detailed information from the operating business of the investment team in the analysis. Optimising the opportunity-risk profile begins when screening potential investments and extends to applying suitable instruments in monitoring and supporting our portfolio companies – the core of our operational business.

## Structure: Board of Management directly responsible

The basis of the risk management system is a risk management manual, which, we believe, depicts and analyses exposure to all major risks. We document the specified action to control and monitor these risks. This is firmly embedded in the Group's workflows and achieved through organisational directives and the definition of processes. Additionally, there are numerous instruments and measures that we employ to monitor and manage specific entrepreneurial opportunities and risks. Risk management is the direct responsibility of the Board of Management: a risk manager has been appointed who reports directly to the CFO.

## Processes: Board of Management regularly assesses opportunities and risks

The monitoring, adaptation and optimisation of the risk management framework are the responsibility of a risk manager, who reports to the responsible Board of Management member. The results of ongoing risk surveillance are presented to the complete Board of Management in a quarterly risk management report. Significant risks that emerge unexpectedly – for instance, from certain portfolio companies – must be reported immediately.

The Board of Management is directly involved in an appropriate evaluation of risks and opportunities and how they are addressed. It regularly reviews whether assessments have changed and which action is to be taken in response. Basically, a member of the Board of Management, who is also a member of the investment team, is assigned to every portfolio company. This ensures that the entire Board of Management gains direct and prompt knowledge of any new developments in respect of opportunities and risks.

The Board of Management comprehensively informs the Supervisory Board at least on a quarterly basis about the Company's risk exposure and that of its investee businesses. In the event of an unexpected and material change in the exposure to risk, the Board of Management informs the Supervisory Board immediately.

# INVESTMENT STRATEGY ALIGNED TO OBJECTIVES

Deutsche Beteiligungs AG basically invests only in established companies with proven business models. Our investee businesses should have a leadership position in their – possibly very small – market.

Co-investments in the form of expansion financings can generate a part of the earnings that are achievable from these investments as dividends or interest during the holding period. By contrast, the main part of the profit from MBOs is generally realised at the end of the investment phase. The majority shareowner in an MBO is able to exert greater control. Based on our estimation and experience, expansion capital investments tend to have a lower risk profile than MBOs, since these target companies generally have lower levels of debt. Correspondingly, we expect somewhat lower returns on these investments.

The development of individual investee businesses directly affects the performance of the Company. Should an individual portfolio company exhibit a negative business trend and its value be impaired, such developments must not put the Company itself at risk. We therefore principally limit the amount invested in any one investment. The acquisition cost should not exceed ten percent of the Company's equity at the time of the investment. An asymmetrical development in the value of individual investments could, however, cause the value of an individual portfolio company to total more than ten percent of DBAG's equity.

DBAG focuses on investments in larger companies. Experience has shown that such companies tend to have a seasoned management team, a solid market position and are generally more stable, for instance, because they operate globally. Co-investments in larger companies will therefore tend to mitigate risk. Acquiring larger companies, and at the same time diversifying the portfolio by sectors, customer markets and business models by investing in many such companies, requires a broad capital base. DBAG achieves this together with the DBAG funds.

A diversified portfolio – both in terms of the number of investments and of various business models – not only mitigates risk, it also creates opportunities. DBAG primarily invests in companies with promising development potential. Such companies can be found in various sectors of Germany's "Mittelstand". In addition to strongly cyclical business models, there are companies that serve relatively stable consumer demand and thereby mitigate the effects of cyclical swings. Nonetheless, the portfolio is focused on certain sectors. For instance, companies operating in the mechanical engineering and plant construction sector accounted for a significant proportion of 49 percent of the total portfolio. These mechanical engineering and plant construction companies, however, operate in very different niche markets and geographical regions so that, in our opinion, no particular sector risk exists.

Although the concentration in DBAG's portfolio declined this past financial year, 53.2 percent of the portfolio value related to only five investee businesses at the reporting date. However, in view of the high proportion of liquid funds at the reporting date in relation to equity and the smaller share of financial assets, we consider the risk arising from this concentration as being acceptable.

We generally enter into our co-investments without there being an obligation to provide follow-on financing for portfolio companies in times of crisis. Nevertheless, this could become advisable in certain instances for a number of reasons, such as ensuring earnings opportunities or for reputational reasons. We cannot exclude that such follow-on financings may become necessary in the future. In assessing a portfolio company's additional funding needs, we apply the same criteria as we do for new investments. However, additional aspects may be relevant for the decision. In certain circumstances, the risk profile for follow-on funding may be greater than for new investments.

## DESCRIPTION OF RISK FACTORS

| | Probability of occurrence | Possible financial effects | Risk exposure vs. previous year |
|---|---|---|---|
| **External and sector risks** | | | |
| Economic cycles | likely | significant | increased |
| Changes in legal and taxation framework | possible | moderate | unchanged |
| | | | |
| **Strategic and operational risks** | | | |
| Access to investment opportunities | possible | significant | unchanged |
| Performance of portfolio investments | possible | significant | unchanged |
| Fundraising | possible | significant | unchanged |
| Personnel risks | possible | significant | unchanged |
| Operational risks | unlikely | significant | reduced |
| | | | |
| **Financial risks** | | | |
| Equity for the financing of investments (liquidity) | unlikely | significant | unchanged |
| Availability of acquisition finance | possible | significant | unchanged |
| Currency and interest rate risks | possible | moderate | increased |

In the estimation of the Board of Management, the risk factors described in the following could have a significant negative impact on the asset, financial and earnings position of Deutsche Beteiligungs AG, the price of DBAG shares and the Company's reputation. Other risks that may be unknown or currently regarded as insignificant could also affect DBAG's performance. Also described is how these risks are addressed by the opportunity and risk management system.

## EXTERNAL AND SECTOR RISKS

### Economic cycles: Selective investment process to mitigate risk exposure

The development of our portfolio companies is influenced by a variety of market factors. These include geographical and sector-related economic cycles, political and financial scenarios as well as commodity prices and currency rate trends. The performance of our portfolio companies – specifically, their earnings and financial position – determines the development of the investments' fair value which, in turn, has a direct impact on the Group's earnings and financial position. Additionally, valuation ratios in the equity and financial markets are mirrored in the measurement of the fair value of our portfolio companies.

*Information on the holding periods of current investments page 73*

These market factors sometimes change at very short notice, and our ability to address them may, of course, be limited. Short-term results, however, are not decisive for success in private equity. Our investment decisions are based on strategic plans that target value creation over a span of several years. The holding periods for investments generally extend beyond the length of individual cyclical phases. We held the investments (MBOs and expansion financings) that were realised over the past ten financial years for an average of about five years.

We address the opportunities and risks involved in economic cycles through a careful selection of portfolio companies. The basis for this is our investment strategy. However, our investment decisions are also driven by other specific considerations – not least by the purchase price for new investments, which must hold out prospects of achieving returns on the investment commensurate with the risk involved.

Subsequent to Schülerhilfe in the prior financial year, Unser Heimatbäcker is the second company that has a stronger focus on the German domestic market and consumer demand than a number of our other portfolio companies. Moreover, both sectors – tutoring services and bakeries – are considered stable and non-cyclical. In contrast, the businesses of most of our portfolio companies are internationally diversified and have different geographical focuses. Specific country-related economic trends should, as a rule, normally not materially impact the performance of the total portfolio. However, in times of massive global downturns, negative impacts on the portfolio companies and their valuation may be unavoidable.

We do not expect such a massive downturn at the moment; however, we do see risks for the economy in the coming twelve months. Among them are an aggravated geopolitical environment, persistent weak growth in Europe and in many growth countries, as well as the interest rate policy of central banks. The political conflicts in Eastern Europe have already entailed economic sanctions, and in a number of regions in the world there are militant conflicts that threaten to escalate. In major member states of the European Union (France, Italy), business dynamism is weak. Growth has slowed down in Germany as well. If the low-interest-rate policy of key central banks were to be ended, this could – depending on the timing and design of the interest turnaround – harbour the risk of major macroeconomic distortions and greater volatility in the stock markets.

## Legal and taxation framework: Greater legal certainty following registration as an AIF management company

Our business is subject to many different regulatory and fiscal influences. These have an effect on the immediate investment business as well as on opportunities to raise, manage and advise funds. This gives rise to risks, but occasionally may also create opportunities for the Company.

We successfully completed the registration process pursuant to the German Investment Code (KAGB) in July 2014 and have since been registered as an AIF management company. However, there is still a certain degree of legal uncertainty about the interpretation of this very new law issued by the German Federal Financial Supervisory Authority (BaFin). The KAGB sets out new regulations on the marketing of shares in funds. The extent to which this will entail material hindrances when raising the next DBAG fund, is not completely foreseeable at the moment. Furthermore, the interplay between the KAGB and the German Special Investment Company Act (UBGG) has not been conclusively clarified and also requires an interpretation on the part of two different supervisory authorities – the Ministry of Economics of the State of Hesse for UBGG, and BaFin for KAGB.

The directive by the European Commission on a reform of insurance and reinsurance regulations in Europe defines, among other things, the solvency requirements and risk management for the insurance industry. This directive (Solvency II) has not yet been transposed into national law, but is to take place by the end of March 2015, with application of the new rules starting in 2016. It cannot be excluded that it may then become more difficult for insurance companies to invest in private equity funds. Insurance companies, however, only represent a (small) part of potential investors in private equity funds. Company pension schemes and pension funds are not affected by the directive. On the other hand, insurance companies could then transact their private equity investments through public companies; this could create opportunities for additional demand for DBAG shares.

Fundamental changes to tax legislation that would lead to taxes being imposed on foreign partners of German fund companies would have serious disadvantages for DBAG. International investors could, for instance, make private equity investments in Germany through competitors of Deutsche Beteiligungs AG who invest in Germany via foreign fund structures. This would impact the Company's ability to raise capital for parallel investment funds. Adverse taxation conditions could therefore compel us to make radical structural changes. This might include relocating the Company's domicile.

Risks may also ensue from foreign-based legislation that regulates financial investors, fund investors or funds. Particularly in the aftermath of the most recent financial crisis, rules have been changed, such as in the United States. At present, however, there is no indication that the Dodd-Frank Wall Street Reform and Consumer Protection Act (DFA) or the Foreign Account Tax Compliance Act (FATCA) would restrict our business activity.

We regularly review amendments to legal frameworks on the marketing of our shares. DBAG shares are not affected by the restrictions of the British Financial Conduct Authority for non-mainstream pooled investments.

## STRATEGIC AND OPERATIONAL RISKS

### Access to investment opportunities: Tapping deal sources

Access to new investment opportunities is of key significance for our operations. Without a sufficient number of attractive investment opportunities we would be unable to successfully pursue our business model. Investors in DBAG funds expect investment activity to progress in a way that is commensurate with the committed fund size. If a part of the committed assets were not invested within the fixed investment period, this would diminish chances for raising a successor fund. The follow-on fund might then either be smaller in size, or, at worst, no new fund would come to pass at all. Fund investors in existing funds would possibly also want to lower fees for investment services to the funds.

However, we have no influence on developments in the private equity market. Recently, the competitive environment has changed: with a view to the persistent low-interest-rate phase and the abundant stream of capital associated with it, financial investors are not only competing with strategic investors, but, increasingly also with foundations and family offices seeking more profitable investment opportunities.

Our ability to mitigate the risks arising from a decline in the number of potential transactions is very limited. We address this risk, among other things, by originating transaction opportunities through a proprietary deal flow. That gives us greater independence from general market trends and increases the probability of completing transactions.

Our success also depends on gaining early knowledge of potential transactions in our market. We have built the resources and instruments to ensure a prospective high-quality deal flow.

In seeking informational leads, DBAG utilises existing contacts that stem from its long-standing market presence. We attach great importance to cultivating our network, which consists of board members, senior executives and partners of former portfolio companies, representatives of banks, consultants, attorneys and auditors. The network also includes a circle of experienced sectoral experts. In regular meetings with the members of our network, we regularly discuss transaction opportunities in specific core sectors, such as in mechanical engineering or the automotive supplier industry. Of particular significance is our investment team; boasting 23 members (including the two Board of Management members); it is one of the largest in our segment of the market. Targeted public relations activity and cultivation of our network assist in augmenting awareness of DBAG and strengthening our market presence. Compared with its mostly unquoted competitors, DBAG profits from its stock market listing. It creates higher awareness of DBAG's activities among the general public and allows potential investment partners to gain insight into the investor. Moreover, the transparency and regulation linked to a stock market listing help to build confidence.

## Performance of investments: Addressed through close monitoring

Current income from the portfolio companies (dividends, profit distributions or interest income) is momentarily of subordinate importance for the performance of DBAG. This is rarely an issue in structuring MBOs; it can, however, play a greater role in expansion financings. DBAG's strategy is primarily focused on increasing the value of the portfolio companies. A key business-linked risk is therefore attached to the portfolio companies' performance. In extreme cases, this could lead to a total loss of the capital invested and possibly entail further adverse consequences, such as a loss of reputation.

We address this risk by a comprehensive set of instruments: we work on projects in project teams consisting of a number of staff and always involving a member of the Board of Management. We follow defined processes during the acquisition, holding and realisation phases. These measures are aimed at ensuring professional, systematic processes. They are designed to set the platform for successful purchasing and selling decisions. Moreover, we want to respond quickly both to developments that may either endanger the targeted value growth or possibly create opportunities for additional value appreciation.

During the acquisition phase only such investment projects are pursued as conform to our investment strategy. An exacting due diligence investigation precedes every investment decision or recommendation. This may include mandating external consultants. These procedures serve to identify the opportunities and risks inherent in an investment decision or recommendation with a high degree of certainty. We endeavour to limit, redeploy or otherwise mitigate exposure to risk. This is achieved, for instance, through the appropriate formulation of contract terms, warranty agreements or insurances.

We ordinarily finance our investments through equity and – for buyouts – bank loans. Beyond that, additional funding sources may be used, such as mezzanine capital and vendor loans. Structuring the financing is a key component in the acquisition phase. This is where all findings gained in the due diligence process and in developing the corporate plan are considered.

We attach great importance to a robust financing structure and therefore compile a detailed model calculation ahead of an investment. Debt levels should leave scope for the company to develop as projected and to service its debt. The financing should contain reserves in the event of the company's underperformance.

During the development phase, meaning the holding period, we render our support primarily by taking offices on supervisory boards or advisory councils. The portfolio companies' monthly financial metrics are processed in a standardised controlling procedure. The investment-controlling unit analyses the data independently. We review and discuss projects based on quarterly reports. We discuss events and developments of topical importance in meetings of the Board of Management and in the investment team's project meetings.

We create the platform for an investment's successful development as early as the acquisition phase. That includes considering who might be an interested party for the portfolio company at the end of the development phase that we supported. If DBAG and the DBAG fund merely hold a minority position, agreements on the ways and terms of ending the investment are regularly made at the onset of the investment. We will only enter into investments in portfolio companies whose development is assessed to be sustainably positive, where we can expect sufficient buying interest on the part of trade buyers or financial investors, or where prospective eligibility for flotation exists. Realisation opportunities are regularly discussed during the quarterly reviews of the portfolio companies' performance.

The risk management instruments currently employed are, in our opinion, suited to ensuring early identification of possible negative developments in portfolio companies, thus allowing for any necessary counteraction to be taken. Concurrently, these instruments should enable us to identify opportunities that contribute towards optimising the performance of investments. These instruments, for example, include capital increases to enable the purchase of a complementary business, or adjusting the capital structure by a dividend distribution.

## Fundraising: Track record a prerequisite for future DBAG funds

*Advantages of investing alongside DBAG funds page 56/57*

We will only be able to pursue our strategy in its present form in the long term, if we succeed in soliciting capital commitments to DBAG funds. This requires the ability of the Company or its investment team to boast a positive track record in making private equity investments that have generated attractive returns on the invested capital, which depends on the absolute performance of the investment and on the investment progress of a fund. Other key aspects from the investors' point of view are the stability and experience of the investment team. Also of influence are the overall economic environment, sentiment in the equity markets and readiness on the part of private equity investors to make new capital commitments. We recently succeeded in keeping key parameters used to determine the fees for advising the funds stable. However, it cannot be ruled out that investors in follow-on funds will want to negotiate lower fees in some years' time.

DBAG Fund VI, which currently invests in MBOs, has capital commitments from external investors of 567 million euros. The investment period began in February 2013, or less than two years ago. In a sector comparison, investors rate the two predecessor funds, DBAG Fund V and DBAG Fund IV, a success. The DBAG Expansion Capital Fund has only completed about half of its investment period. Thus, there are sufficient assets available for at least the next two years. Consequently, there is currently no identifiable risk for DBAG arising from competition for new capital commitments.

DBAG is a co-investor in relation to DBAG funds. Compared to DBAG, the DBAG funds provide the larger part of the capital. They have own structures that take decisions on acquisitions and disposals. DBAG has committed to enter into co-investments alongside the DBAG funds. This co-investment activity can, however, be terminated unilaterally by DBAG; in that scenario, however, DBAG would forfeit the opportunity of co-investing alongside the respective fund and would not have an influence on the management of the vintage portfolio entered into jointly with the respective fund.

A Group company in which DBAG as a managing limited partner holds a 20 percent interest receives a profit priority share from the respective funds for investment services. DBAG is entitled to the full profit priority share of this Group company. The management position of Deutsche Beteiligungs AG may be revoked. Exposure to risk stemming from the revocation of contractual relations is currently deemed to be very low. Rules governing the revocation of management authority for DBAG Fund V, DBAG Fund VI and the DBAG Expansion Capital Fund are presented in the notes to the consolidated financial statements in section "Related party transactions".

## Personnel risk: Retaining highly qualified staff through competitive incentive systems

Performance in private equity is closely linked to the people acting in the field. This holds particularly true for the investment team. Our business is highly specialised, and in our lean organisation the contribution made by every single individual is important. For that reason, other corporate services that support the investment business also require highly qualified and motivated staff.

The Company boasts a very loyal staff. At the end of financial year 2013/14, the staff (without apprentices) had an average of eight years of service; the investment team members have also been with the Company for an average of more than eight years.

We address the risk of staff fluctuation by fostering a motivating corporate culture and systematically developing the skills and knowledge of our people. We regularly offer (individualised) training programmes and provide monetary incentives through, for instance, variable income components. The comparatively small number of staff allows us to align assignments and development potential to the needs and capabilities of each of our people.

To be able to meet potential human resources needs, we regularly follow personnel movements in our sector. In view of the Company's current staffing, we do not expect bottlenecks to occur over the short or mid-term.

## Operational risk: Regular IT security audits against cyber attack

Operational risk plays a subordinate role in view of the relatively low number of administrative transactions, the relatively small number of staff and the involvement of several people in larger transactions. Exposure to operational risk is largely avoided through appropriate organisational procedures. For instance, our liquidity management requires that larger drawdowns of liquid funds be made jointly by two members of the Board of Management, up to a specified base liquidity limit.

Other operational risks relate to corporate services that support the investment business. These include the organisational units of finance, human resources, legal and fiscal, organisation/IT and public relations/investor relations. We ensure proper organisational workflows in these corporate sectors through a sufficient number of qualified people and the provision of suitable equipment and financial resources. This past financial year we started a project aimed at assessing and improving the processes in these areas. First steps have already been taken, but the project has not yet been completed.

Our business not only requires suitable software and hardware, but also data security, data access by authorised persons at any time and protection against unauthorised data access. DBAG has its own qualified IT specialists; they are supported by external consultants, if needed. In addition to standard software for our office communication, we use further applications for special purposes, such as accounting, investment controlling and customer relations management (CRM). If necessary, we have standard software adapted to meet our requirements. The software we use is continually updated and upgraded. Data is saved by daily back-ups and additionally by secured data archiving. Redundant server architecture warrants permanent access. Sensitive data is protected by a comprehensive access authorisation system.

DBAG attempts to respond to the continually growing IT risk by, among other things, regular external reviews. In an additional security audit in October 2014, consultants verified that, in their opinion, DBAG's network is sufficiently protected against cyber attack. In light of the audit findings, the Company believes that there are no risks that would endanger operations.

## FINANCIAL RISKS

### Equity for the financing of investments: Sufficient financial resources available

Cash outflows to finance investments in portfolio companies as well as cash inflows from the investments – in particular, sales proceeds – constitute the main treasury activities at DBAG. These transactions cause irregular payment flows that are hardly calculable: neither are investments in portfolio companies in terms of their timing, number or amounts foreseeable, nor do we know when an investment will be exited. The Company aims to have sufficient financial resources available at all times in order to accommodate its portion of the finance for investment transactions. This requires Deutsche Beteiligungs AG having access to financial, credit and stock markets, if appropriate.

There is currently no recognisable risk arising from the funding of the Group. By continually addressing and maintaining contacts with existing and potential investors as a core activity of investor relations, we aim to create the platform for DBAG to access the stock market in order to generate additional equity, if necessary.

We chiefly hold our liquid reserves in the form of public-sector securities or of other issuers with highest credit ratings and – from case to case – in time deposits with banks, whose credit standing we consider to be good, based on their ratings. In view of its sizeable cash and securities position, the Company currently does not require credit facilities.

## Availability of debt finance for acquisitions: Acquisition loans not a limiting factor

Loans furnished by banks or funds are used – as is customary in the private equity sector – to finance MBOs. Acquisition finance is therefore required in adequate amounts and at acceptable terms to finance investment projects. Apart from the financing structure of a transaction, lines of credit are also required for capital expenditures and for financing portfolio companies' business operations. Loan facilities depend on the economic environment and conditions in the credit markets; DBAG has no direct influence on these.

We aim to have banks and other financial partners see us as professional, sound and dependable partners. Our risk-conscious and analytical procedures in selecting and structuring investment projects support the readiness of banks to extend facilities. Focusing in our investment strategy on established companies, whose operations, in our opinion, have a comparatively low risk profile, also serves that purpose.

This past financial year, acquisition finance for our line of business – i.e. mid-market MBOs in select sectors and with moderate debt levels – was not a limiting factor. Beyond that, our financial resources occasionally allow us to initially fund an investment completely from equity and then arrange the debt financing after agreeing on the investment. Moreover, we should also stand to profit from our long market presence and good relationships with many banks when competing for lending facilities in the future. We therefore assess the risk of insufficient availability of debt financing for us as being low.

A possible restrictive policy on the part of banks in funding acquisitions can also hamper our activities in the event of a proposed disinvestment. Financial investors are regularly among the potential buyers for our investments, who for their part also depend on a sufficient supply of acquisition finance. Low availability of finance influences their investment behaviour and, consequently, the sales proceeds we are able to achieve.

A restrictive lending policy in the banking sector may also tend to encumber the portfolio companies' operational and strategic development. Portfolio companies can also be directly affected when clients cut down on capital expenditures or do not place orders due to lack of funding. On the other hand, this also creates opportunities. Such situations can trigger demand for expansion funding, which we provide through the DBAG Expansion Capital Fund.

We expect that the supply of debt financing will remain constant and therefore at adequate levels for our requirements. However, we are not in a position to make reliable predictions on the future availability of borrowings.

## Currency and interest rate risks

*Disclosures on financial risks: Notes to the consolidated financial statements page 168*

Exchange rate fluctuations, such as between the euro and the US dollar, have increased over the course of 2014. We therefore assess the currency risk as being greater than a year ago. The management, extent and sensitivity of currency and interest rate risks are detailed in section "Additional notes" in the notes to the consolidated financial statements. We refer to the information disclosed there.

# DESCRIPTION OF OPPORTUNITIES

## Opportunities inherent in external and sector changes

The value of our portfolio companies at a specific reporting date is significantly influenced by stock market conditions. This was again evidenced this past financial year: 8.2 million euros of the net result of valuation and disposal are attributable to higher stock market multiples and thereby to improved confidence on the part of market participants. Should the optimism in the stock markets continue to grow, this would lead to higher valuations, which, in turn, would have an influence on our valuations.

In view of the persistent low-interest-rate policy, we would not rule out that monetary flows will continue to be channelled into the stock markets and drive prices there. Should higher valuation levels also strike the M&A business, this could possibly lead to higher capital gains on disposals of our investments.

## Strategic and operational opportunities

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 for DBAG from its sizeable financial resources, which enable DBAG to make financing commitments under its own steam.

We continued to pursue a project in 2013/14 aimed at analysing our internal processes. The project accounts for the growth Deutsche Beteiligungs AG has exhibited in the past years: the investment team was expanded, and, since 2011, DBAG has managed or advised two funds that are concurrently in their investment phase. Based on the analysis, options for optimising our processes were identified, which we began to implement in 2013/14. After completion of the project, we may, for instance, be able to tap additional proprietary transaction opportunities or assess potential investments more specifically.

## Opportunities arising from changes in financing conditions and exchange rates

Deutsche Beteiligungs AG had financial resources of 150.7 million euros at the end of the period; these are largely invested at fixed interest rates. However, a part of these resources yields interest at the three- or six-month EURIBOR rate. Should these rates rise by one percentage point, this would result in interest income – irrespective of possible outflows of funds due to our investment activity or a dividend payment. An overall higher interest rate level would also allow us to reverse part of our pension provisions; this would increase the net asset value per share through higher other comprehensive income.

A lower interest rate level, on the other hand, could decrease the cost of acquisition finance; this would improve the return on debt-financed investments.

In addition to unchanged stock market ratios, our forecast also implies stable currency rates. Approximately 19 million euros of the portfolio value at 31 October 2014 are attributable to investments denominated and valued in US dollars. For example, an increase in the exchange rate of the US dollar against the euro would, viewed in isolation, trigger a positive valuation movement of 1.9 million euros.

# GENERAL STATEMENT ON OPPORTUNITIES AND RISKS

## Continuity of Group not at risk; no exceptional opportunities

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. An assessment of the exposure to risks is presented in the overview on page 111 of this combined management report. Neither do we currently recognise any exceptional opportunities.

There was no material change in the exposure to risks and opportunities compared with the preceding year. Overall, we presently judge the exposure to risks and opportunities as being balanced.

## KEY FEATURES OF THE ACCOUNTING-RELATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (§ 289 (5) AND § 315 (2) NO. 5 GERMAN COMMERCIAL CODE – HGB)

The internal control system (ICS) is an integral constituent of the risk management system at Deutsche Beteiligungs AG. It is orientated around the internationally recognised framework document for internal control systems by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This framework underscores the fact that even when appropriate and functional systems have been put in place there can be no absolute guarantee that risks are identified and managed.

The extent and design of the internal control and risk management system are aligned to the special requirements of the fund management and advisory business. The duty of the internal audit is to monitor the functioning and effectiveness of the ICS independent of processes within the Group and at Deutsche Beteiligungs AG and thereby promote ongoing improvements to business processes. The accounting-related part of the ICS is subject to an annual review as to its effectiveness by the external auditor within the scope of a risk-oriented audit approach in spot tests. Finally, the Audi Committee has the oversight responsibility over the ICS, as is required by § 107 (3) of the German Stock Corporation Act (AktG).

DBAG prepares its separate and consolidated financial statements in conformity with the applicable accounting and valuation principles of the German Commercial Code (Handelsgesetzbuch – HGB) and the International Financial Reporting Standards (IFRS). The internal accounting guidelines are set out in an accounting manual and in valuation guidelines; they consider the different principles of the IFRS and HGB. New accounting rules are regularly reviewed as to their 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 access internally and externally 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. The staff regularly participates 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 four-eyes principle 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.