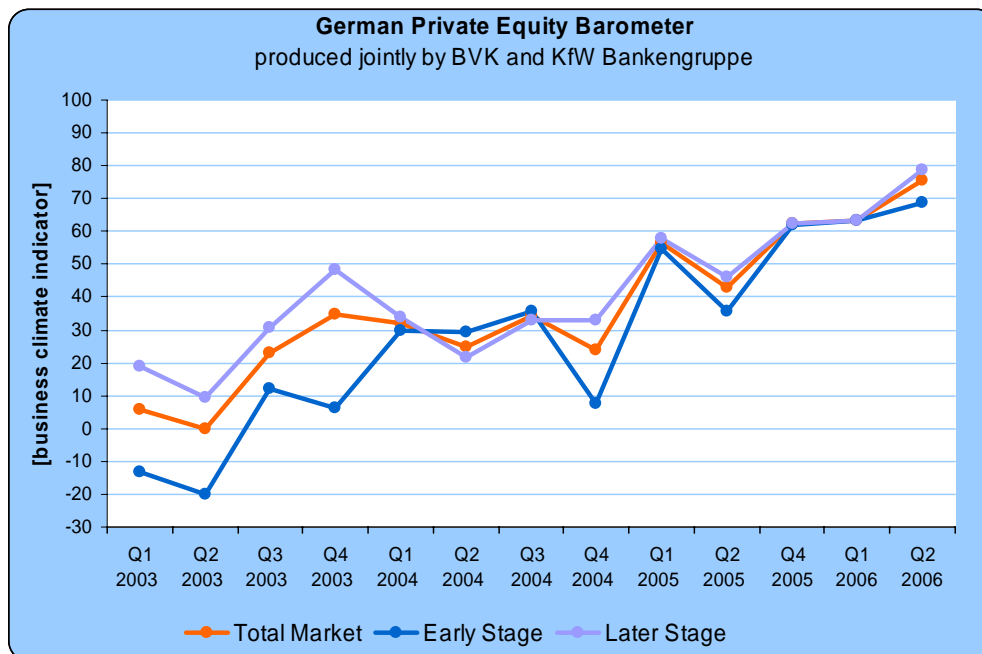


German Private Equity Programme

Second quarter 2006

In the second quarter of 2006, the *German Private Equity Barometer* (GPEB) reached a new historic high – despite a perceptible increase in interest rates and a disappointing stock market development. The business climate indicator for the German private equity market that is computed jointly by the BVK and KfW is rising as a result of very good exit conditions, greater demand for private equity and greater dynamism in corporate innovative activity. At 75.7 points it is well up on the figure for the previous quarter of 63.2 and is almost 40 points above its long-term average. The rise in business sentiment was propelled by both the early and later stage segment. BVK's Managing Director Dr Holger Frommann made the following comments on the factors driving the later stage segment: "Later stage companies are currently benefiting from the good opportunities to sell their portfolio enterprises at a profit via trade sales and secondaries. They are also faced with a strong increase in demand for private equity from potential target enterprises." KfW's Chief Economist Norbert Irsch emphasised the reasons for the rise in sentiment in the early stage segment: "Because of an upturn in entrepreneurial innovation, venture capital investors are faced with higher quality investment proposals. Along with the clear drop in the number of business insolvencies, this is what is driving the sentiment in the early stage segment."



Source: KfW/BVK Survey

The business climate indicator is a transformed mean value calculated from the balances of the percentage shares of "good" and "bad" assessments of the business situation of private equity firms as currently expected and as expected in six months' time.

The German Private Equity Barometer has been published on a quarterly basis exclusively in the German newspaper Handelsblatt since November 2003.

Early stage segment

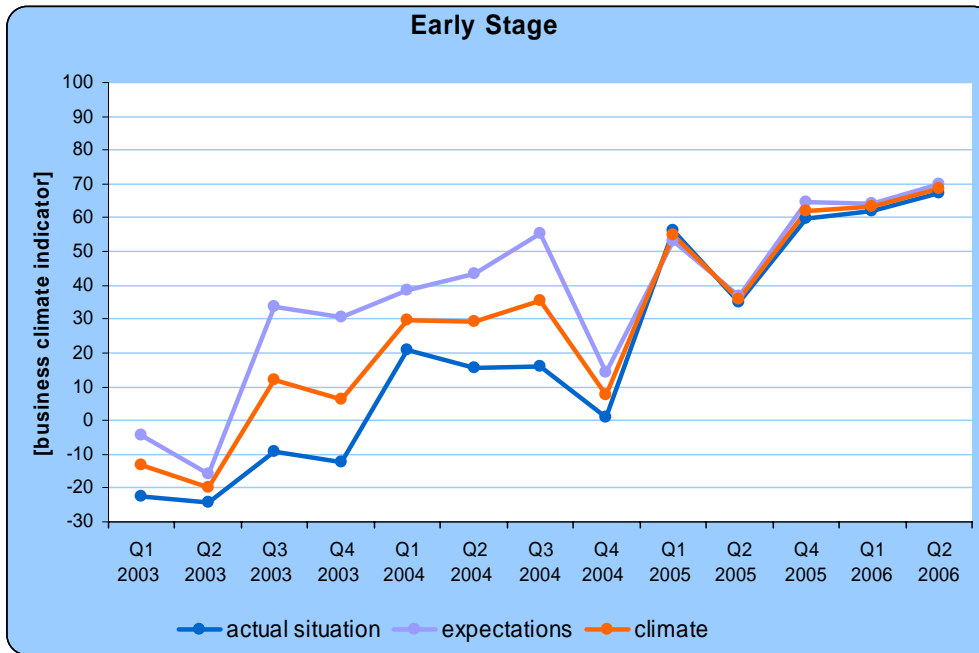
The sub-indicator for the early stage segment rose in the second quarter of 2006 for the third time in succession and reached a new historic high of 68.6 points. In the very volatile early stage segment, this is the first time since the GBEP started that a rise in sentiment has not stopped after two quarters or, at least, was not temporarily disrupted. The rise in sentiment is driven both by the current situation, which is considered to have improved, and by positive future prospects. In addition to entry prices, which are still considered attractive, and an increase in the demand for venture capital on the part of potential target enterprises, three groups of factors are the key motors of the increase in the situation indicator.

First, early stage companies report greater dynamism in corporate innovative activity. This means that they are receiving higher quality investment proposals (business plans). The upswing in corporate innovative activity thus ensures an attractive deal flow among early stage specialists as innovative enterprises tend to have greater potential for growth. As growth potential is, on the other hand, one of the key preconditions for venture capital financing, this boosts sentiment among early stage financiers.

Second, early stage companies are benefiting from a decline in company insolvencies and – at least as they see it – greater start-up dynamics. Both lead to an improvement in sentiment as fewer insolvencies reduce write-offs and a revival of start-up activities are important for the future deal flow.

Third, the availability of promotional programmes is being perceived positively by early stage financiers. This view probably stems mainly from the successful launch of the High-Tech Start-up Fund, which revived the seed phase that had all but dried up in recent years.

The positive outlook in the early stage segment is based on the expectation that fundraising conditions will improve there, too. In recent years, early stage companies have found it far harder to raise funds than their counterparts in the later stage segment. In addition, early stage specialists still expect high-quality investment proposals for their dealflow. The early stage expectation indicator has consequently risen to a new record high of 70.1 points. Early stage market players see a potential for risk in a possible flattening out of corporate innovative activity and in a worsening of the exit options following a weak stock market development in the second half of 2006. With regard to the expected development of entry prices, early stage companies anticipate that initial pricing will remain moderate. This is somewhat surprising as the general expectation is that entry prices are likely to rise as the early stage segment picks up and this risk was also seen by market players in the first quarter.



Later stage segment

Like the overall market indicator and the early stage indicator, the sub-indicator for the later stage segment reached a new record high in the second quarter. It rose by over 15 points to 78.7, well above its long-term average of 43. The very strong increase in sentiment in the later stage segment was mainly due to a better assessment of the current situation by market players. Whereas the situation indicator had fallen slightly in the past two quarters and sentiment in the later stage segment was primarily driven in the past half-year by positive future prospects, in the second quarter it rose very markedly to just over 80 points. This strong increase was caused by excellent exit conditions and a strong demand for equity capital together with good fundraising conditions and lower depreciation expenses.

The good exit conditions are mainly due to the attractive possibilities for selling portfolio enterprises to strategic buyers (trade sales) and other investment companies (secondaries). This enables later stage companies to sell their portfolio enterprises at a profit and to distribute capital to their fund investors. In addition, high returns among fund investors improve the outlook for successful fundraising. This is particularly important as many private equity companies are currently in the fundraising stage. In their own view, fundraising conditions in the later stage segment are good at present. This is also an important factor determining good sentiment in the later stage segment.

A further reason why the situation is currently viewed as good is the high demand from potential target enterprises for private equity. Private equity clearly seems to be becoming more firmly established as a financing instrument in Germany. This is evidenced among later stage companies by a greater deal flow and enables them to be more selective in their deals.

Lower depreciation expenses also have a positive impact on sentiment. As among the early stage companies, this is also likely to be due to the recent decline in insolvencies.

With regard to expectations for the next six months, the later stage specialists anticipate continued good exit opportunities and better fundraising conditions. As risks, they see an increase in entry prices, which are already high, and a rapid rise in capital market rates. Combined with restrained stock market growth, the latter rise could have an adverse effect on exit options. This reason for this is that secondaries, in particular, are financed largely by debt capital and an increase in interest rates is likely to reduce the opportunity to use the leverage of higher debt capital. Similarly, a negative stock market development could suppress large companies' acquisition appetite and hence reduce the opportunities to achieve high exit revenues. Nonetheless, in the second quarter the expectation indicator rose again slightly on the quarter and also reached a new historic high of 76.8 points. In the later stage segment, the expectation indicator is, however, fairly well up on the current situation figure for the first time since the GPEB was launched. This could be a first indication that sentiment in the later stage segment is past its peak.

