1997 1998 1999 2000 2001 2002 **2003**

Berliner Effektengesellschaft AG
Annual Report 2003

BERLINER EFFEKTENGESELLSCHAFT

AKTIENGESELLSCHAFT

RESULTS AND STRATEGIES

AT A GLANCE

December 31, 2003	
Stock capital	15,960,159.00 € = 15,960,159 individual stocks
Free float	15.54%, 2,480,209 individual stocks
Balance sheet total	129,688,265.27 €
Stockholders' equity	59,753,424.37 €
Stock price at the close of the year	6.25 €
Group result	- 5,416.53 €
Company result	- 1,456,003.70 €
Proposed dividend	-
Number of employees in the Group	131

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ANNUAL REPORT 2003, BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

PREFACE

Dear shareholders, business partners and friends of the Berliner Effektengesellschaft AG

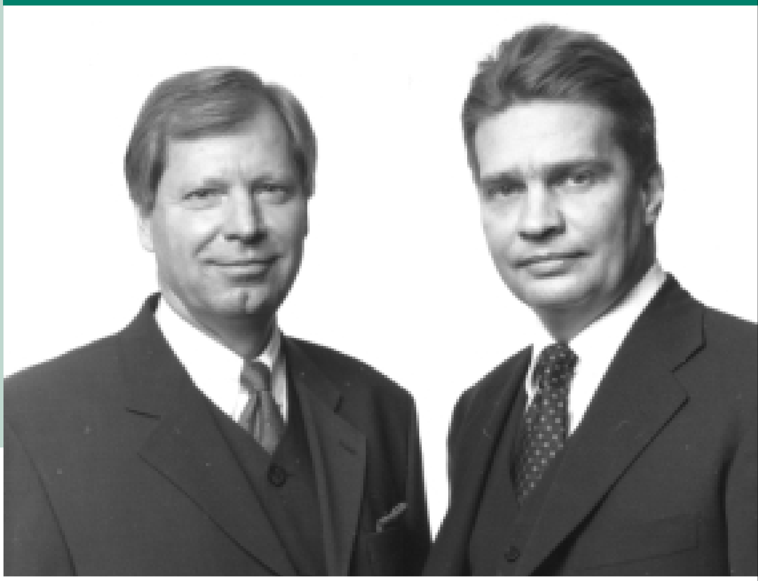
"Reports that say that something hasn't happened are always interesting to me because, as we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we don't know. And each year we discover a few more of these unknown unknows." This from the philosopher of "Old Europe", the US-Minister of Defence Donald Rumsfeld.

If this quote was convoluted, the year 2003 was just as confused. At the beginning, pessimism was still the main mood in all public discussions, the DAX went in leaps and bounds from one historical low to the next – only to swing in exactly the opposite direction after the war in Iraq to end the year on a high of almost 4,000 points.

Certainly, by stagnating for the third year in a row, the German economy has not provided the DAX with a favourable reference field. Television weather forecasters have given us the emotional phrase "windchill factor" – and the economic climate definitely "feels" different from that of the actual falling gross domestic product (GDP) of - 0.1%. There is cautious growing optimism that rising stock prices herald an upturn in the economy.

The German middle-sized businesses would welcome the fact, as such conditions would make it easier to dispose of their most urgent casus belli: the acquisition of stockholders' equity. In 2003, for the first time in 35 years in Germany, there were no new issues, but this year the lights are on green for the IPO branch, in spite of teething problems, to celebrate its comeback. Sure enough, only those issuing houses will be present that didn't just advertise themselves in the past years with the tune, "We would have wanted to have liked to have been able to, but we didn't have the heart to try."

Precisely those companies, like ourselves, who have prepared and positioned themselves in line with the market environment. Who, like ourselves, have created the requisite structures. Thus, this Annual Report is not just made up of "known unknowns" or "unknown unknowns" to quote Donald Rumsfeld, but shows that a financial holding like the Berliner Effektengesellschaft AG



The Board of the
Berliner Effektengesellschaft AG:
Dr. Jörg Franke, Holger Timm

with the core business areas of stock exchange trading, investment and private banking as well as venture capital is the right address for middle-sized businesses. It presents a company that accompanies others on their way to the stock market, that wish to build carefully on what they have already achieved and want economically sound financing in order to expand their business – with or without the intermediate step of venture capital.

At any rate, enough potential is there. It has been empirically documented that despite any boom in new issues around the turn of the century, the stock market capitalization in Germany based on GDP is, at 34.6%, rather low. Our confederate neighbour sets the example: in Switzerland the comparable figure is 201.6%.

This looks optimistic for the primary market – where admittedly too often attention is paid only to the "big tickets" with "bigger numbers". Financial commitments between one to five million € do not often occur with venture capital investors or investment banks, but they are just what the middle-sized business around the corner needs, be it a start up or a family business handed down over generations.

In the understanding of market economy, a classic gap in supply which we want to close. Our company history has demonstrated more than once that making good use of niches has always been one of our strong points.

We would be pleased to have your company along the way.

Yours sincerely

Berliner Effektengesellschaft AG

The Board

Berlin, April 2004

“It worries me, that we still haven’t grasped the fact that we have a stockholders’ equity crisis.”
Dr. Bernd Fahrholz,
former Chairman of the Board
of the Dresdner Bank AG, on the subject of
the German middle-sized businesses

ABOUT THE MIDDLE-SIZED BUSINESSES

"Many people talk about middle-sized businesses. But who talks to them?" That's the complaint of the advertisement. Maybe the reason is that there is no clear definition as to what "the middle-sized businesses" actually are. Quantitative measures help – the turnover and number of employees. However, even in this rubric those who decide on the terms cannot agree: for the Institut für Mittelstandsforschung (IfM) – (Institute for the Research of Middle-sized Businesses), Bonn, small companies are those with less than nine employees and with a yearly turnover of less than one million €. Middle-sized operations have between ten and 499 employees and remain with their turnover under the 50 million € barrier. Both groups epitomize the classic German middle-sized businesses – that too is the conviction of the Federal Ministry of Economic Affairs and Employment. The European Union (EU) is of a totally different opinion, feels happier with the abbreviation KMU (kleine und mittlere Unternehmen, for small and medium businesses) and conceives the category as being narrower: only companies with up to 249 employees belong in there. The European political advancement also then measures itself against this restricted interpretation – honi soit qui mal y pense. Still, at least Brussels and Bonn agree on the subject of turnover.

At the same time it is, if anything, the qualitative characteristics which bring us closer to the phenomenon of the middle-sized businesses, socio-economic criteria such as ownership structure, family influence, company culture or independence from large group concerns. Factors which have a bearing on the kind of organization and market strategy of a company.

Whether industry, handicraft, trade, services or professional career: the form of a "classic" middle-sized business, which more than 90.0% of all German companies have chosen for themselves, is the individual who in steering, planning and controlling provides the maxims and who carries the entrepreneurial risk in the true Schumpeterian sense, actually whose total wealth is more often than not bound up in the company. An awareness of the unity of ownership and leadership which in earlier days just had to be communicated to the work force. Sometimes rather brusquely: there is a story told about Robert Bosch who, on a tour of his company, is said to have bent down to pick up a paper clip and barked at an employee, "What do you think you're doing, treading on my money?" Certainly a question of generation, as obstinacy and intolerance of any kind of protest was also peculiar to other entrepreneurial contemporaries such as Alfred Krupp. After all, as owner of a middle-sized business one belonged to a coterie, the thoroughly upper-middle class.

The modern type of patriarch has distanced himself from the lord of the manor image and nowadays focuses rather, of course, on the specific strengths of a family business, its flexibility, its flat hierarchical structure, the proximity of the owner to the employees and the identification of those employees with "their" company. In well-managed family businesses thoughts are on long-term strategy, the shareholder is more likely to be prepared to put up with a dry spell and a stable ownership structure protects against unwanted takeovers. The supreme goal: the safeguard of the continuity of the company.

From time to time, the "master of the house mentality" gives proprietor-managed businesses the reputation of being more close-lipped than a Silent Order. Far removed from any corporate governance principles, they are beholden rather

"You walk into your bank, your adviser doesn't introduce himself but says straight away: 'You're lucky I've got time for you!' before showing you into a cold, fusty room. He doesn't offer you a chair or a cup of coffee, but starts to make telephone calls."

Experiences of a corporate client, owner of a middle-sized business

to their own "Family Governance", seen at times from the outside as irrational, in which only family ties count and where factual requirements such as publicity don't stand a chance. Here, blood very quickly becomes thicker than assets and liabilities. "What's my turnover got to do with you?" This, the almost legendary angry reply from the Metro-boss Otto Beisheim to a respective journalist's question in the 1990's. And an answer that, some time or other, some doyens in similar situations surely still utter today. In many cases, it is precisely the proprietor-managed businesses which have a strongly pronounced identity as autonomous, financially independent survival units and conceive themselves as a self-contained microcosm.

"THE RICH AUNT"

An attitude that could become dangerous in the next few years – and expensive. Basel II is knocking loudly on the doors of all middle-sized businesses. In fact Basel is by all means a tranquil place. However, when the name of this quiet town on the Rhine pops up in connection with the reform of equity capital standards things become less peaceful. The Basel Committee for the Supervision of Banking at the Bank for International Settlements (BIS) determines in the so-called Basel Accord how much stockholders' equity the banks must provide as security for their credit risks. Up to now, the institutes had to underlay 8.0% of the respective amount borrowed with capital funds, regardless of the extent of the default risk. Solid companies received similar conditions to less profitable ones, good businesses paid quasi for the unsound ones. The tectonic regulations of Basel II make a fundamental change to this practice. In future, the amount to be underlaid with stockholders' equity will depend on the risk of loan default. From now on, the knack lies in ascertaining this eventuality as correctly and objectively as possible. The planned severer tests of credit-worthiness have been under discussion since 1999. The flat-rate underlaying of loans with stockholders' equity belongs to yesterday, tomorrow an elaborate rating process for credit assessment will be generally compulsory. "Tomorrow" is already pushing a huge bow wave along in front of it and in this case is called 2007 – that is, should the Basel Committee come to a decision in 2004 after long-standing disagreements. As soon as 2006 the amounts to be underlaid are supposed to be calculated in parallel in the old and the new system. Any provisos with regard to providing the bank with extensive information about one's own business operations will then end in a negative rating and a higher risk markup in the already stretched financing conditions. Borrowers must put up with much more exacting checks on their cost structure, profitability, risk rating and especially with regard to their future competition prospects. Transparency and openness are the virtues of the new financing culture. The days when the local bank director and the entrepreneurial middle-sized business owner met in the evening at the bowling club and casually set the seal on the extension of a credit line with a handshake are soon to be over, once and for all.

Indeed, today it is becoming more and more established banking practice to make the loan conditions dependent on the stockholders' equity

The days when the local bank director and the entrepreneurial middle-sized business owner met in the evening at the bowling club and casually set the seal on the extension of a credit line with a handshake are soon to be over, once and for all.

provisions, on securities and on the business management situation of the company and to ascertain an assessment of each credit rating on its own merits. The credit business is increasingly taking on the characteristics of a capital investment which, just as an individual commitment, must be profitable. Business plans and consistent planning, management and control systems for all functional areas instead of abstracts of title or deeds of assignment are fast becoming the favourite tools of the credit departments of the banks. Security is the watchword, defaulted commitments of past years have cost a lot of money and gnawed away at profits.

Pessimists predict that German banks are even about to abolish business loans altogether. This appears to be confirmed by the increasing number of letters from banks to owners of middle-sized businesses with the message: "We are no longer interested in continuing business relations." And this, even though domestic debtors in Germany pay more than the average interest rate in the Euro zone for the same loan. For an overdraft in September 2003, German banks were demanding from companies in new lendings an average of 6.4% interest – compared with the 5.46% average in Euroland. Since the beginning of 2003, the falling money market rates were passed on to businesses to the full extent by the banks of the countries with the common Euro currency, but in Germany, in the form of lower interest rates for overdrafts, companies received only half the rate. Moreover, the local margin increase was assisted by the clear reluctance of the banks to offer credit, in this country loan volume did not develop as well as in surrounding Euro countries. So, it is not very surprising that according to a survey conducted by the KfW Bankengruppe (Reconstruction Loan Corporation Group of Banks), more than half of German companies are finding it more difficult to get a loan today than a few years ago – and up to now there is no constitutionally anchored basic right of this kind.

Official announcements are more wholehearted, of course. "On the subject of middle-sized businesses there is no wobbling, retreating or shortening of credit", affirmed Dr. Dietrich H. Hoppenstedt, President of the Deutscher Sparkassen- und Giroverband (DSGV) – (German Savings Banks Association); in the strategy paper of the Savings Banks Association's top management it says: "An important strategic assignment of the Savings Banks Financial Group lies (....) in the aim to support small and medium businesses." Jürgen Fitschen, the Group Executive Committee Member responsible for business loans at the Deutsche Bank AG, assured us not long ago that middle-sized businesses certainly would not be left alone. The Postbank "is actively committed to middle-sized businesses", the Commerzbank AG wants "to be Germany's number one bank for middle-sized businesses", and the "Volks- und Raiffeisenbanken will, also in the future, be a reliable partner for middle-sized businesses." After all, the mentors of the "Initiative Finanzplatz Deutschland" (IFD) – (an action group for Germany as a base for financial business), in which the concentrated expert knowledge of the "old boys club" is represented, from representatives of all three pillars of banks and insurance firms up to the Federal Ministry of Finance (BMF) recognize that there is "an urgent call for action" in the area of better financing for middle-sized businesses which should be achievable via simpler and more transparent lending. From known "well-informed" circles it was heard that in informal talks at the

"Finality is not the language of politics."

Benjamin Disraeli,
former British Prime Minister
(1804-1881)

first public presentation of the IFD results, things were put a little more bluntly: "We must get out of the deadlock in credit financing. There is a merciless price competition to win customers with good credit standing, whereas businesses with middling or worse credit-worthiness have hardly any access to the classic type of financing through loans." As though they had heard what had been said, the ears of the representatives of middle-sized businesses started to burn, they feel the IFD to be "pure show" and declared resignedly: "The big banks are no longer interested in middle-sized businesses." Certainly Brussels is not able to turn this impression around either, although at the end of 2003 the EU-Commission recommended, "For the financing of small and medium businesses emphasis must be put on improving general conditions."

Disorientation, then, between official assertion and actual plans. It is part of the tragedy of life that those who give the interviews are mostly not the same people who approve the loans. Last December, a poll of 34 banks and savings banks came to the conclusion that very soon one in twelve middle-sized businesses would be urged to look for a new credit grantor. That's a projected 250,000 firms. The figure rises to even half a million if one includes the businesses which may be refused access to loans completely in the future. For many, the foreseeable death blow: 80.0% of middle-sized business regard their overdraft as the most important form of financing. That it can also be the most dangerous becomes clear when the entrepreneur silently uses the money for long-term financing and suddenly, the bank makes use of its daily right to cancel the credit line.

Lessing's pious wish that the innocent may always be right holds the biggest threat for middle-sized businesses. And to call on the words of another German man of letters, Goethe, "If we can just banish a worry out of sight, we think that it is already disposed of." God knows, small and medium firms are not the innocent sacrificial lamb, brought to the alter by the German credit industry. Not even one in three middle-sized businesses is at all prepared to look at alternatives such as leasing or factoring, let alone take steps to strengthen its stockholders' equity. When a loan is refused, the first consideration is rather a change of bank – or thoughts turn to the beneficial and discreet Principality of Liechtenstein. Instead of depositing their stockholders' equity at their principal bank, the entrepreneurs quietly take it abroad.

A piece of news that is worth just three lines in some daily newspaper or other. The wider public gets unsettled if large companies start thinking aloud about the relocation of jobs abroad, or the possible axing of future capital investments. Predictably, Federal Chancellor Gerhard Schröder then steps onto the stage of the colourful print media: "Such people are acting unpatriotically. One can't build a state with them." Crabbily, he assures them the ostracism of society. However, middle-sized businesses don't have to face such a situation, if they were to threaten a genuine withdrawal it would worry at most a local politician, and then only for a short moment. Even so, 560 branch associations are striving for an effective lobby, which means more than one organization per member of parliament.

When a loan is refused, the first consideration is rather a change of bank – or thoughts turn to the beneficial and discreet Principality of Liechtenstein.

Meanwhile, legislature is carefully preparing further stumbling blocks for small and medium businesses. Of course it fulminates: "Politics is guilty of everything!" Small wonder, thus, after all, through the law the State passes on ever more administrative work to the private industry. This shifting of bureaucracy has dazzling names such as "law for the amendment of employment advancement" or "law for the further development of company business tax" and, from the regulations on the correct position of a hand washbasin to the number of wastepaper baskets in offices, it is divided into 2,200 laws and 46,800 individual bye-laws. The IfM knows of one businessman who had to take down a 45 metre shelf he'd put up less than three months before because the length diverged from the legal standard by five centimetres. Such tiresome regulations cost a smaller company annually more than 4,000.00 € per employee. Although it's the same red tape all the way for businesses of all sizes, but naturally, the relative economic burden as a quota share of the financial expense and number of employees involved is much less favourable for small companies. The rabid administration of the red-green coalition has clearly increased again since the election in 2002; according to the CDU, the Federal Government is "Making a one-off world-wide attempt to fight bureaucracy with a cornucopia of new regulations." An oddity that the World Bank also laments: that will hoist Germany into top place among the most bureaucratic countries of the world.

"THE MOST DIFFICULT THING IN THE WORLD TO UNDERSTAND IS INCOME TAX."
Albert Einstein,
German physicist
(1879-1955)

The frustration is great. In 1994, 48.0% of firms felt heavily burdened, today it is 80.0%. Especially the "tax shoe" is too tight. Under fiscal law at the moment, 118 laws and 87 legal regulations are in effect, to be extended by 1,042 from the BMF's publication in the first part of the Federal Tax Paper and 1,193 BMF papers which have a limited time of application. Not forgetting the 1,618 BMF papers that were not published in the first part of the Federal Tax Paper. A consolidated mass which only confirms the fact that 60.0% of all world-wide disposed tax literature appears in the German language. Almost daily, new suggestions of reform are tabled – the trade tax charge, for example. Certain tax components, unrelated to profits, are to provide secure earnings for local authorities: in which case, companies will have to pay tax even if they don't make income. Welcome back, trade capital tax. As if enough china hadn't been broken with the bill for tax relief cutbacks, which was passed through Cabinet in November 2002. The way to hell is well-known to be paved with good intentions: fundamental changes in company tax regulations such as abolition of affiliations for interlocking companies due to trade tax, or a radical reduction of loss brought forward were all planned – and rejected. Other changes, such as the urgently needed recovery of taxes from retained income, were not even addressed. Company owners continue to pay the highest tax rate of between 40.0% and 50.0%. The Federal Chancellor, Gerhard Schröder, in his new year's speech for 2004: "We

"Man wants to invent improvements."

Hans Sachs,
German poet
(1494-1576)

are endeavouring to distribute the burdens fairly today, so that tomorrow we can distribute the prospects equally in Germany, too." Rhetorical tongue twister, semantic trap or just truism?

The backbone of the economy without rear cover. No land of milk and honey. The middle-sized businesses feel less like the coddled carthorse of the national economy and more like its cash cow, from which there's still something to be milked. At the same time, "The policy on middle-sized businesses holds great significance for the Federal Government", after all, "Middle-sized businesses are, and will remain, the engine for growth." In the second point, Gerhard Schröder is right. The middle-sized businesses pay 45.0% of all turnover liable for tax, which should please Cabinet Minister Hans Eichel. Small and medium firms account for a 46.0% share of capital investment and 57.0% of gross value added. They engage 70.0% of all employees and 80.0% of all apprentices. Moreover, in the last years over two million new jobs have been created in small and medium companies whereas large concerns have rationalized a million positions. Four out of five patents applied for in Germany, originate from middle-sized businesses, a fact which plainly, to take a word used associatively by some sharp tongues, has nothing "mediocre" about it, particularly as over 98.0% of the entrepreneurial German landscape are assigned to this category. On the contrary, enthusiastic exclamations such as "I love middle-sized businesses!" ought to be announced more often on account of their contribution to the total economic performance. Incidentally, this declaration of love does not, for once, originate from Gerhard Schröder, but from William J. McDonough, until June 2003 the President of the Federal Reserve Bank of New York and up until recently Chairman of the Basel Committee for the Supervision of Banking. The man understands, as he went on to say: "More than Schröder and Stoiber put together."

So, more than Schröder and Stoiber put together. Thereby, both men ought to know, through their speeches on the occasions of conferences of middle-sized business associations, or at the opening of Chambers of Industry and Commerce, that particularly small and medium companies have manoeuvred themselves comparatively unscathed through the difficulties of the past years. Since the times of the stock market boom, when companies managed by their owners for generations were considered hopelessly boring and backward, seen as being banned to mediocrity for ever, too stupid to make quick money on the stock market, malice has given way in many cases to today's amazement: no longer a discontinued

“We are endeavouring to distribute the burdens fairly today, so that tomorrow we can distribute the prospects equally in Germany, too.”

model. Often unperturbed by surrounding turbulences, many a patriarch has solidly further developed and strengthened his business, shown himself to be evidently the better able to master the art of life. Arguably with a certain patience for life’s work: “Things have gone well for three generations and they’ll continue to do so.” Following the Baron Münchhausen principle, the family has practice in pulling itself out of the morass by dint of its own strength.

A realization that has also obviously matured in the USA: two scientists at the Universities of Washington and Alabama have dealt a blow to the cliché that companies under parental influence are antiquated. According to them, in the past ten years the stock market performance of that particular third of the 500 US-companies captured by Standard & Poor’s, which were wholly or partly in family hands, lay 10.0% above that of listed corporations directed by salaried managers. Noble values such as modesty, diligence and thriftiness are the model of success for modernity and efficiency, those in charge should be thinking in terms of decades, not quarters. Peter Dussmann, an idiosyncratic owner of a middle-sized business in Berlin, put it this way: “In a listed corporation they think for the short term and the income-maximization, from one annual report to the next. They don’t invest in long-term plans.”

Anyhow, these empirically ascertained positive instances do not apply to the whole range of middle-sized businesses in its complex hetegeroneity. The companies can be divided into dynamic ones that adapt to changes and other, rather more static ones that act defensively. Those who resort to complaining among themselves. “Holzmann and Mobilcom get millions, and we’re left standing out in the rain”, is the lamentable tune then. Complaints about the poor market situation, the slacking payment morality of customers, the increasing pressure on sales prices, the strong Euro that makes exports so expensive. More or less true, but the problems are also partly of their own making. It begins with the fact that only one in eight companies is specialized or has a unique selling point. “Me too” suppliers are inevitably going to come under price pressure because there is a wealth of competition in the same area of business. They then give rash discounts which, with low-priced bulk products, just leads to a dead end. Net sales yields hardly not worth mentioning are the result, sinking margins and income, liquidity funds decrease, investment reserves cannot be built up – and therefore do not even appear in managerial calculations, just as risk premiums are not included either. At this point there is just enough to pay the entrepreneur’s salary and the capital return. An early detection system for avoiding crises and planning liquidity? A rarity. Calculation of strategic financial ratios? Negative report. Many do not master their expenses, the “profit killer” par excellence: too much sales or production area, too much stock, too long lead times.

“He who thinks of costs too late, ruins his firm.” That was said by someone who should know: Philipp Rosenthal, who after the Second World War, as the second generation, took over his father’s porcelain dynasty in Selb in Upper Franconia and in the 1950’s and 1960’s shaped it into a modern business. That was then, when economy and miracle could still be uttered in the same breath. Nowadays, some company directors

"Can anyone remember, when times weren't hard and money wasn't short?"

Ralph Waldo Emerson,
US-American philosopher and poet
(1803-1882)

have to listen to the reproach that they think too long before taking action. The lack of ability to reform of which they accuse the State is often one of their own shortcomings. But they have found something that is responsible for that, too, namely "the typical, rigid German mentality" is guilty, in particular the employees' resistance to change with their arrestive decision-making processes which impede the necessary alterations.

So, is it simply an act of God? Fate, which the middle-sized businesses have to pay deference to? Are there no effective counteractive measures? The only answer is often cost reduction and disinvestment programmes: streamlining of the product range, reduction of capacity, redundancies, work closures, cessation of complete business areas. However, and here comes part two of Rosenthal's quote: "He who always thinks of costs too early, kills creativity." No-one would want to dispute the necessity of lowering costs, but lethargic saving alone, without incentive for the future, is mostly the beginning of a deathly spiral of rationalization, caught up in the present and wearing away possible perspectives.

"I WOULD LIKE TO THANK ALL THOSE WHO BY DOING NOTHING, ALLOWED ME TO PROSPER."
Heinz Nixdorf,
German family business entrepreneur
(1925-1986)

But slowdowns in the economy do not affect all enterprises in the same way. On the contrary: there are always those who benefit from hard times, who use the opportunities while others are going through similar (bad) experiences. Those who do not fall fatalistically into the German blues. Instead, they go in search of new prospects: where will the main markets be in the future? Which activities within the value chain will be the most profitable? Will customer behaviour change in the future? Which products belong in the range? The answers are mostly linked to an innovation which in lousy times the individual entrepreneur has difficulty bringing himself to act on. It is understandable that a company director who is fighting for the survival of his business does not proceed very offensively, but rather does everything first to stop losses. Consolidation today can be the prerequisite for growth tomorrow. Indeed, long before innovation, middle-sized businesses must in fact constantly reinvent themselves. "To have an excellent feel for the development of the market", which some entrepreneurs are fond of claiming in surveys, is not enough. More effort is needed here: tangible, anti-cyclical investment is called for – and is mostly rewarded by the market sooner than is generally assumed. The best, if not exactly the newest proof: the electric fridge was developed in rather lean business years and was in most demand in even worse economic times: the middle of the world economic crisis in the 1930's. Which goes to

The electric fridge was developed in rather lean business years and was in most demand in even worse economic times: the middle of the world economic crisis in the 1930's.

show, the entrepreneur is at a dead end if, as a result of the absence of earlier investment, he cannot jump on the bandwagon when it starts to roll again. Not for nothing has the perception in economic history matured, that the zenith of a wave of bankruptcies marks exactly the point at which the economy starts to pick up.

"FOR THE ENGINEER, NOTHING IS TOO DIFFICULT."
Daniel Düsentrieb,
inventor and Nobel prize candidate

He who wants to leave the competition behind and is aiming for above average growth cannot rely on either savings plans or the economy for help – creative innovation strategies are sought after. Indeed, then a middle-sized business stands a good chance of reaching an excellent position, even on the world market – in market segments with a high degree of specialization, where big concerns and conglomerates are less active mostly. Only by means of innovation are superior cost structures to be achieved which, in turn, create the margins for income and further expansion. Innovation is also the thing that evokes old German virtues which, in the past century has brought us many leading technologies of the world. In his blandished speeches on the so-called "Weimar Guidelines", the Federal Chancellor also proclaimed the year 2004 to be the one of innovation, only to cut back the research allowance in the federal budget by a good 200 million € the next day. Not very good premises for increasing the proportion of research and development expenses in the gross domestic product (GDP) from today's poor 2.5% to a still rather meagre 3.0% by the year 2010. Anyhow, a call for an innovation rate has already been announced, probably because a committee of the same name, installed already back in 2001, has not yet delivered anything substantial. In the new circle sit the representatives of large DAX-companies and meanwhile, the Federal Minister for Education and Research, Edelgard Buhlmann, laments wherever possible the miserable access of middle-sized businesses to science and grieves that the German research landscape caters too much towards the needs of big enterprises. What is now being dictated to journalists to put in their notebooks as a "job for the boss" and as a large-scale PR-campaign "Partner for Innovation" is based on tangible grounds which Rainer Wend, the economic-political spokesman of the SPD parliamentary party, specifies thus: "In 2004 we want to win back the favour of the electorate with a positive theme – innovation is the ideal subject." And what's more, it is a stipulation of the Brussels guidelines which has to be fulfilled. In the next six years the EU has resolved to rise to be the most innovative and dynamic economic region in the world. That is why the member states must invest more in research and development in order to compensate for existing deficits. Expenses need to increase by 8.0% each year to raise their proportion of the EU-GDP to 3.0% by 2010. So, it seems the EU has an "Agenda 2010", too.

However, in any case, those are just plans on the horizon which only make our northerly neighbours in the Danish Ministry for Development Co-operation shake their heads: "Innovation is for companies, what oxygen is for people. Man can only survive for a very short time without oxygen. Accordingly, operations can only survive a short time without developing new products or services.

“The first generation earns the money, the second manages the assets, the third studies art history and the fourth degenerates completely.”

Otto von Bismarck,
German statesman
(1815-1898)

And the length of time that a business can survive without development of new products, processes or services is getting ever shorter”, is the warning from Copenhagen.

How true. Time is running out for middle-sized businesses. The economy increasingly needs innovative products and cost cutting processes. With the innovation cycles becoming ever shorter, small and medium businesses in particular are reliant on flexible financing structures thus, it is mostly the middle-sized businesses which, according to Schumpeter’s definition of innovation, turn ideas and research results into new products and services, improved quality or more sophisticated manufacturing methods. Thus, jobs are created in new market areas, resulting in prosperity, affluence and tax revenue for the region – the classic regime and socio-political strength of the German middle-sized businesses. However: pushiness, or fuss-pots and trend researchers are not enough. Depending on which (growth) phase of the innovation process they are in, companies need, from conception through to successful marketing, a balanced mix of own and borrowed capital. Now, the balance sheet analysis affords no general rules on what the relation between the two should be. Extensive concentration on stockholders’ equity means comparatively high financial stability, is, however, a constant limitation for the size and growth of the company. An important indicator for the estimation of its financial position is mostly the stockholders’ equity ratio. In the 1960’s, the average in German firms still lay by 30.0%, which even today would be commonly assessed as “healthy”, but since the beginning of the 1990’s the rate is tending to decrease, so that nowadays the average is nearer to 10.0%.

Allowing for any reservations on the informational value of an average: many companies find themselves in a threateningly tight situation with regard to their stockholders’ equity provisions. A perilous circle: without sufficient own capital no borrowed capital, without capital no investment and without investment no chance of lasting growth and income. Moreover, there are no funds to finance the company’s succession.

In the next five years around 30.0% of all companies must take notice of this slow-burning issue. The founding generation of the economic miracle are going out of office, mostly grudgingly, because, as a rule, the old man is convinced that only he can run the business. He, who as Peter Dussmann says, “Never wanted to work for any other bonehead”, who deliberately decided for the independence of being self-employed and the owner of his “own

It costs the owner quite a lot of effort to disengage himself from his painfully built-up life's work and to hand the driving seat over to someone else.

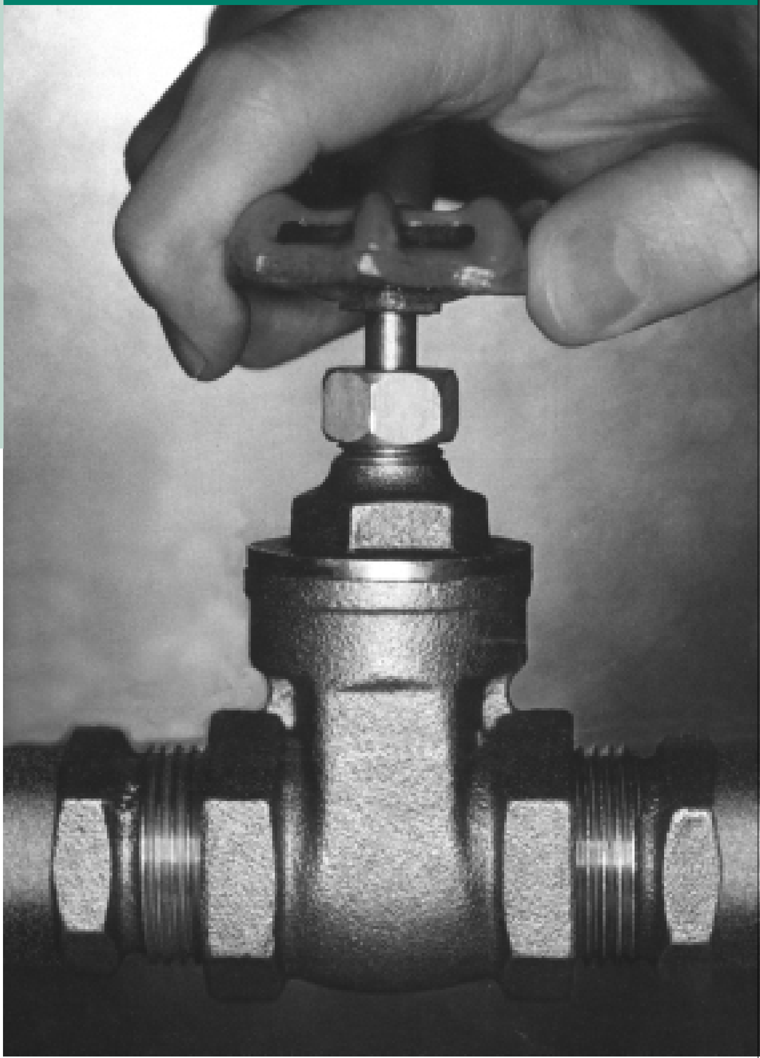
world", which he shapes and which fulfills him, must suddenly start to think of sharing, handing over and letting go. Even if he entertains the idea at all, then only in a dynastic way, within the family – in the terms of Adolph Kolping: "The first thing that man comes across in life, the last thing to which he stretches out his hand, the most valuable thing he owns in life, is the family." The inter-generative succession as it once was, has less of a hold today: the daughter would rather study philosophy than take on the management of the business, the son would like to, but the father thinks he has no idea how to handle money. Coercion doesn't get you anywhere, that, today, is no different from the past. Clemens von Brentano was forced into a business apprenticeship because he was supposed to take over his father's firm. He squashed greasy sandwiches between the pages of the accounts book until even his father understood what he wanted to say. An experience that many business owners are afraid of. And so it is with the British royal house and the everlasting heir to the throne, Prince Charles, the rule of succession has become a "charged question" and is constantly put off. In effect, it costs the owner quite a lot of effort to disengage himself from his painfully built-up life's work and to hand the driving seat over to someone else. Mors certa, hora incerta: actually, death is certain, we just don't know when it will come, yet in many companies regulations for deputies are non-existent, hardly any financial provisions in case of risk are made and only very few wills are written. In a case of sudden misfortune, some measures then may become necessary which the company owner would certainly not have wanted. Not to mention the increased death duties on business assets, which came to light as a footnote in Federal Government's "reform package" act in December 2003, first in snippets as nasty small print and then under the false label of "subsidy cutbacks". Peer Steinbrück, North Rhine-Westphalian Prime Minister, said after the negotiations in the conciliation committee: "I haven't got a clue what good it will do the economic situation. The others haven't either." Middle-sized businesses know: it puts even more strain on them.

"STAND FROM BETWEEN ME AND THE SUN!" Request of the Greek philosopher Diogenes to Alexander the Great

No wonder that the Arbeitsgemeinschaft Selbständiger Unternehmer (ASU) – (Consortium for Independent Businessmen) shows in one of its publications the Laocoon group, fathers and sons struggling against the monsters sent "from above" – as "A suitable illustration of the battle of middle-sized business owners against the adversities of politics which, with its regulations and its administration practice, distorts competition and makes life more difficult than necessary for entrepreneurs." The Federal Government's Commissioner for Middle-sized Businesses, Rezzo Schlauch with his "Middle-sized Business Offensive 2003" was no more able to change this picture either. In the five sheet document "We turn small things into big successes" after two pages of fantastic stories about "green" election results, the groundbreaking realization emerges: "Now, more reforms must follow." However, nothing has been heard of them yet. If anything, one just hears of

"The best short-term income statement is the facial expression of a bank director."

Helmar Nahr,
German mathematician and entrepreneur
(1931-1990)



more drawbacks, so that of late, the Aktionsgemeinschaft Wirtschaftlicher Mittelstand (AWM) – (Action Group for Economic Middle-sized Businesses) is holding traineeships open for politicians. In the explanatory statement it says: "Many backbenchers have lost touch with reality and don't know what it's like inside companies. They often have no idea of the worries and difficulties of small and medium businesses."

Sure enough, the biggest worry is the absence of stockholders' equity. The traditional methods of bringing about change do not include the succinct call for "Fewer withdrawals from reserves!" but consist of the formation of revenue reserves or the allocation of further capital contributions. However, both are often easier in business management theory than in practice. An appropriation of additional capital contributions demands, given the greater capital expenditure which can reach millions of Euros in double figures, a formidable and often hardly achievable redisposal of private assets. A substantial increase of stockholders' equity through the formation of reserves is, in the present economic situation with the current high taxation of retained company income and massive applied costs which businesses have to cope with, in the realms of fantasy. The doors to classical self-financing are closed.

The only solution to the functional specifications: new stockholders' equity must come from outside. Which means for the owner that he must open his "closed society family enterprise" to third parties. For some a delicate subject, since such a thought goes against the grain of why he went self-employed in the first place: free will and freedom of action. To come back to Peter Dussmann: "Why should I bother discussing things that I think are a waste of time with co-owners or partners?"

"DIVIDE AND CONQUER!"
King Louis XI.
(1423-1483)

A serious error in reasoning. Middle-sized businesses with little capital funds are running a very dangerous course, they have no buffer in case of corporate mistakes. Dussmann and like-minded people misjudge the fact that, as a rule, a stockholders' equity financier is prepared even to see through the bad times with the entrepreneur. With him, the credit lines are not endangered if the target success is not reached immediately, or

“No more loans! Make sure first, dear entrepreneurs, that you boost your stockholders’ equity base.”

if the operating financial ratios slip temporarily into the red. The main thing is that the long-term perspectives look good.

In the next few years, the house bank orientated financing culture will turn more towards a capital market orientated one. It will be accessible only to those middle-sized business owners who can allure financial partners with sustainable and value increasing business concepts. Werner von Siemens already used equity financing back in the 19^{th} century. Those who are not prepared to do the same will experience painful alignment processes and may even have to accept a withdrawal from competition altogether. The financing prospects of the future correlate with the value enhancement fantasies of outside investors. Growth capital seeks a rate of return beyond the simple debt-for-debt swap of a borrowed capital reduction in favour of own capital.

Equity financing is regularly “crowned” by going public. “Nothing was the same the day after The Body Shop went on the stock market”, said the founder, Anita Roddick, retrospectively. Indeed, this step is a decisive stage in the life cycle of any company. A hitherto private business opens up to the capital market – and benefits from it. The capital funds obtained through a stock market flotation becomes the all-rounder for the problem areas of middle-sized businesses: the capital and corporate liability base stands on solid ground, the company becomes more independent of the corset-like credit policy of the banks – and Basel returns to being a sleepy town. Innovation and growth can be financed, acquisitions too. Within the framework of an IPO, the current owner can determine the amount of his own investment, to what extent he wants to further govern the skills of his company and at the same time can put a tick against the problem of succession. What’s more, the assets, which up until now were tied up in the firm, can be newly diversified along the way.

One can only look at it like Friedrich von Metzler, head of the private bank of the same name: “The message to industry already years ago should have been: ‘No more loans! Make sure first, dear entrepreneurs, that you boost your stockholders’ equity base.’ (...) Companies should go public if they need money.”

BUILDING BRIDGES – CAPITAL FOR OPPORTUNITIES

Friedrich von Metzler's demand is to the point: "Make sure (...), dear entrepreneurs, that you boost your stockholders' equity base." Maybe not every middle-sized firm belongs on the stock market, some are simply not orientated towards the capital markets and in particular cases going public is quite rightly not perceived to be a continuative option in terms of business policy.

However, if one knows what one doesn't want, then one is a decisive step closer to finding out what one does want. "First aid" for getting one's bearings might perhaps be found in an incident which Siegmar Mosdorf, former Parliamentary State Secretary to the Federal Minister of Economic Affairs and Technology, related for a magazine article: "A German and a British analyst are sitting on a flight from Munich to London. The Briton says: 'It would be good if the English national economy had an industrial manufacturing base like you have in Germany. You still build cars and machines properly. What's more, your middle-sized businesses are really strong.' Thereupon the German analyst replies: 'But our companies' stockholders' equity base is too narrow, so we are finding it more and more difficult to get financing. Actually, we need as varied a financing services industry as you have in Great Britain.'"

The talk is of private equity, the branch that collects capital from wealthy individuals, foundations, pension funds or insurance companies in order to pass it on as off-floor investment capital, mostly to already established companies. The early stage financing of young start ups also falls under this procedure, in which case it is called venture capital.

Particularly in the formation stage, money is needed for the corporate build-up, but especially for the development and launch of new products onto the market. Whether these measures will ever be successful and the investments find their way back into the company as turnover proceeds is more than difficult to assess. Not to mention the question of how does one time it right? After all, it could be that in the first instance a fully developed, novel product is not accepted because possible customers are not yet ready to invest in a new technology, or because the market pressure to adapt and use the new goods is still too small. It is hardly possible to spot this in advance because, unlike familiar investment items, there are no insights or comparative figures of the development of production costs, channels of distribution or sales cycle.

In order to maintain their competitive ability, established entrepreneurs in middle-sized businesses must work on the development of new or the improvement of already existent products. Niche markets, traditionally a reserve of the middle-sized businesses, are noticeably being entered by large concerns. Ever shorter product cycles also intensify the competitive pressure. If an innovation is not accepted on the market, the invested capital cannot be used elsewhere as the assets are too specialized.

Adventures which the banks are not prepared to embark on, for them only pure arithmetic counts. As soon as an entrepreneur dares to tread on virgin business soil, leaving behind the previous prospects/risk profile, the house bank's courage to invest in innovation suddenly evaporates. Organized capital markets are mostly not the answer either, because the high uncertainty makes it almost impossible to put forward adequate company appraisals. The solution: stockholders' equity from outside, via financial intermediaries. The company owner gets a financial investor on board who has the same interests and goals as he does: an increase in the company's value – whether corporately, on its own merits or externally, through acquisitions or by means of joint ventures.

They go together well, the middle-sized business owners short of stockholders' equity and the venture capital financiers who after clearing out their "boom portfolios" in the light of meagre returns on stocks and bonds during the bear market years, have now accumulated billions in liquidity funds which is just waiting for the right investments. In times of decline in economic activity, while strategic buyers are taking care of their competitive position, balance sheet and profitability, or simply do not have the "small change", financial investors can allow themselves anti-cyclical behaviour with their planning horizon for the next three up to seven years – an old scout's rule: "Be prepared, and when the chance comes, take it."

And thus everything could be very easy, if only the small and medium businesses would trust not only themselves or their tax adviser, but also the alleged "strangers", the investors – up until now pegged as "the robber-knight capitalists" who take over a majority share in middle-sized businesses, ruthlessly gut and fillet them and sell them on quickly. For the founder type, who judges his build-up work to be the expression of unique achievement and personality, a complete cocktail of ominous beliefs is mixed together: they are "vultures" that want to take his company's sceptre into their own hands.

**"HOW DO PEOPLE TALK TO PEOPLE?
AT CROSS-PURPOSES."
Kurt Tucholsky,
German author
(1890-1935)**

An old preconception of birds of prey and "scavengers" from the 1970's and 1980's, of the "raiders" from the USA and Great Britain who arrived with parvenu attitude like once Gordon Gekko in the film "Wall Street". The old times. In the past, the investing companies replaced the members of the board as soon as their investment came into effect, today a strong managing board is the first basic requirement of entering into a co-operation.

Anyhow, before it can come to a "love story" capital seeking companies and growth investors have to find each other first. Traditionally, the middle-sized business owner attends to good relations with his house bank but does not pay much attention to possible financial investors: when it comes to the stockholders' equity market, the company owner is just as inexperienced as he is unknown. Small and medium firms must realize that a commitment with stockholders' equity is particularly risk-associated and the appropriation costs with their severe stable value clauses are higher than the overdraft at the house bank. What must also be accepted: the external financial support includes a limited participation in corporate management, too.

For the capital providers the learning curve begins by not transferring 1:1 any rate of return and control benchmarks that they know from larger commitments onto middle-sized businesses. Which means obviously, that as a private equity or venture capital investor one cannot rely on the principle of hope. Rather the rate of return comes from the risk of a concrete investment, whereby the risk naturally has the characteristic of minimizing itself during the course of the company's life cycle.

"Pensions for pioneers" with ambitious expectations of over 20.0% p.a. are being talked of. After all, the injection of stockholders' equity is available without the usual collaterals and is completely subject to entrepreneurial risk. A realization about the performance-related and residual character of stockholders' equity for which financial investors paid dearly at the end of the stock market boom at the turn of the century with an exit involving many write-offs. The quickly hatched "high flyers" and "stars" with three-figured rates of return became the poor "mayflies" and "lame ducks", since the stockholders' equity providers had invested in "clickrates", "equity stories" and "world market leaders" instead of in objective quality criteria.

Back then it was Power Point, now it's Excel.

Colourful graphics with unreal turnover forecasts have given way to the determination of those key company factors which withstand unexpected influences and are economically sound. Even today, business plans suitable for investment must still be established in markets with a promising future, but must also distinguish themselves through scalability and open the way for subsequent investors to participate in the increase of the company's value. Growth remains an argument, but just as important are the resistant unique selling point qualities of the products – which, however, must be worked for in significant markets and also be actually relevant to success. The margin strength and independence of a product from fixed distribution areas become trumps.

Only those concepts score which allow the middle-sized business owner to set a strategic course. Then the financial investor commits himself temporarily as a minority shareholder without wanting to exercise continuous influence on the management of the company and its operational business. Rather he advises, supports the commercial all-rounder, which is what the middle-sized business owner usually is when it comes down to the nitty-gritty: the planning of capital needs and financial budgets, not least with a view to the application of public subsidies, the scrutiny of patents, controlling, the conversion of accounting to international standards or the changes in ownership structure.

"ONE SHOULDN'T WANT TO HANG WASHING ON A RAINBOW."
Christian Friedrich Hebbel,
German playwright
(1813-1863)

Stockholders' equity providers certainly put companies through their paces. However, this due diligence belongs on the other side of the negotiation table, too: the company owner must measure his potential partner against his job specification. Investors who have a short-term investment horizon of one to two years in mind are seldom interested in conserving a life's work. Those who concentrate on young growth companies are probably hardly in a position to solve a problem of succession. Financiers without an international network are of little help where growth strategies for foreign markets are concerned. An investor who cannot offer the entrepreneur a repurchase option of his shares will scarcely live up to the maxim of lifework treasured by the head of the family firm. And finally, the stockholders' equity provider won't be liked by any middle-sized business proprietor if he is indiscreet – not every company owner likes to hear his firm's selling price or his margins being talked about in public.

"HASTE IN EVERY BUSINESS BRINGS FAILURES."
Herodot,
Greek historian
(ca. 490-430 b.c.)

The entrepreneur would like a stockholders' equity provider who acts as an "institutional family partner", investors who through their owner structure have access to the capital markets and have a long-term, if anything partner-like approach to consultancy. Financiers, for their part, are more like "life period partners" than "friends for life" – that sometimes touchy subject of exit. Only when disinvestment and the necessary attainment of business parameters to achieve exit have been sealed in advance, can the corks be popped in light of the investment contract.

At the end of the 1990's the champagne was put to cool even earlier: from the first day of investment one worked towards going on the stock market, the first listing on the Neuer Markt. Everything had to happen quickly, one invested in "hot" sectors with rudimentary "story" which were sold on rambling road shows with a big advertising budget to investors hungry for market benefits. New issues took on the character of venture capital, the stock market had become the experiment laboratory for embryonic business plans. The maxim of Kant's categorical imperative, according to which the individual should act as though it were universal law, was no longer in use.

AFTER THE INDEGESTION

Meanwhile, the Neuer Markt is lying like a burnt out supernova in the central graveyard of German stock market history. However, its basic concept that on the one hand the local financial centre more than desperately needs an intact platform for middle-sized businesses, and on the other investors, is as fresh as a daisy. A new stock market segment must be created, one that might reproduce the past success of the Neuer Markt, without bringing its scorched name with it. One that grants new issuers the attention of investors which is so vital, without classifying into “old” or “new” industries. One with few admission requirements, without scarcely attainable conditions regarding the extent of market capitalization or tightly drawn minimum free float.

High time that politics addressed such thoughts by giving tax incentives in advance. Great Britain and its Alternative Investment Market (AIM) has shown the way. All the same: start ups which focus particularly on technology, spending 15.0% or more of their turnover on research and development, are to get tax benefits in future – along with the investors who provide the capital for this.

Macro-economically the right step, maybe the first to make the perpetual dirges on the lack of dynamic innovation and growth of the German economy sound utterly leisured. Jobs are created, new industries develop, existing ones are modernized. All kinds of income now arise in companies. Furthermore, the concentration on core business areas and the spin-off of certain operations is in line for many middle-sized businesses – the disentanglement of the “Miscellaneous Goods Store, Deutschland AG”. Off-floor investment capital acts here as a possible catalysator.

In any case, it is an extremely well-tried means of tackling the chronically low stockholders’ equity ratio of the German middle-sized businesses and at the same time simplifying access to borrowed capital. It’s about securing the existence and further development of small and medium companies, no more, but especially no less. And the appointments calendar is breathing down their necks, not only with regard to the start date of Basel II: it just so happens that the strategic window for successful financing of a project is only open for a limited time, it’s in the nature of things. Innovations in constantly changing markets follow at more frequent intervals, while at the same time the emerging competition threatens to catch up on the technological and conceptual head start. What counts is to push ahead with the upcoming process of financing quickly and unerringly. A strategy initiated today, financing the company with either private equity or venture capital can, within the framework of a two to four year upswing scenario, blossom into the first or even a totally new success. Without investment capital small and medium enterprises are turning down an important financing tool with which the problem of stockholders’ equity shortage is disposed of permanently, allowing the proverbial success factors of middle-sized businesses, creativity, flexibility and proximity to customers to be preserved. Private equity and venture capital close the gap between the needs of small and medium businesses and the demands of the capital markets.

The “top discipline of going public” is open to any company that in the build-up years cannot only prove its product and market competence, but can also show that the management understands how to handle growth and is capable of meeting increased transparency requirements and applying good corporate governance. Then, financing sources of a totally different magnitude are accessible, new values can develop.

ADDRESS FOR MIDDLE-SIZED BUSINESSES

Without taking calculated risks it is absolutely impossible to make progress, they have become a factor of production. In order to utilize their investment potential the whole breadth of middle-sized businesses needs stockholders' equity. The smaller the business, the bigger the need. The ways out of this dilemma, however, are not as numerous as the very small and small companies in Germany as a whole.

They are not commonly the "big tickets" that the investment banks or private equity and venture capital addresses enthuse about. "100 million € is the minimum issue volume", one says, "It must be at least 50 million €", says another. As if it were about vital statistics, a "50-2-50 rule" is drawn up: the stock market or investment candidate has to show a turnover of 50 million €, have been earning income for at least the last two years and occupy at least 50 full-time employees. Even better would be a note in the report: "Has attained a positive cash flow for the past year."

It sounds like someone following motherly advice: "Whoever plays with fire is going to get burnt." But risk aversion does not help when one wants to stop the biggest gaps – which come in lot sizes of anywhere between one and five million €. "For that sum a healthy company can go to the bank and get a loan", comes the conceited remark from the larger institutes. Only it's rather unfortunate that at the same time the banks are pulling out of the credit business for middle-sized companies – more often than not, the "pink slip" cites insufficient stockholders' equity as the reason.

However, that does not have to be the attestation that forces the company owner to put his investment plans in the "on hold for ever" file, thereby putting his business under conservation, virtually. For the novice entrepreneur who has just fought his way through offices hostile to company founders and, for the most part, has put all his assets into this independent livelihood, that would be just too quick an end. He is short of the one-digit million € sum coming from an outside injection of capital. But at precisely this point the market is as if swept clean of offerers. Today, smaller participatory investments are seen as not so attractive because of their high risks and supporting costs – that's the popular prejudice. No wonder, then, that the location of Germany is lost to young entrepreneurs and founders of new businesses, because they are finding fewer capital providers. Researchers and engineers no longer dare to make the step to autonomy because they balk at the financial risks; good ideas from universities are no longer further developed into saleable products. Friction in growth and employment is inevitable.

A classic case of market failure: a half-empty glass. The half-full glass: use opportunities in niche markets. It's time to dare to come out of hiding and loosen the handbrake of the past years: the recovery of the German investment market is about to reach the local early stage financiers.

VENTEGIS CAPITAL AG

The Ventegis Capital AG is one of them, whereby the criteria of participation in start ups is not inalienable. Whether as lead or co-investor: the commitments must, in the first instance, be orientated on the potential rate of return. And they are the sum of three consecutive steps: at the beginning through the achievement of an opportune purchase price, during the holding period through operational improvements in the associate company, critical examination of its business plan and long-term strategy and finally, at exit, by obtaining a good selling price.

The focal point of the investment universe is the German market: after all, it is always better to be on home ground. What's more, spatial proximity is a crucial factor, the network of the stockholders' equity provider and the local contacts are, within this framework, of most use to young businesses.

The amounts invested by Ventegis Capital AG fit exactly into the neglected niche of first commitments of up to one million €. For the temporary co-management of three to five years, it is mostly the areas of information and communication technology, industrial technology as well as life science which come into question. A clear focussing of genre in order to achieve synergies within the investment portfolio. At the same time, it is not so much the trend of a whole sector which stands in the foreground as the individual profit prospects of each commitment: the parameters for comparing the potential generators of values are the bearing capacity of the company structure and business plan, quality of management, a head start over competitors in an above average growing market, products with real unique selling point qualities, clear customer benefit and convincing concepts for their sale, a plausible financial budget.

So much on the pure investment area of Ventegis Capital AG as one side of the coin, the other: a multitude of advisory services around the subject of securities. This can be listings on the OTC-market, reverse merger transactions, private placements, secondaries or structured financing, the whole lot subsumed under financial advisory. Another niche only known to very few comparable rivals in Germany. And one that in the past years of portfolio reassessment has developed into a stable second business area for the company.

At the end of the business year 2002 we held just 37.06% of Ventegis Capital AG, twelve months later it is 68.5%. What happened in-between was a capital write-down at the ratio of 9:1 and subsequently a capital increase with an accrual of funds of around five million €, whereby we made full use of our subscription rights.

The former Berliner Effektenbeteiligungsgesellschaft AG, since the merger with Cybermind AG today's Ventegis Capital AG, had in its time a "liaison merveilleuse" – with the then Berliner Effektenbank AG. An alliance for the mutual enhancement of synergies.

CONSORS CAPITAL BANK AG

Formerly the Berliner Effektenbank AG, today Consors Capital Bank AG. Names are changeable, not so the interest in structured business for middle-sized businesses. That this has always been correct was "authenticated" by a widely applied study from the past calendar year. The quintessence of which, is that banks which align themselves with middle-sized businesses beyond the usual services of business loans and monetary transactions will be able to steer their value proposition positively in the coming years.

This is, in fact, a good description of the core competencies of the Consors Capital Bank AG. They, however, go much further: the area of private banking has dedicated itself to the disciplines of investment, asset management, asset protection and asset construction for well-to-do private clientele. A clear goal: to develop and implement investment strategies tailored to the customer.

After all, a client expects from his bank advice which caters to his personal wishes and aims. He wants to be sure that for a specific financial demand within his investment and asset allocation he receives objectively the best product and the best service. But sometimes his search is in vain. The average customer retention rate in the entire banking business lies around 86.0%, in asset management it is 80.0%. A window of opportunity for the Consors Capital Bank AG to win over new customers.

Thus, the intensity of customer support becomes the fundamentally decisive measurement category. Monolithic large banks are content with an average of six hours per year and per customer – for a private bank such as the Consors Capital Bank AG this is not enough. In confidential customer consultations it scores, additionally to superior investment advice, with individual concepts for asset disposition, prospect and risk analyses within the realms of asset management and optimization of asset and liquidity structure.

The monthly customer magazine PERFORMANCE provides additional munition: with research on the current stock market situation – independent, economically fundamental, free from recommendations of single securities or "modern" industries.

The new target group is the independent asset management companies. In order that they can provide their clientele with "the best product" and "the best service" at any time, Consors Capital Bank AG offers them advice and customer orientated suggestions for solutions, from its function as custodian, member bank of a syndicate and commercial bank via asset management, through to sales and marketing co-ordination.

And therewith, the key concept for the business area called institutional business: using the conditions of special funds, either within the framework of a hedge concept against price risks or as yield return orientated investment approach, profits can be generated either as a custodian and commercial bank or as a management adviser, whatever the situation of the capital markets.

The settlement of securities transactions arising from the areas mentioned is carried out in the department of financial market services, thus clearing-office for the private banking department, custody business, additionally, for the both entities corporate finance and institutional business, the execution of corporate actions.

Investment banking. In past years a synonym for bitter losses and total inhibition. Last year, through the burning glass of the German primary market not one single new issue was to be seen, a fasting period, the first since 1968. In those days, APO was more important than IPO and, in contrast, the last years of the stock market rather have made a volte-face in the stranglehold of the gloomy crisis of trust.

However, the mood of the financial markets has brightened up considerably. The floor is anew open for business, the stock market is receptive and is once again offering bearings for a fair evaluation. Many companies have survived the consolidation of the last years and have put their balance sheets in order. They know that yet more draconian cost capping is not going to improve their profitability any further. Now they need capital for the next growth step, for investments, to be in on an economic recovery. The desks of the private equity and venture capital companies are tidy, once again finished IPO concepts and business plans lie waiting in desk drawers.

At the Consors Capital Bank AG, however, there is still room for an extra modus operandi, for a new, different type of investment banking which has assigned itself the task of advising the small and mid cap segment on questions of stockholders' equity base financing – with the customers' interests in mind. In spite of what Friedrich von Metzler says, there should be no going public at all costs. Much better: to accompany the client on a road orientated to his needs, whether regarding financing flanked by new legal regulations such as Basel II or, in the case of listings, with sound secondary market support.

Ora pro nobis, altogether, as one mind: the basic idea for the integration of new business areas into already existing ones is the philosophy of the network investment banking as a comprehensive concept for maximum customer satisfaction. An expansion around the newly affiliated disciplines is planned for 2004, with due judiciousness regarding the profit dependency on economic and business stimuli in Germany.

On October 2, 2003, the Berliner Effektengesellschaft AG repurchased 82.7% of the Consors Capital Bank AG from Cortal Consors S.A.; as a strategically important entity it now belongs 98.6% to the Group. A conscious and consequential amalgamation of consistent and considerate variables.

BERLINER FREIVERKEHR (AKTIEN) AG

The interests held in the Berliner Freiverkehr (Aktien) AG remains unchanged at 100.0%, without a doubt still the main supporting pillar in the Group of the Berliner Effektengesellschaft AG. Up until recently a pure financial services provider, since October 2003, a securities trading bank, once more with the facility to carry out IPOs or to issue modern financial instruments.

At the beginning of the year such prospects were not to be thought of, the mood was grey, strictly speaking jet-black. The capital markets were burdened with the hypothecary weight of the severe crisis of trust, fears of deflation spread doom and gloom and the stock exchange indices brought up the rear as compliant vassals. Investors licked their bear market wounds, courage to make new investments was lacking, it was much too late to sell. Business went badly, for the first quarter in 2003 the Berliner Freiverkehr (Aktien) AG had to report a net loss of over one million €. That did not bode well for the remaining nine months.

Then came the war in Iraq, amid the thunder of canon fire Nathan Rothschild's challenge to buy was set. Private investors returned to the stock market, they were of a mind to deal with stocks once again and the Berliner Freiverkehr (Aktien) AG, as order book manager for around 7,050 domestic and foreign securities, was glad to see a distinct rise in order and business volume. From the second half of 2003, in lockstep with worldwide rising indices, investors dared to look beyond their home waters with increased frequency. China was and still is a big topic.

That does not mean that private investors have to endure a twelve hour flight: namely the Berliner Freiverkehr (Aktien) AG has introduced around 800 securities from the "Middle Empire" onto the OTC-market of the Berlin-Bremen Stock Exchange, so that investments at domestic terms are possible rather than being subject to a minimum transaction charge in Euros of double figures – as is the norm on many foreign markets. Miles away from the Chinese Wall the trading is transparent, price movements are traceable via the open order book at any time.

TradeGate®

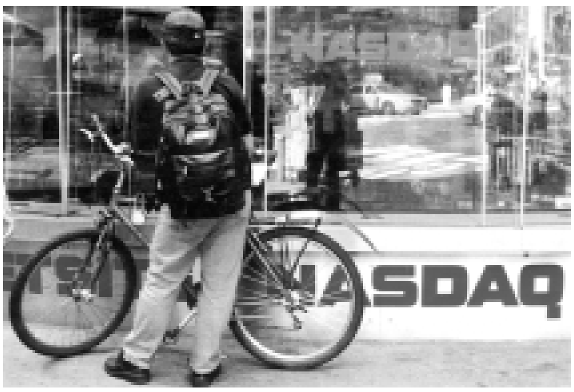
Talking of foreign stocks. They comprise a weighty share in one of the main focal points of the operational business activities, on TradeGate®, the off-floor trading platform which the Berliner Freiverkehr (Aktien) AG has built up and has always developed over several years – and will continue to do so in the future. After all, private investors' sensitivity of trading systems has much increased, the choice of the best platform and the optimization of transaction prices can be one of the deciding factors of whether an investment closes with income or loss. Today's customer is no longer satisfied with reading the quotation list in yesterday's paper, he is well-informed and has direct access to systems which provide a quick execution at a binding price. TradeGate® can cater specifically for customers' wishes, whether it be an extension of "opening times" or the incorporation of additional securities into the trading universe.

Meanwhile, the system operates so sophisticatedly that the Berliner Freiverkehr (Aktien) AG offers its prices not just via a direct connection to TradeGate®, thereby serving the customers of Cortal Consors S.A. Once our wholly owned subsidiary has generated a price for a stock, which it does for thousands of securities, it can show it on an unlimited number of markets. Thus, TradeGate® is not "just" a trading system but also a pricing system. Theoretically, off-floor prices can also be made visible on stock exchange systems but other off-floor platforms can be used just as effectively. What the Berliner Freiverkehr (Aktien) AG actually does to connect its customers, so it is with Cats-OS, the off-floor trading platform of the Citigroup. In this case, many market participants are linked up anyway and the operational unit uses this fact in parallel in order to distribute its off-floor prices for stocks. In the same manner, comdirect bank AG, S-Broker AG and the Deutsche Bank AG with maxblue are connected to the system.

On the subject of new issues alone, the necessary amount of business was absent for a long time. As an interface-free all-round provider in the securities business the Berliner Effektengesellschaft AG is then complete when the Berliner Freiverkehr (Aktien) AG secures the market making for the listings carried out within the Group.

Digression: Nasdaq Deutschland

In order to meet the demands of today's customers and market participants, Nasdaq Deutschland went into operation at the end of March 2003 with the dual concept of an open order book with simultaneous best execution facility and internalization with regard to the settlement of transactions. Virtually the last chance to prevent a stock exchange monopoly in Germany – lost. With stock exchanges and market operators, too, it is competition that stimulates business in the end.



In the spring of 2003, however, it was obviously too late for that, ultimately, the start took place at the peak of the capital markets' crisis and the most unfavourable time imaginable. In June 2003, the stock market turnover lay at 147 million €. "If business had been better, Nasdaq would have held on", was what one heard from the initiators' circle of Dresdner Bank AG, Commerzbank AG, comdirect bank AG and the Berlin-Bremen Stock Exchange when on August 29, 2003, the lights went out at Nasdaq Deutschland.

Originally, Germany was to be the prelude to Nasdaq's expansion in several European countries, the Netherlands and France were being talked of. However, in the autumn of 2002, after the US-stock exchange had already given up on its Japanese joint venture and the idea of world-spanning 24 hour trading, after the assumption of office by Robert Greifeld, the definite end of any expansion plans was in the offing already in May 2003: "We must concentrate on being the most important stock exchange in the USA and bring as many market participants as possible into the big Nasdaq camp", was how the new Nasdaq-CEO made the strategy change unmistakably clear.

Shortly afterwards came the announcement of the plan to close Nasdaq Europe S.A. by the end of November 2003. At this point in time the German off-shoot already lay on Greifeld's test bench, he was looking for big, new investor for the 50.0% share of Nasdaq Europe S.A. – which, however, he did not find.

Finally, the "fait accompli" version, the speed of which surprised even those parties concerned: the extremely short life of Nasdaq Deutschland was astonishing of course, but overnight business closures of this kind were obviously "typically US-American". Such a project should be allowed to run at least two years, teething troubles should have been reckoned with, these were also some of the comments made by outsiders.

"Events, young man, events", was the answer of Harold Macmillan, the British Prime Minister in the 1950's, to a journalist's question of what made his work so unpredictable. In this spirit the end of Nasdaq Deutschland certainly came much too quickly. From the very beginning we wanted to support a new stock exchange with good general conditions and a modern range of functions, a market which in the end could not succeed. Regrettable, but not a decisive influence on our long-term strategy, although it has caused financial losses at holding level. The declaration made by Mr. Holger Timm, Speaker of the Board, at the shareholders' convocation on December 2, 1999, still holds true: "We want a stock exchange that represents market maker trading systematics. Our company thinks global, we do our business where the environment is right."

BERLINER EFFEKTENGESELLSCHAFT AG

The subsidiaries have been described, this strategic substructure is then centralized at the next level into the listed financial holding, the Berliner Effektengesellschaft AG, to allow the development of business potential synergies.

Sometimes a contemplation of one's own roots and a return to approved structures is the only correct methodology – with "management by good common sense". Let us look back to confirm the accuracy of this statement. Before the absurdities of the "New Economy" there were more moderate times, in which banks and financial services providers believed in young growth companies of substance and accompanied them on their way to the stock market. In those days we had the sensibly networked business areas of stock exchange trading, private and investment banking as well as venture capital combined with added value, all under the roof of the Berliner Effektengesellschaft AG.

Times are similar today. However, attestations of a turn in economic trend have not yet completely turned out to be true, in some areas the economic upswing is more "virtual" than real. Still, the portfolio adjustments in the area of venture capital have been completed, the market has stabilized. And after the explosive mixture of falling company income and restricted lending by banks, the weakness in stockholders' equity of German middle-sized businesses is just as effective as stocks as a financing instrument. Good opportunities for good business – with the right company structure.

On September 23, 2003, the H.T.B. Unternehmensbeteiligungen GmbH informed us about its intention of purchasing 40.78% of the nominal capital of the Berliner Effektengesellschaft AG from the previous majority owner Consors Discount-Broker AG, meanwhile Cortal Consors S.A., and to submit a voluntary takeover bid to the outside shareholders of our company. Behind the H.T.B. Unternehmensbeteiligungen GmbH is Mr. Holger Timm, the sole owner and managing director of the company.

The tender documents of the voluntary takeover bid were not made public. However, on October 30, 2003, the H.T.B. Unternehmensbeteiligungen GmbH purchased 40.78% of the voting rights of the Berliner Effektengesellschaft AG and therewith, according to the Wertpapierübernahmegesetz (WpÜG) – (Securities Acquisition and Takeover Act), acquired control – which triggered the submission of a mandatory offer from the bidding company to the outside shareholders of the target company. As required by law, in the case of a change in proportions of majority holdings the shareholders are given the opportunity on the basis of a mandatory offer to decide anew whether they want to hold on to or dispose of their investment.

The time limit for this is determined in the tender documents – in our case: from December 12, 2003, until January 9, 2004. During this time a total of 37,457 individual stocks were made use of. This is equivalent to a share of 0.23% of the nominal capital and voting rights of the Berliner Effektengesellschaft AG.

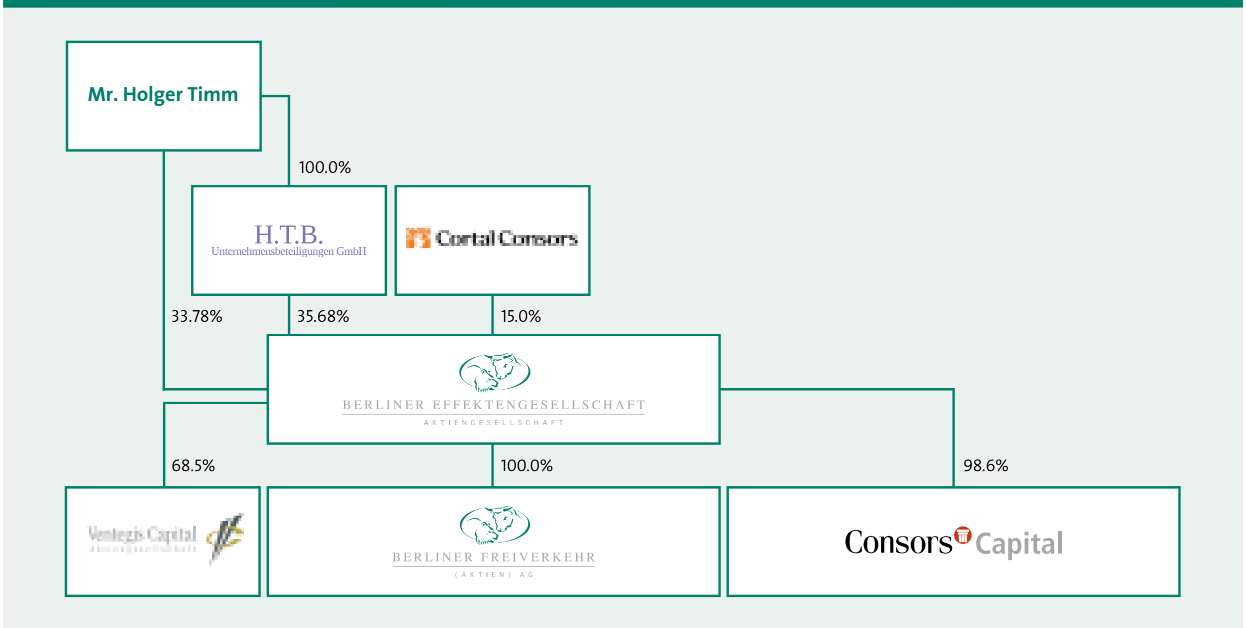
After these securities offered at a price of 6.25 € per individual stock, had been bought from the bidding company on January 16, 2004, the H.T.B. Unternehmensbeteiligungen GmbH initially held a 41.01% share of the Berliner Effektengesellschaft AG. Moreover, at this time Mr. Holger Timm also had a direct 28.45% stake in our company. On January 20, 2004, the whole package of 69.46% was newly divided: since then to Mr. Holger Timm 33.78% of the Berliner Effektengesellschaft AG are attributed directly, and another 35.68% indirectly via the H.T.B. Unternehmensbeteiligungen GmbH.

Cortal Consors S.A. remains an investor with 15.0%. Both parties saw this as being very important, since especially in the operational business with our wholly owned subsidiary, the Berliner Freiverkehr (Aktien) AG, we continue to be closely connected with Cortal Consors S.A.

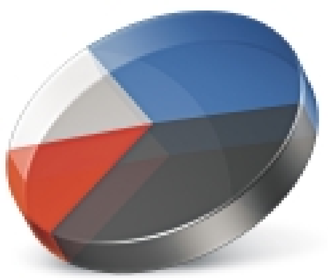
Following the expiry of the mandatory offer, the proportion of outside shareholders now stands at 15.54%. The fact that this free float has been depleted by only a comparatively small percentage is seen as proof of the trust in our company and its future opportunities. In the meantime, the shareholders who have kept their investment have been able to rejoice over a capital distribution of 1.88 € per individual stock, paid out on January 30, 2004. Naturally, we have heard of the saying “A heavy purse makes a light heart”, but with good corporate governance in mind, we decided to take what may seem to outsiders as a rather unusual step and make a capital return to shareholders.

Once again, to say it aphoristically, this time with Georg Christoph Lichtenberg: “Order is the daughter of deliberation.” Within the listed financial holding Berliner Effektengesellschaft AG, the organizational structure with its business areas of stock exchange trading, private and investment banking as well as venture capital is clearly ordered, so too are the proportions of majority holdings. All that’s missing is the sweeping confidence in an IPO sky.

ORGANIZATIONAL STRUCTURE



SHAREHOLDER STRUCTURE



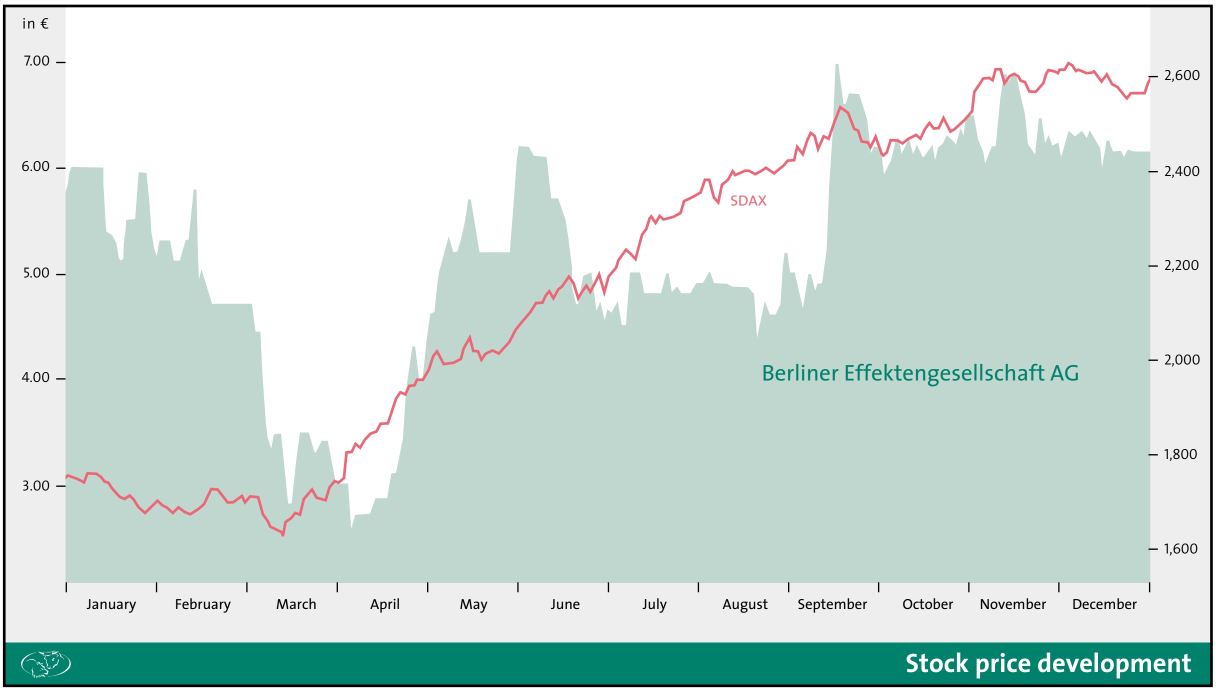
35.68%	H.T.B. Unternehmensbeteiligungen GmbH
33.78%	Mr. Holger Timm
15.0%	Cortal Consors S.A.
15.54%	Free float

The free float accounts for 15.54% of our stock capital or 2,480,209 individual stocks.
As at December 31, 2003, we held no own stocks in the portfolio.

PRICE DEVELOPMENT OF OUR STOCK

SECURITIES IDENTIFICATION NUMBER 522130, ISIN DE0005221303, OFFICIALLY LISTED IN BERLIN AND FRANKFURT/MAIN

BERLINER EFFEKTENGESELLSCHAFT AG vs. SDAX
From January 1, 2003, to December 31, 2003



At the beginning of the year everyone was looking out to the open sea like an abandoned sailor's wife longing for their ship to return laden with happiness. So it was, too, with our stock which on April 1, 2003, hit rock-bottom at 2.20 € – only then to be "chased to the cash till" up to almost seven €. At the end of the year, with a closing price of 6.25 € there remained a substantial plus of 184.0%.

A look at the chart of our stock shows that a stable base has now been achieved. With hindsight, its beginning can be traced back to the summer of 2002. It took around 15 months' work and produced one of the most reliable characteristics: a shoulder-head-shoulder base, a formation known as a classic one among turnaround patterns. The break upwards through the upper limit line usually signals the beginning of a long-term upward trend; this was indicated by our stock in September 2003 – with a dynamic price increase above the neckline of the formation at around six €. At about the same time, the 200-day average line began to rise, for the chart analysts a confirmation of the newly commenced upswing.

Whereby our stock was of the same tenor as the stock market year 2003: small caps, for a long time out on the sidelines, climbed onto the winners' podium and put the DAX, in its 15th jubilee year, in its place. At the same time, our stock also had to deal with a rather unusual situation: the wager on the imminent capital distribution started right in autumn 2003; the Scherrer Asset Management AG in Switzerland rated our stock four times in succession as "strong buy".

CORPORATE GOVERNANCE AND INVESTOR RELATIONS

"The Berliner Effektengesellschaft AG is the only company from the General Standard to reach the group of top scorers" – that was the result of a study carried out in summer 2003 coming from ergo Kommunikation in Cologne and Frankfurt/Main on the implementation of the German Corporate Governance Code in German small and mid caps. In the overall standing of 128 companies we made 15th place, definitely a good result.

And that, despite what the initiators see as a "not very surprising finding that the number of divergences from the Code is increasing with declining market capitalization and company size." Well-off the mark. In our first Declaration of Conformity on December 6, 2002, four exceptions were recorded, two of which lapsed with the change to the articles of association resolved at the shareholders' meeting on June 16, 2003. The second Declaration of Conformity of December 8, 2003, which on the same day was made permanently accessible to shareholders on the internet, repeated the two remaining differences already noted in the previous year, concerning the number of speakers of the board and the age limit for board members.

In both instances inappropriate or, as expressed in the study “Not suitable for middle-sized businesses”. The Board and Supervisory Board of the Berliner Effektengesellschaft AG are convinced that all other recommendations and, to the greatest possible extent, the suggestions of the Government Commission German Corporate Governance Code stated in the version of May 21, 2003, should be satisfied, and declare that they have been and will continue to be entirely complied with in the future.

Now, one has heard of administrators who advise against a commitment with the General Standard as it is the alleged "no-man’s-land” of the German stock exchanges. If things were abetted at all with the new segmentation in March 2003: the game of musical chairs in the competition for capital has been started, but from the beginning the chair for “attention from market participants” has been missing. As if stock market value were everything. What the representatives of such nomenclatures completely overlook: a switch to the reputed “stock nobility” of the Prime Standard is only wise if from there an index affiliation can be achieved. If not, then the hurdles of market capitalization and stock market turnover still have to be jumped.

The Prime Standard is, according to market operators of the Deutsche Börse AG, “For companies which fulfill particularly high international standards of transparency” and they then refer to quarterly reports, international accounting standards or the submission of a company calendar. A criterion we do fulfill. We are proud of an additional means of transparency: in 2003 we conducted our fifth shareholders’ convocation, a small anniversary. As every year, in an informal environment and without the strict rules of a shareholders’ meeting, the shareholders were able to ask questions of the Board members of their company and bring themselves up-to-date on current business developments.

How about a “GEX” then, a “General Standard Index”, as a columnist of a business magazine once demanded? For the “Solid addresses and successful middle-sized businesses”, that dread the financial cost of the Prime Standard. “Here, thrifty businessmen are at the helm. They do not want to spend 100,000.00 € or more a year, although they won’t be collecting any new stockholders’ equity on the stock market for a while yet”, so the journalistic plea.

Thus, less one-sided rejections would do the segment good. And the disposal of the brush with which everything is tarred would help, too. In research houses and investment banks it is still in persistent use. As long as the commission proceeds do not cover the research expenses of the intermediaries, so the analysts cannot be paid from the turnover which they generate with their studies, the fate of securities from the second and third row are sealed, the only thing left is the “elephant enclosure”.

It is not surprising, then, that over a quarter of the companies listed in the General Standard are steering towards a withdrawal from the stock exchange. We are not planning such a thing, it is not even an option. The easier access to the capital markets remains for us an important instrument of our business policy. With everything that comes with it, not perforce. The Berliner Effektengesellschaft AG thought of recognized standards of good and responsible corporate management long before the publication of the German Corporate Governance Code. And it is with good reason that we have been a member of the Deutscher Investor Relations Kreis (DIRK) – (German Investor Relations Association) for five years and are also involved in a leading capacity with the financial centre of Berlin, working for closer business relations among the listed corporations domiciled here.

D·I·R·K
Deutscher Investor Relations Kreis

Corporate timetable for the remaining business year
May 6, 2004 Report on the first quarter 2004.
June 22, 2004 10.00 a.m. | Shareholders’ meeting in Berlin.
July 29, 2004 Report on the first half year 2004.
October 28, 2004 Report on the third quarter 2004.
December 3, 2004 5.00 p.m. | Shareholders’ convocation in Berlin.

REPORT OF THE BOARD

Following up last year's report of the Board, the starting position of the Berliner Effektengesellschaft AG in the business year 2003 was clear: in order to ensure the continued, most opportune strategic alignment for the company, first of all a new, long-term supporting ownership structure had to be created. The question was, whether in future we should concentrate solely on the core discipline of stock exchange trading represented by our subsidiary the Berliner Freiverkehr (Aktien) AG, or if it was time to become independent from the direct alliance with Cortal Consors S.A./BNP Paribas S.A. to restore the original Group structure of the Berliner Effektengesellschaft AG with its three supporting, mutually complementary and interactive business areas.

The first alternative would have consequently made a parent company, the Berliner Effektengesellschaft AG, superfluous and inevitably brought about a merger of the wholly owned subsidiary Berliner Freiverkehr (Aktien) AG with the listed financial holding. With the second option, an increase of shares in the two other operational pillars (universal banking and venture capital company) was the correct and consistent implication.

Although the Berliner Effektengesellschaft AG has survived the several year crisis of the capital markets comparatively unscathed and is certainly in a good position for the obviously again rising business, few possible buyers of an equity stake in our company presented themselves as potential strategic investors. After the negative experiences of the last years they were showing little willingness regarding decisions due to business policy to reinforce an absolutely expedient, operational co-operation with a corresponding investment in the partner's stockholders' equity. Unfortunately, we too have not been spared such negative experiences, as the minority stakes in Nasdaq Europe S.A., Ladenburg Thalmann Financial Services Inc. and Online Securities Holding Inc. clearly demonstrate. Such minority stakes are obviously not suitable for the further development of operational business since, for all intents and purposes, even concerning foreseeable errors one has no decisive influence on points of business policy.

For the future, therefore, it is not just our company's ambition to incorporate important strategic participatory investments at least in majority, if not wholly, into the corresponding Group. From this point of view it was easy to understand the justified request of Cortal Consors S.A. to bring the amount of their participatory investment in the Berliner Effektengesellschaft AG below the consolidation limit of 20.0% as quickly as possible. On the other hand, in the light of the dramatic reduction in order flow in the total market it would have been less than wise for our company to search for a new majority shareholder which in turn, just like Cortal Consors S.A., was a big customer in the operational area. The favourable starting point with our own trading platform TradeGate® can certainly be best developed further in the future if the Berliner Effektengesellschaft AG once more presents itself as an independent, self-contained Group and bundles the order flow from as many market participants as possible at attractive price conditions.

With this in mind, there was only one self-evident and sensible solution: Mr. Holger Timm, founder of the company and, as before, Board member of the Berliner Effektengesellschaft AG and the Berliner Freiverkehr (Aktien) AG, was to buy back the majority of shares.

The negotiations for such a transaction, seen by both contractual partners as fundamentally reasonable, were already opened at the beginning of 2003. But, at

January 2003
Weakness:
Right at the beginning of the year the Euro hits its low of the year at 1.0332 US-$.

Berliner Effektengesellschaft AG
The new year begins where the old one left off, with weak turnover. The stock markets are paralyzed in desolation.

February 2003
Schröder's measuring rod:
Unemployment in Germany reaches an all-time-high since the governmental beginning of the red-green coalition. 4.623 million people without work.

Berliner Effektengesellschaft AG
Announcement of the preliminary figures for 2002: operational loss for the year of - 1.3 million €, compared with 2001 an improved Group result of around 35 million €.

March 2003
"Operation Iraqi Freedom":
About 90 minutes after the expiry of the ultimatum given to Saddam Hussein to leave the country, the first US-cruise missiles fly in the direction of Baghdad.

Berliner Effektengesellschaft AG
Launch of Nasdaq Deutschland – the wholly owned subsidiary Berliner Freiverkehr (Aktien) AG acts as market maker from the beginning.

April 2003
Breathing mask:
In East Asia a new, deadly virus spreads increasingly, the mysterious lung disease Sars becomes a world-wide health threat.

Berliner Effektengesellschaft AG
After the haunting sell-out, private investors return diffidently to the markets – the number of orders becomes stable.

May 2003
Swan song:
Six weeks after the beginning of war, US-President George Walker Bush announces from the US-American aircraft carrier "Abraham Lincoln" the official end of the main combat operations in Iraq.

Berliner Effektengesellschaft AG
Publication of the first quarter figures: as at March 31, the Group shows a net income of just under - 1.4 million €, in comparison with the same period of the previous year in which achieved income amounted to 80,000.00 €.

June 2003
Opus magnum:
Da Ba, the Three Gorges Dam on the Yangtze River took ten years to build and is now the biggest of its kind in the world – for the welfare of the party and the people.

Berliner Effektengesellschaft AG
Shareholders' meeting on June 16, in Berlin.

that time, the structure of the balance sheet of the Berliner Effektengesellschaft AG – with its high stockholders' equity which, for the most part, could not be invested usefully and was therefore parked in money market funds – made the desired shareholder change difficult, just as the experience with other conceivable, purely financial investors had already proved. After all, each partner wants, where possible, to invest in productive stockholders' equity and cannot provide financing which serves predominantly to buy fixed-term deposits and money market funds. As this is also not in the interest of outside shareholders, the Board suggested at the shareholders' meeting in 2003 that the stockholders' equity not needed at the moment should be distributed to the shareholders. This was agreed unanimously by the plenum so that ca. 30 million € was made available for the repayment of capital. The distribution was made in January of this year after expiry of the legal time limit. Following the resolution at the shareholders' meeting the way was also clear for a change in major shareholding of 40.78% from Cortal Consors S.A. to Mr. Holger Timm.

The corresponding contracts were signed in September. Since the 30.0% quota had been exceeded, Mr. Holger Timm was obliged to make a cash compensation offer to the outside shareholders in accordance with the Wertpapierübernahmegesetz (WpÜG) – (Securities Acquisition and Takeover Act). This mandatory offer was conducted during the months of December 2003 and January 2004, whereby the company was not at all disposed towards reducing the free float further, of course. At no time was a squeeze out the intention.

Though the mandatory offer was a legal requirement it was in no way in the best interest of the company or its shareholders. Happily, the outside shareholders recognized this fact, the stock price of the Berliner Effektengesellschaft AG recovered considerably with a relatively high turnover at the end of the year so that the mandatory offer was, in the end, accepted by only very few investors.

The contracts of Mr. Holger Timm and Cortal Consors S.A. are geared towards keeping a long-term bond between the company and this important customer and partner. This is documented on the one hand by the remaining 15.0% of shares which Cortal Consors S.A. have kept, and on the other in the ten-year, success-related improvement components with regard to the purchase price.

In autumn of the business year 2003 with the signing of the contract on the horizon and thus the clarification of the shareholder structure, the Board was already able to come to a decision of general principle regarding the further orientation and future structure of the Group. We are of the opinion that with the recovery of the capital markets and the apparent financing problems of the German middle-sized businesses, in the next few years there will be an increased need for comprehensive services around the capital markets.

The Berliner Effektengesellschaft AG can best do justice to this situation in its traditional structure as a financial holding with three operational subsidiaries (securities trading bank, universal bank with investment banking and a venture capital company with the possibility of bridge financing). The Group's combination of these three units affords significant comprehensive know-how, the individual business areas can profit mutually from the prospective synergy potential.

In October 2003, therefore, the Berliner Effektengesellschaft AG repurchased under attractive conditions the majority of the Consors Capital Bank AG; the participatory investment comes to 98.6% now. With Ventegis Capital AG a capital increase was realized in full so that here, too, the interests held went up – from 37.06% to 68.5%. For the purpose of a further meaningful integration of Ventegis Capital AG into the Group, we will also submit a voluntary offer to its outside shareholders to exchange their stocks for those in the Berliner Effektengesellschaft AG.

The majority purchase of both these companies in the fourth quarter of 2003 has already had several effects on the present Group balance sheet which, with a sum of - 5,000.00 € is almost balanced. Within the Group of the Berliner Effektengesellschaft AG, both subsidiaries, but in particular the Consors Capital Bank AG, must, of course, carefully examine all business areas and, if need be, tap into new resources of profits. Hereby, teething losses are to be expected in the current business year which have already been accounted for on the basis of realistic, conservative target figures in the 2003 Group balance sheet of the Berliner Effektengesellschaft AG.

The focal point of the operational business in the past year was well and truly centred in the area of our wholly owned subsidiary, the Berliner Freiverkehr (Aktien) AG. Here, of course, the main concern with the extension of our own trading platform, TradeGate®, was in spite of the unfavourable market environment not to make cutbacks regarding the further development of this so-called ECN. Especially the miserable failure of Nasdaq Deutschland as a conceptually expedient and appealing stock exchange trading platform, confirmed the Board in its decision to go on developing proprietary products thereby ensuring the company's long-term competitive position. That the survivability of individual or even all stock exchanges is in no way as sure as fate is shown by the respectable successes achieved by ECNs in comparison with the traditional stock exchanges in the USA.

With our own platform we are in a position to offer unrivalled favourable executions and settlements and always have the necessary flexibility to respond quickly to changing customer needs and demand behaviour. The continued healthy cash flow of the company and likewise the stable provisions of stockholders' equity allows us to plan and act for the long term in such investments. From an entrepreneurial point of view, it is baffling, of course, that Nasdaq should close down its German off-shoot after only a few months in operation. In contrast, we, at a very early stage, persistently invested in what we consider to be the right trading structure for the future and, especially last year, by German standards made remarkable progress in off-floor trading. In this cycle we still expect to gain further territory using our system TradeGate® which, taking into consideration the projected new general regulations, should be able to prove itself as a serious rival to the old stock exchange structure then.

Ultimately, the fact that our company can show an almost balanced operational business result is thanks to the fortunate circumstance too that the self-fuelled downward trend of the last years could be stopped in the second term of 2003 and what is more: the order volume is on the rise.

July 2003
Sinus sagittalis superior:
The one existent vein thwarts the success of the operation which was to separate the conjoined twins joined at the head, Ladan und Laleh Bijani from Lohrasb in Iran. The two young women die during the operation.

Berliner Effektengesellschaft AG
Announcement of the half year figures: in June, the Berliner Freiverkehr (Aktien) AG has made income for the first time in the current year. Compared with the first half of 2002, the Group is able to reduce its net loss by approximately seven million €.

August 2003
Darkness:
Lifts and underground trains come to a halt, air-conditioning systems go on strike, rail and air networks collapse – the biggest power failure in US-American history paralyzes the entire East coast.

Berliner Effektengesellschaft AG
Honouring for good corporate governance.

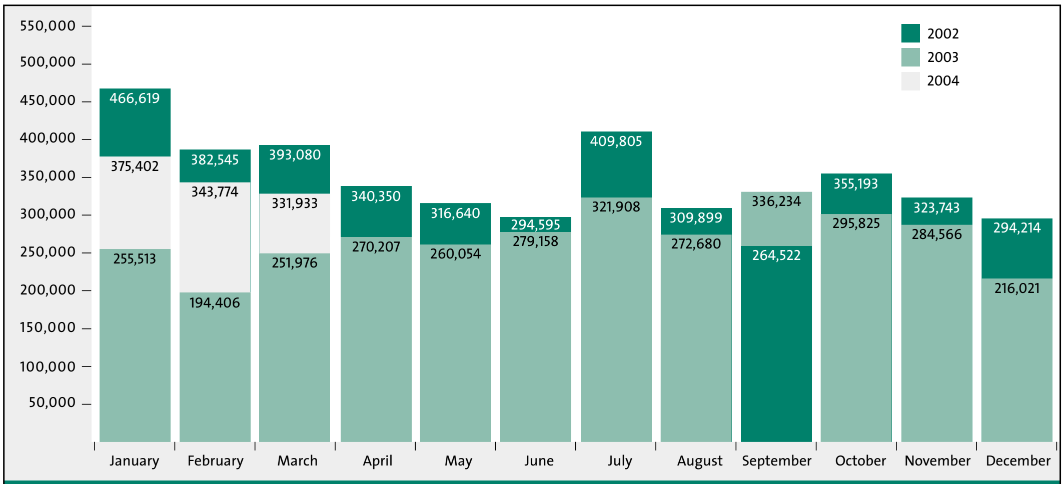
Nasdaq Deutschland discontinues business.

September 2003
Murder:
The Swedish Foreign Minister Anna Lindh is fatally stabbed in a department store in Stockholm. Her death signifies the demise of a symbolical political figure but also of Sweden's vision of a free-spoken society.

Berliner Effektengesellschaft AG
An operational income of 260,000.00 € in the third quarter raises hopes of "making up leeway", thereby achieving balanced annual financial statements.

October 2003
Governator:
From deepest Styria to the pinnacle of the US-American Federal State of California – Arnold Schwarzenegger becomes governor.

Berliner Effektengesellschaft AG
Reorganization as far as the eye can see: repurchase of the majority of Consors Capital Bank AG and reintegration into the Group; the Berliner Freiverkehr (Aktien) AG becomes a securities trading bank once again.



Number of executed transactions for a monthly comparison 2002/2003/2004

As every year, we show here the number of executed dealings for a monthly comparison. Actually, they do not necessarily form a ratio of 1:1 in the income statement, but do illustrate relatively reliably the market environment which is relevant for our profits. The development in the first half of the year and in particular the first quarter of 2003 was in fact very worrying since the critical mass in order volume was not achieved. Companies like ours are exposed to such market developments practically without any viable counteractive measures because certain cost pools in the business of financial services providing and securities trading banking cannot be reduced, not even temporarily. A circumstance which has already led to an extensive but healthy shake out in our peer group.

The positive development of the first quarter in 2004 certainly makes the future look brighter. It would be a little premature to diagnose a definite new trend, but there are signs that after the radical straightening out of a speculation phase of fundamentally rather undue intensity, the capital markets are once again entering calmer waters with increasing long-term volume. Optimism is particularly justifiable in our company because, at least in our main business area, we are not necessarily dependent on an economic growth in Germany. On the contrary, it has always been one of the strengths of our subsidiary, the Berliner Freiverkehr (Aktien) AG, to develop a timely business sense for relevant growth markets and to provide domestic investors with reasonably priced access to them. For example, long before the Neuer Markt came into existence, we placed emphasis on technology stocks from the USA and all over the world. From South African rand bonds to Russian ADR-programmes – we were often among the outriders in the establishment and professional support of these securities, listed on the OTC-market of the domestic stock exchanges which were also attractive for German investors. In autumn of last year we introduced around 800 Chinese stocks in order to profit from the boom in the "Middle Empire" which we believe will be of longer term. Another focal point of the listings in the second half of 2003 applied to national and international corporations which, in the broadest sense, come under the so-called nanotechnology sector. Both themes were well received by the customers and therefore, were able to contribute to our company's profits which were clearly on the rise after the majority of turnover in the first half of 2003 had been made in rather weak margin DAX-securities. By dint of our Group strategy comprising a financial holding with the most comprehensive services possible around the capital markets, we cannot, of course, factor out from our range of services the less profitable lines of business though they can only deliver contributions towards the break-even-point. With regard to income benefits we rely on being able to identify and open up growth markets.

The Board is of the opinion that even during the crisis of the peer group, we have not lost our fortitude for innovation and have once more set the right course for our company.

This is also true in view of a responsible and transparent approach to corporate management and control. For a company of our size, the recommendations and, to the greatest possible extent, the suggestions of the German Corporate Governance Code are ideally satisfied. The resolution made at the last shareholders' meeting regarding the recommended income-related remuneration components for supervisory board members was also implemented. This step could arguably be seen as farsighted since we have avoided the advised stock options for supervisory board members which are already in use in several other companies. According to a current ruling by the Federal Supreme Court our misgivings of the past have now been similarly confirmed and this has led to a ban on this instrument.

The Board would like to thank our long-serving management body, which was confirmed almost unanimously for the next period of office at the last shareholders' meeting and which has always found the right balance between critical supervision and competent advice. A special thank you must be said in the first instance to our dedicated employees who, for the most part, have always been performance-related paid and, therefore, have uncomplainingly bridged a lengthy period with, if anything, more commitment but sinking salaries and who still identify themselves with the company in an exceptional way. In this respect there exists in the Group of the Berliner Effektengesellschaft AG an agreement of interests between shareholders, the Board and employees which is not always self-evident and which will serve as a guarantor for the future success of our company.

Berliner Effektengesellschaft AG

Holger Timm

Dr. Jörg Franke

November 2003
Militancy:
Violent Islamistic perpetrators attack synagogues and two British establishments in Istanbul. 60 people die, 700 are injured.

Berliner Effektengesellschaft AG
The capital increase of Ventegis Capital AG is completely taken over by the Berliner Effektengesellschaft AG, thereby increasing the percentage participatory investment from 37.06% to 68.5%.

December 2003
Excavation:
A good eight months after the fall of Baghdad, the US-American troops arrest Saddam Hussein who had tried in vain to hide himself in a burrow near to his home town of Tigrit.

Berliner Effektengesellschaft AG
The time limit of the mandatory offer begins on December 12, the statement of the Board and the Supervisory Board is published on December 16.

Fifth shareholders' convocation in Berlin.

ANNUAL FINANCIAL STATEMENTS

BALANCE SHEET

BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

as at December 31, 2003

ASSETS	in € 2003	in € 2003	in € 2003	in € 2002
A. Fixed assets				
I. Intangible assets			163,971.79	-
II. Tangible fixed assets			51,008.00	108,542.95
III. Financial assets				
1. Stocks in affiliated companies		66,513,359.49		55,859,717.74
2. Participatory investments		1.00		3,580,549.28
3. Loans to companies with which there is a participatory relationship		-	66,513,360.49	560,600.96
			66,728,340.28	60,109,410.93
B. Current assets				
I. Receivables and other current assets				
1. Trade accounts payable		35,400.90		69,503.47
2. Receivables from affiliated companies		30,634.42		-
3. Other current assets		510,465.88	576,501.20	26,472,216.92
II. Securities				
1. Own stocks		-		4,623,144.55
2. Other securities		15,186,912.50	15,186,912.50	5,055,369.49
III. Cash on hand, bank balances			22,789,163.12	21,861,496.31
			38,552,576.82	58,081,730.74
C. Prepaid and deferred expenses			2,346.22	-
Total assets			**105,283,263.32**	**118,191,141.67**

EQUITY AND LIABILITIES	in € 2003	in € 2003	in € 2003	in € 2002
A. Stockholders' equity				
I. Stock capital		15,960,159.00		16,797,016.00
II. Capital reserve		90,717,819.76		119,886,061.68
III. Revenue reserves				
1. Statutory reserve	25,564.59			25,564.59
2. Reserve for own stocks	-			4,623,144.55
3. Other revenue reserves	-	25,564.59		-
IV. Retained earnings		- 32,343,249.96	74,360,293.39	- 30,863,021.13
B. Provisions and accruals				
I. Tax provisions and accruals		304,000.00		290,000.00
II. Other provisions and accruals		504,068.00	808,068.00	375,568.00
C. Liabilities				
I. Trade accounts payable		55,690.43		18,862.38
II. Amounts due to affiliated companies		1,979.61		7,004,370.51
III. Other liabilities		30,057,231.89	30,114,901.93	33,575.09
of which for taxes	*27,159.06*			*25,577.11*
of which for social security contributions	*8,650.24*			*7,997.98*
Total equity and liabilities			**105,283,263.32**	**118,191,141.67**

INCOME STATEMENT

BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

from January 1, 2003, to December 31, 2003

	in € 1-1 – 12-31-2003	in € 1-1 – 12-31-2003	in € 1-1 – 12-31-2002
1. Other operating profits		658,407.16	869,710.69
2. Personnel expenses			
a) Wages and salaries	- 931,488.52		- 823,647.96
b) social security payments and expenses for pensions	- 90,736.52	- 1,022,225.04	- 87,771.10
of which for pensions		*- 9,628.80*	*- 14,311.52*
3. Write-offs on intangible assets under fixed assets and on tangible fixed assets		- 28,384.92	- 22,203.30
4. Other operating expenses		- 1,825,349.01	- 1,001,392.65
5. Other interest and similar profits		2,088,368.08	1,058,592.19
of which from affiliated companies		*434,768.22*	*718,429.99*
6. Write-offs on financial assets and on securities under current assets		- 1,711,239.88	- 21,150,737.96
7. Interest and similar expenses		- 14,000.00	- 40,000.04
of which from affiliated companies		-	-
8. Result from ordinary activities		**- 1,854,423.61**	**- 21,197,450.13**

	in € 1-1 – 12-31-2003	in € 1-1 – 12-31-2003	in € 1-1 – 12-31-2002
9. Extraordinary expenses	-		- 1,152,630.55
10. Extraordinary result		-	- 1,152,630.55
11. Income and profit taxes		398,416.29	- 89,715.31
12. Other taxes		3.62	- 10,419.14
13. Net income		**- 1,456,003.70**	**- 22,450,215.13**
14. Loss brought forward from prior year		- 30,863,021.13	- 17,252,298.34
15. Appropriation to the capital reserve		- 836,857.00	-
16. Expenses for the encashment of own stocks		- 4,647,399.68	-
17. Profit from the capital reduction		836,857.00	-
18. Withdrawals from the revenue reserves			
a) from the reserve for own stocks		4,647,399.68	7,153,038.00
b) from other revenue reserves		-	1,686,454.34
19. Appropriation to the revenue reserves			
a) to the reserve for own stocks		- 24,225.13	-
20. Retained earnings		**- 32,343,249.96**	**- 30,863,021.13**

A. GENERAL INFORMATION ON THE CLASSIFICATION OF THE ANNUAL FINANCIAL STATEMENTS AND ON ACCOUNTING AND VALUATION METHODS

Preparation of the annual financial statements
The annual financial statements of the Berliner Effektengesellschaft AG, Berlin, for the year ended December 31, 2003, were prepared in accordance with the provisions of the Handelsgesetzbuch (HGB) – (German Commercial Code). The provisions of the Aktiengesetz (AktG) – (Stock Corporation Act) were observed. Regarding the German Corporate Governance Code, a declaration was made and published on the company's website on December 8, 2003.

The balance sheet was prepared according to the provisions laid down in Section 264 HGB and classified according to Section 266 Subsections 2 and 3 HGB.

The income statement was prepared according to the production costs (total output) method in accordance with Section 275 Subsection 2 HGB.

The annual financial statements were prepared in €.

The Berliner Effektengesellschaft AG is not included in any annual financial statements for the year ended December 31, 2003. Until October 2, 2003, the Consors International Holding GmbH, Hof/Saale, held the majority of the company's stocks. It sold most of them to the H.T.B. Unternehmensbeteiligungen GmbH, Berlin, which, as at December 31, 2003, owns a stake of 40.8%. Within the realms of a mandatory public offer which ran until January 9, 2004, the H.T.B. Unternehmensbeteiligungen GmbH took over a further 0.2% of the company's stocks. Thus, with effect from January 16, 2004, it holds a total of 6,454,852 of the company's stocks.

Accounting and valuation principles
The annual financial statements contain all assets, debts, expenses and profits. Items on the assets side have not been offset against items on the equity and liabilities side, and expenses have not been offset against profits.

The financial assets which contain "stocks in affiliated companies" and "participatory investments" are recorded at acquisition costs, considerably diminished by write-offs to the lower applicable value.

We have valued intangible assets and tangible fixed assets at acquisition or production costs and, when depreciable, less normal, permissible in commercial laws' provisions write-offs, using the straight-line method. In the business year, the software listed in previous years under tangible fixed assets was switched to intangible assets. Low-value fixed assets are written off in full in the year of acquisition and retired.

"Receivables and other current assets" as well as "bank balances" are stated at their acquisition costs or their nominal value. Securities under current assets are stated observing strictly the principle of lower of cost or market, for each type of security, at the continously determined average values or lower values on the balance sheet date.

Liabilities are stated at their repayment amount.

Recognizable risks are accounted for with provisions and accruals.

Proportionate interest determined at the balance sheet date is shown under the underlying receivables or liabilities.

Translation of foreign currency
The items of fixed assets denominated in foreign currency were translated at the acquisition rates and considerably diminished by write-offs to the lower applicable value. There were no other assets or debts in foreign currency at the balance sheet date. Expenses and profits denominated in foreign currency were translated at the rate on the day.

B. EXPLANATIONS TO THE BALANCE SHEET AND CAPITAL

Classification of remaining terms
The receivables and liabilities have a remaining term of under one year. In the previous year, an amount of 29,000.00 € had a remaining term of between over one year up to under two years.

Receivables from and amounts due to affiliated companies
"Receivables from banks" include a total of 20,711,000.00 € (previous year 21,355,000.00 €) receivables from Consors Capital Bank AG, Berlin. In addition, the receivables include receivables of 31,000.00 € (previous year 37,000.00 €) from the Berliner Freiverkehr (Aktien) AG, Berlin, which are derived from the relationship between interlocking companies due to turnover tax. In return, there are liabilities towards the Berliner Freiverkehr (Aktien) AG to the amount of 2,000.00 € (previous year 7,004,000.00 €).

Development of fixed assets
For the development of the fixed assets at historical acquisition rates and the accumulated write-offs, reference is made to the separate fixed assets schedule. In addition to the considerable write-offs on financial assets in previous years the participatory investment held in Nasdaq Europe S.A. was written off at the memo value of 1.00 € due to the discontinuation of trade. In detail, the write-offs are listed up and elucidated in the explanations to the income statement.

The financial assets in foreign currency were written off completely in previous years. Their acquisition costs which were translated at historical rates, were 10,950,000.00 € translated.

Other current assets
"Other current assets" comprise items which cannot be subsumed under other balance sheet items on the assets side. These pertain to receivables from the tax authorities, an inventory of historical securities and remainder of stock in computing equipment which was purchased from the Consors Capital Bank AG in 2002. This inventory was written off at the amount of 36,000.00 €.

Stock capital
As at December 31, 2002, the stock capital was 16,797,016.00 €. At the shareholders' meeting on June 16, 2003, first it was resolved to encash the 836,857 stocks of the company, owned by itself and to reduce the capital accordingly. In addition, a capital increase in the amount of 30,005,098.92 € from the company's own resources was resolved and the subsequent reduction of the same amount should be distributed as pay-out. As at December 31, 2003, the stock capital was 15,960,159.00 €, divided into 15,960,159 non-par individual stocks.

In the past business year, announcements regulated by Section 21 Subsection 1 of the Wertpapierhandelsgesetz (WpHG) – (Securities Trading Law) we received from Mr. Holger Timm, Berlin, from BNP Paribas S.A., Paris, France, and from H.T.B. Unternehmensbeteiligungen GmbH.

Approved capital
No capital increases were performed from the existing tranches of approved capital. The Board was authorized by the shareholders' meeting of July 3, 2001, to increase the stock capital until July 2, 2006, with the consent of the Supervisory Board, by issue of new individual stocks against cash or non-cash contribution once or more than once by a total of up to 8,398,492.50 €. At the shareholders' meeting on June 16, 2003, a new authorization was resolved. Henceforth, until June 16, 2008, the Board is authorized, with the consent of the Supervisory Board, by issue of new individual stocks against cash or non-cash contribution, to increase the nominal capital of the company once or more than once by a total of up to 7,980,079.50 €.

Contingent capital
The shareholders' meeting of June 15, 1999, had resolved to contingently increase the stock capital by 600,000.00 € for an employee stock option scheme (contingent capital I) and by 5,940,000.00 € for the issue of stock option warrants without bonds (contingent capital II). On the basis of the contingent capital increase and in exploitation of the contingent capital II, a total of 527,802 stocks with a computed value of 1.00 € were issued up to December 31, 2003. At the shareholders' meeting on June 28, 2002, a further contingent capital increase of 600,000.00 € was resolved (contingent capital III.) This entitles the Board to hand out convertible bonds and/or subscription rights without bonds to members of the Board and company employees as well as to members of the Board and employees of companies affiliated under the terms of Section 15 ff AktG. As a result of the capital increase, the contingent capital amounts increase in proportion to the nominal capital of the company. Accordingly, contingent capital I is 1,728,000.00 €,

contingent capital II is 15,587,219.52 € and contingent capital III is 1,728,000.00 €.

Capital reserve
As a result of the resolution to encash the own stocks, the part of the nominal capital allocated to the stocks was appropriated to the capital reserve. In line with the capital increase from the company's own resources there followed a withdrawal from the capital reserve in the amount of 30,005,098.92 €. As at December 31, 2003, the latter stood at 90,717,819.76 €.

Revenue reserves
As at December 31, 2003, the "other revenue reserves" were unchanged. Comments on "reserve for own stocks" can be found under "own stocks".

Retained earnings
The retained earnings include the sum of - 30,863,021.13 € carried forward from last year.

Own stocks
On June 28, 2002, the shareholders' meeting authorized the Board, pursuant to Section 71 Subsection 1 Number 8 AktG, to acquire own stocks for the purpose of sale or for encashment. It was limited in time until December 31, 2003, and to 10.0% of the nominal capital of June 28, 2002, id est 1,679,701 stocks.

On June 16, 2003, the shareholders' meeting revised the authorization. It is now limited in time until December 16, 2004, and to 10.0% of the nominal capital of June 16, 2003, id est 1,596,015 stocks.

The resolution of the shareholders' meeting on June 16, 2003, authorized the Board to either partly or completely encash acquired stocks with the consent of the Supervisory Board on the basis of the authorization granted. This authorization may be used in part or completely and on one occasion or on several occasions.

In 2003, the authorization from the year 2002 to purchase own stocks was made use of by selling stocks. The table following shows the number of stocks traded by calendar month. The purchases were made exclusively through the stock exchange. In 2003, Berliner Effektengesellschaft AG acquired 4,000 stocks for 24,000.00 €. The 836,857 own stocks existing in the company at June 16, 2003, were encashed by resolution of the shareholders' meeting. The reserve for own stocks, which as at December 31, 2002, amounted to 4,623,000.00 €, had to be increased by 24,000.00 € as a result of the purchase of further stocks. By the encashment of own stocks the reserve for own stocks was made use of to the full amount and offset against the book value of own stocks.

Month	Number of stocks purchased/transferred	Number of stocks sold/encashed	Proportion of nominal capital
Brought forward	832,857	-	4.96%
January 2003	4,000	-	0.02%
February 2003	-	-	0.00%
March 2003	-	-	0.00%
April 2003	-	-	0.00%
May 2003	-	-	0.00%
June 2003	-	836,857	0.00%
Total Authorization 2002	**836,857**	**836,857**	**4.98%**

No stocks were purchased within the realms of the new authorization.

Provisions and accruals
Other provisions and accruals are mainly made up of the following:

Provisions and accruals for	in '000 € 12-31-2003	in '000 € 12-31-2002
compensation for damages	250	-
annual financial statements	171	180
personnel expenses	47	68
threatening losses	23	23
contributions to the Chamber of Industry and Commerce	6	105
Other	7	-
Total	**504**	**376**

Amounts due to affiliated companies
The "amounts due to affiliated companies" include payable charge-outs for additional rent expenses.

C. NOTES TO THE INCOME STATEMENT

According to the articles of association, the purpose of our company is the relaying of securities transactions of all kinds and in particular the determination of prices and quotations on the OTC and regulated markets of the Berlin and other stock exchanges. Furthermore, the company advises and accompanies firms on their way to going public on national or international stock exchanges and in this connection puts at their disposal all manner of technical and financial services. The company itself does not need to be active in the aforementioned areas; it can fulfill the denoted purpose of the company by becoming a shareholder of dependent Group companies which are directly involved in the business mentioned. Proceeds are made through the outsourcing of operational activities to Group companies, mainly from the charge-out for services, from profits from participatory investments and from the investment of liquidity funds.

"Other operating profits" include the following amounts:

	in '000 € 2003	in '000 € 2002
Cost charge-outs in the Berliner Effektengesellschaft AG Group	256	223
Income from the sale of investment shares	134	-
Other cost charge-outs	114	212
Profits from the sale of computing equipment	106	96
Releases of other provisions and accruals	23	79
Other profits relating to other periods	21	6
Income from the exit of participatory investments	-	248
Other profits	4	6
Total other operating profits	**658**	**870**

In the past business year, personnel expenses rose by 111,000.00 € from 911,000.00 € to 1,022,000.00 €. The main reason being the reorganization of Mr. Holger Timm's remuneration. In the previous year the payment fell entirely to the Berliner Freiverkehr (Aktien) AG. The dues apportioned to the Berliner Effektengesellschaft AG were charged in the realms of Group charge-outs and accounted for as "other operating expenses".

The write-offs pertain to the business and office equipment.

The ongoing operating expenses are shown under "other operating expenses". The significant amounts are made up as follows:

	in '000 € 2003	in '000 € 2002
Expenses from tax charge-outs	412	-
Compensation for damages	250	-
Occupancy costs	175	82
Costs for annual financial statements	171	167
Foreign exchange losses from disposal of assets	134	-
Costs of computing equipment to be sold	132	96
Costs for the shareholders' meeting	88	104
Costs for the services of the Berliner Freiverkehr (Aktien) AG	86	131
Remuneration to the Supervisory Board	75	81
Contributions to associations (also relating to other periods)	2	19
Other expenses	300	321
Total other operating expenses	**1,825**	**1,001**

The costs for the services of the Berliner Freiverkehr (Aktien) AG concern the personnel at reception and the employees in IT-Operations.

"Other interest and similar profits" are made up of the interest from cash investments and interest profits from financial assets and interest from tax receivables. Investment of liquidity funds in overnight funds and fixed-term deposits brought interest of 463,000.00 €. Investment of liquidity funds in different commercial papers brought interest of 212,000.00 €. As a result of the fact that the tax assessments for 2000 and 2001 were submitted very late, interest was due to the amount of 1,413,000.00 €. Receivables from companies with which there is a participatory relationship brought no interest profits (previous year 338,000.00 €).

The position “interest and similar expenses” contains exclusively interest on tax to be paid back. More details can be found below in the explanations to tax expenses.

“Write-offs on financial assets” pertain to a participatory investment of the Berliner Effektengesellschaft AG and were carried out observing strictly the principle of lower of cost or market. The market value or the applicable value was used as a benchmark. The applicable value was determined by assessing the profit-capacity value, the current stockholders’ equity provisions and the profitability or current capital measures and the resulting evaluations. The write-offs are made up as follows:

Participatory investment	Amount in €	Write-offs on
Nasdaq Europe S.A.	1,711,239.88	applicable value/ memo value
Total	**1,711,239.88**	

Of the write-offs made in the previous years, in the business year none were cancelled out by write-ups. The situation which led to the write-offs still continues. Nasdaq Europe S.A. has creased operating. For the time being no business activity is being developed so no earnings are expected.

The fiscal company audit for the years 1997 to 1999 was completed in 2003. Tax assessments based on the company audit have not yet been submitted. Alongside provisions and accruals in the amount of 290,000.00 € made already at the close of the previous year, a further 14,000.00 € was put in the provisions and accruals for interest accrued during the last year. Therefore, regarding reimbursed income and profit taxes, a balance arises in the amount of 398,000.00 €.

D. OTHER INFORMATION

Interests held

The following information relates to December 31, 2003, or the business year 2003, unless otherwise specified.

Berliner Freiverkehr (Aktien) AG, Berlin

Nominal capital:		23,000,000.00 €
Interests held:	100.0%	23,000,000.00 €
Stockholders’ equity:		34,810,635.53 €
Net income:		- 46,856.19 €

Consors Capital Bank AG, Berlin

Nominal capital:		10,994,463.00 €
Interests held:	98.6%	10,840,142.00 €
Stockholders’ equity:		10,082,229.52 €
Net income:		- 3,092,847.34 €

Online Securities Holding Inc., Delaware, USA

Nominal capital:		230,004.12 US-$
Interests held:	28.0%	60,303.03 US-$
Stockholders’ equity as at December 31, 2001:		2,025,120.00 US-$
Net income 2001:		- 2,323,600.00 US-$

Ventegis Capital AG, Berlin

Nominal capital:		3,487,520.00 €
Interests held:	68.5%	2,388,559.00 €
Stockholders’ equity:		9,055,299.18 €
Net income:		- 319,791.07 €

Other financial obligations

There are no significant contingent liabilities or financial obligations which are not evident from the annual financial statements.

Employees

The number of employees has developed as follows:

	Female	Male	Total
Average of the year			
Board members	0.0	2.0	2.0
Other employees	4.0	3.3	7.3
Total	**4.0**	**5.3**	**9.3**
off which part-time employees (number of persons)	1.0	2.0	3.0
off which part-time employees (equal to full-time employees)	0.6	1.1	1.7
As at December 31, 2003			
Board members	0.0	2.0	2.0
Other employees	4.0	2.0	6.0
Total	**4.0**	**4.0**	**8.0**
off which part-time employees (number of persons)	1.0	2.0	3.0
off which part-time employees (equal to full-time employees)	0.6	1.1	1.7

Corporate bodies of Berliner Effektengesellschaft AG

According to Section 285 Number 10 HGB, listed below are the members of the Board and the members of the Supervisory Board, as well as their memberships in supervisory boards and comparable managing bodies in domestic and foreign business establishments, as at December 31, 2003. For those Supervisory Board members who have resigned from office before, the listed mandates and the occupation practised refer to the time of the respective resignation.

Members of the Board

Dr. Jörg Franke, Frankfurt/Main,
Speaker

Chairman of the Supervisory Board:
RTS Realtime Systems (Deutschland) AG, Frankfurt/Main
Chairman of the Stock Exchange Council:
Berlin-Bremen Stock Exchange, Berlin and Bremen
(since March 20, 2003)
Deputy Chairman of the Supervisory Board:
Berliner Börse AG, Berlin
Member of the Supervisory Board:
Mummert Consulting AG, Hamburg
Nasdaq Deutschland AG, Berlin and Bremen
(since February 25, 2003)
Member of the Board:
Bundesverband der Finanzintermediäre an den deutschen Wertpapierbörsen (Federal Association of Financial Intermediaries on the German Stock Exchanges), Frankfurt/Main
Member of the Advisory Board:
Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt/Main
Industrie- und Handelsunion Dr. Wolfgang Boettger GmbH & Co. KG, Berlin
(since December 2, 2003)

Holger Timm, Berlin,
Speaker,
Chairman of the Board of
Berliner Freiverkehr (Aktien) AG

Chairman of the Supervisory Board:
Consors Capital Bank AG, Berlin
(since October 23, 2003)
Ventegis Capital AG, Berlin
Member of the Supervisory Board:
EuroChange AG, Berlin

Members of the Supervisory Board

Andrä Dujardin, Berlin,
entrepreneur

Member of the Advisory Board:
Berliner Volksbank eG, Berlin

Wolfgang Hermanni, Berlin,
businessman
Chairman

Chairman of the Supervisory Board:
Berliner Freiverkehr (Aktien) AG, Berlin
EuroChange AG, Berlin
Member of the Supervisory Board:
Consors Capital Bank AG, Berlin
(since October 23, 2003)
Ventegis Capital AG, Berlin

Jean-Philippe Huguet, Neuilly-sur-Seine, France,
General Secretary and CFO, Cortal Consors S.A.
(since February 20, 2003)

Chairman of the Supervisory Board:
eInsurance Agency AG, Munich
(since January 21, 2003)

Dr. Andor Koritz, Berlin,
lawyer
Deputy Chairman

Member of the Supervisory Board:
Berliner Freiverkehr (Aktien) AG, Berlin
Consors Capital Bank AG, Berlin
(since October 23, 2003)

Detlef Prinz, Berlin,
entrepreneur

Member of the Supervisory Board:
Hansa Luftbild Arabia E.C., Manama, Bahrain
(since May 22, 2003)
Messe Berlin GmbH, Berlin
Member of the Advisory Board:
Dräger-Stiftung, Munich/Lübeck
(since August 1, 2003)

Dr. Günter Rexrodt, Berlin,
member of the Board, WMP EuroCom AG

Chairman of the Supervisory Board:
AGIV Real Estate AG, Hamburg
Member of the Supervisory Board:
AWD Holding AG, Hanover
DTZ Zadelhoff Holding GmbH, Frankfurt/Main
Landau Media AG, Berlin

Dr. Uwe Schroeder-Wildberg, Nuremberg,
member of the Board (CFO), MLP AG
(until January 31, 2003)

Chairman of the Supervisory Board:
Consors Capital Bank AG, Berlin
Member of the Supervisory Board:
Consors France S.A., Paris, France
eInsurance Agency AG, Munich

Remuneration of the corporate bodies

Dr. Jörg Franke received fixed remuneration of 370,000.00 € from the Berliner Effektengesellschaft AG. 63,000.00 € of this was in contributions to a pension fund and benefits in kind in the form of a company car. Mr. Holger Timm received fixed remuneration of 62,000.00 € from the Berliner Effektengesellschaft AG. The Board did not receive any variable remuneration in the past business year. Remuneration to members of the Supervisory Board was 75,000.00 € and is made up as follows:

	Remuneration in €
Wolfgang Hermanni	23,200.00
Dr. Andor Koritz	17,400.00
Andrä Dujardin	11,600.00
Detlef Prinz	11,600.00
Dr. Günter Rexrodt	11,600.00

Payments or benefits for personally rendered services were not made to Board members or Supervisory Board members.

Stock ownership/Trading in company stocks by members of the corporate bodies

Last year, members of the Board neither acquired nor sold any stocks. As at December 31, 2003, Board members held 4,541,069 stocks and 235,000 option rights on company stocks, of which 4,541,069 stocks and 55,000 option rights went to Mr. Holger Timm as well as 180,000 option rights went to Dr. Jörg Franke.

In the past year, the members of the Supervisory Board neither acquired nor sold any stocks. As at December 31, 2003, the members of the Supervisory Board held less than 1.0% of the stock capital and no option rights on company stocks.

Proposal on application of income

The Board proposes to the shareholders' meeting, that the retained earnings be brought forward to the new balance sheet.

Berlin, March 4, 2004

Berliner Effektengesellschaft AG

Holger Timm

Dr. Jörg Franke

Fixed assets schedule pursuant to Section 264 HGB as at December 31, 2003

	in € Acquisition costs	in € Additions in the business year	in € Disposals in the business year	in € Book transfers	in € Write-offs in total	in € Write-offs in the business year	in € Residual book value at 12-31-2003	in € Residual book value in prior year
Intangible assets								
Software	-	15,477.30	16,331.56	85,233.64	41,207.18	17,681.05	43,172.20	-
Payments on intangible assets	-	120,799.59	-	-	-	-	120,799.59	-
Total intangible assets	-	136,276.89	16,331.56	85,233.64	41,207.18	17,681.05	163,971.79	-
Tangible fixed assets								
Business and office equipment	130,251.53	985.87	184.50	- 41,850.69	38,194.21	10,703.87	51,008.00	65,160.00
Payments on assets and assets under construction	43,382.95	-	-	- 43,382.95	-	-	-	43,382.95
Total tangible fixed assets	173,634.48	985.87	184.50	- 85,233.64	38,194.21	10,703.87	51,008.00	108,542.95
Financial assets								
Stocks in affiliated companies	60,606,382.96	8,784,327.68	-	8,493,506.41	11,370,857.56	-	66,513,359.49	55,859,717.74
Participatory investments	20,187,673.44	-	-	- 8,493,506.41	11,694,166.03	1,711,239.88	1.00	3,580,549.28
Loans to companies with which there is a participatory relationship	2,906,848.82	-	560,600.96	-	2,346,247.86	-	-	560,600.96
Total financial assets	83,700,905.22	8,784,327.68	560,600.96	-	25,411,271.45	1,711,239.88	66,513,360.49	60,000,867.98
Totel fixed assets	**83,874,539.70**	**8,921,590.44**	**577,117.02**	**-**	**25,490,672.84**	**1,739,624.80**	**66,728,340.28**	**60,109,410 .93**

AUDITORS' REPORT

We have audited the annual financial statements of Berliner Effektengesellschaft AG, including the bookkeeping system and the management report for the business year from January 1, 2003, to December 31, 2003. The bookkeeping system and the preparation of the annual financial statements and the management report in accordance with the German commercial laws' provisions are the responsibility of the company's Board. Our responsibility is to express an opinion, based on our audit, on the annual financial statements, including the bookkeeping system and the management report.

We conducted our audit of the annual financial statements in accordance with Section 317 HGB and the generally accepted German Standards for audits of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) – (Institute of Accountants). Those Standards require that we plan and perform the audit such that material misstatements affecting the presentation of the net assets, financial position and profitability in the annual financial statements, in accordance with generally accepted principles of bookkeeping and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations of possible misstatements have been taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the bookkeeping system, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Board, as well as evaluating the overall presentation of the annual financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the company's net assets, financial position and profitability, in accordance with generally accepted principles of bookkeeping. On the whole, the management report provides a suitable understanding of the company's position and suitably presents the risks of future development.

Berlin, March 4, 2004
PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Eckes	*Schreiber*
Wirtschaftsprüfer	Wirtschaftsprüfer
(Accountant)	(Accountant)

GROUP FINANCIAL STATEMENTS

GROUP BALANCE SHEET

BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

as at December 31, 2003

ASSETS	in € 2003	in € 2003	in € 2003	in '000 € 2002
1. Cash reserve assets				
a) Cash balance		142,577.66		1
b) Balances held at central banks		1,245,260.36	1,387,838.02	0
including: at the Deutsche Bundesbank 1,245,260.36 €				
2. Receivables from banks				
a) due daily		27,740,556.72		7,318
b) other receivables		46,602,894.05	74,343,450.77	37,759
3. Receivables from customers			10,213,859.34	89
including: secured by charges on properties -.--				
Loans to municipalities -.--				
from financial services institutions 164,511.54 €				
4. Bonds and other fixed-interest securities				
a) Loans and bonds				
aa) from public-sector issuers		14,993,831.25		0
including: eligible as collateral for the Deutsche Bundesbank 14,993,831.25 €				
ab) from other issuers		9,995,997.50	24,989,828.75	0
including: eligible as collateral for the Deutsche Bundesbank -.--				
5. Stocks and other non-fixed interest securities			10,374,780.71	9,859
6. Participatory investments			1,568,941.94	1,711
including: in banks -.--				
in financial services institutions -.--				
7. Stocks in affiliated companies			0.00	243
including: in banks -.--				
in financial services institutions -.--				
8. Stocks in associated companies			0.00	1,922
including: in banks -.--				
in financial services institutions -.--				
9. Intangible assets			3,118,666.48	3,746
10. Tangible fixed assets			2,522,730.17	2,381
11. Own stocks or interests			0.00	4,623
Nominal amount/computed value -.--				
12. Other current assets			1,134,140.84	26,478
13. Prepaid and deferred expenses			34,028.25	25
Total assets			**129,688,265.27**	**96,155**

EQUITY AND LIABILITIES	in € 2003	in € 2003	in € 2003	in '000 € 2002
1. Liabilities to banks				
a) due daily		1,622,214.89		602
b) with agreed term or period of notice		2,393,597.73	4,015,812.62	0
2. Liabilities to customers				
a) other liabilities				
aa) due daily	16,285,109.10			148
ab) with agreed term or period of notice	10,286,065.31	26,571,174.41	26,571,174.41	0
3. Other liabilities			31,369,550.55	318
4. Prepaid and deferred expenses			7,374.51	0
5. Provisions and accruals				
a) Provisions and accruals for pensions and similar obligations		300,956.00		0
b) Tax provisions and accruals		396,551.67		432
c) other provisions and accruals		2,241,466.90	2,938,974.57	1,271
6. Special item partly with reserve character			0.00	2
7. Stockholders' equity				
a) Stock capital		15,960,159.00		16,797
b) Capital reserve		71,751,708.45		100,920
c) Revenue reserves				
ca) Statutory reserve	25,564.59			25
cb) Reserve for own stocks	0.00			4,623
cc) other revenue reserves	4,359,242.29	4,384,806.88		1,880
d) Difference resulting from the consolidation of capital		2,037,000.00		0
e) Retained earnings		- 32,343,249.96		- 30,863
f) Adjusted items for interests of other shareholders		2,994,954.24	64,785,378.61	0
Total equity and liabilities			**129,688,265.27**	**96,155**
1. Contingent liabilities				
a) Liabilities from sureties and guarantee contracts		716,685.06	716,685.06	0
2. Other obligations				
a) Irrevocable loan agreements		3,667,117.00	3,667,117.00	0

GROUP INCOME STATEMENT

BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

from January 1, 2003, to December 31, 2003

		in € 1-1 – 12-31-2003	in € 1-1 – 12-31-2003	in € 1-1 – 12-31-2003	in '000 € 1-1 – 12-31-2002
1.	**Interest profits from**				
	a) Loan and money market transactions	1,224,883.76			1,625
	b) fixed-interest securities and bonds issued in book-entry form	292,012.82	1,516,896.58		4
2.	**Interest expenses**		- 125,850.65	1,391,045.93	- 72
3.	**Current profits from**				
	a) Stocks and other non-fixed interest securities		10,271.85	10,271.85	21
4.	**Result from associated companies**			83,228.35	- 4,199
5.	**Commissions received**			5,710,663.81	5,942
	including: courtage profits	4,366,714.98			*(5,820)*
	courtage profits from pooling settlement	0.00			*(0)*
6.	**Commissions paid**			- 2,794,238.62	- 2,208
	including: courtage expenses	- 2,055,598.98			*(- 2,037)*
	courtage expenses from pooling settlement	0.00			*(0)*
7a.	**Profit from financial transactions**			19,236,269.95	24,371
	of which: aa) Securities	6,479.30			*(54)*
	ab) Price differences on name-to-follow transactions	19,087,094.10			*(24,250)*
7b.	**Expenses from financial transactions**			- 13,471,614.85	- 19,614
	of which: ba) Securities	74,043.30			*(- 342)*
	bb) Price differences on name-to-follow transactions	13,041,108.22			*(- 18,997)*
8.	**Other operating profits**			4,629,423.24	865
9.	**Profits from the release of special items partly with reserve character**			1,571.00	2
10.	**General administrative expenses**				
	a) Personnel expenses				
	aa) Wages and salaries	- 4,934,912.55			- 4,232
	ab) social security payments and expenses for pensions	- 824,461.52	- 5,759,374.07		- 714
	including: for pensions 56,709.25 €				
	b) other administrative expenses		- 5,876,517.72	- 11,635,891.79	- 6,260

		in € 1-1 – 12-31-2003	in € 1-1 – 12-31-2003	in € 1-1 – 12-31-2003	in '000 € 1-1 – 12-31-2002
11.	Write-offs and value adjustments on intangible assets and tangible fixed assets			- 1,811,972.19	- 1,617
12.	Other operating expenses			- 816,854.35	- 69
13.	Write-offs and value adjustments on receivables and certain securities as well as allocations to provisions and accruals in credit business		- 347,622.08	- 347,622.08	- 5,302
14.	Write-offs and value adjustments on participatory investments, stocks in affiliated companies and securities treated as fixed assets		- 1,831,210.38	- 1,831,210.38	- 12,617
15.	**Result from ordinary activities**			**- 1,646,930.13**	**- 24,074**
16.	Extraordinary expenses		- 47,702.15		- 1,153
17.	Extraordinary result		- 47,702.15	- 47,702.15	
18.	Income and profit taxes			507,550.81	- 107
19.	Other taxes, unless recorded under item 12			- 971.42	- 10
20.	Profits from the release of debit differences resulting from the consolidation of capital			1,182,636.36	0
21.	**Net income**			**- 5,416.53**	**- 25,344**
22.	Outside shareholders' interests of net income			183,057.24	0
23.	Loss brought forward from prior year			- 30,863,021.13	- 17,252
24.	Expenses for the encashment of own stocks			- 4,647,399.68	0
25.	Withdrawals from the revenue reserves				
	a) from the reserve for own stocks		4,647,399.68	4,647,399.68	13,613
26.	Profit from the capital reduction			836,857.00	0
27.	Appropriation to the capital reserve compliant with the rules for simplified capital reduction			- 836,857.00	0
28.	Appropriation to the revenue reserves				
	a) to the reserve for own stocks		- 24,225.13		0
	b) to other revenue reserves		- 1,633,644.41	- 1,657,869.54	- 1,880
29.	**Retained earnings**			**- 32,343,249.96**	**- 30,863**

NOTES TO THE GROUP FINANCIAL STATEMENTS FOR THE YEAR 2003

BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

A. GENERAL BACKGROUND

Basis of consolidation

Berliner Effektengesellschaft AG, Berlin, is the parent company of the Berliner Effektengesellschaft AG Group. Besides the parent company, three subsidiaries are included in the Group financial statements.

The Berliner Effektengesellschaft AG is not included in any consolidated financial statements for the year ended December 31, 2003.

B. GENERAL INFORMATION ON THE CLASSIFICATION OF THE GROUP FINANCIAL STATEMENTS AND ON ACCOUNTING AND VALUATION METHODS

Preparation of the Group financial statements

The Group financial statements of Berliner Effektengesellschaft AG for the year ended December 31, 2003, were prepared in accordance with the provisions of the Handelsgesetzbuch (HGB) – (German Commercial Code) and the Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute (RechKredV) – (Bank Accounting Directive), as last amended on December 11, 1998.

The classification of the annual financial statements is in accordance with the RechKredV; the vertical form has been chosen for the income statement.

The subsidiaries included were consolidated according to the book value method pursuant to Section 301 Subsection 1 Clause 2 Number 1 HGB. The consolidation is carried out according to Section 301 Subsection 2 Clause 1 first alternative at the respective time of purchase of the shares. Thereby purchases of only a few shares were combined with considerable purchase transactions. The book values of the participatory investments were each offset against the stockholders' equity relating to it at the time of the acquisition of the shares. The hidden reserves and encumbrances revealed in the course of the consolidation of capital as well as the acquired goodwill were carried forward from the time of purchase. Thus the inclusion in the Group financial statements is depicted as if it were carried out at the time of purchase.

Since December 31, 1998, Berliner Freiverkehr (Aktien) AG, Berlin, has been included in the Group financial statements. Since October 2, 2003, the Consors Capital Bank AG, Berlin, is a subsidiary of the Berliner Effektengesellschaft AG. For reasons of simplification it is, in the realms of a full consolidation, included in the Group financial statements with effect from October 1, 2003. Until November 18, 2003, the Ventegis Capital AG, Berlin, was shown in the Group financial statements at equity, under the book value method pursuant to Section 312 Subsection 1 Number 1 HGB. Since then, due to the acquisition of the majority of the shares a full consolidation is carried out.

For the period of full consolidation, receivables and liabilities between the companies included in the Group financial statements were eliminated, as too were expenses and profits.

In view of their subordinate importance for the net assets, financial position and profitability, five associated companies are included in the Group balance sheet at acquisition costs, diminished by write-offs to the lower applicable value, instead of at equity. They are shown under the item "participatory investments".

The annual financial statements were prepared in €.

Accounting and valuation principles

Accounting and valuation principles correspond with the statutory regulations.

Receivables from banks and customers are shown at their nominal value. Securities are defined in Section 7 RechKredV; in the balance sheet we show them under the items "bonds and other fixed-interest securities", "stocks and other non-fixed interest securities" and "participatory investments". In stating profits/expenses we distinguish in the case of securities between fixed assets, trading stocks and stocks of the liquidity reserve (securities which are treated neither as fixed assets nor as part of the trading stock). In the latter two cases, these are current assets, which are stated observing strictly the principle of lower of cost or market, for each type of security, at the continuously determined average values or lower values on the balance sheet date. We have recorded securities which are shown under "participatory investments" and "stocks in affiliated companies" as fixed assets. For this reason, write-offs were not avoided.

Recognizable risks have been accounted for with value adjustments, provisions and accruals.

Financial assets have been recorded at acquisition costs, taking account of probably permanent diminutions in value. We have valued tangible fixed assets at acquisition or production costs and, when depreciable, less normal, permissible in commercial laws' provisions write-offs, using the straight-line method. Low-value fixed assets are written off in full in the year of acquisition and retired.

For deferred tax assets, we did not establish a deferred tax item in accordance with the provisions of Section 274 Subsection 2 HGB.

Liabilities are stated at their repayment amount.

We have formed the provisions and accruals for taxes, uncertain liabilities and threatening losses from pending transactions in the amount of their probable utilization on the basis of reasonable commercial judgment.

Proportionate interest determined at the balance sheet date is shown under the underlying receivables or liabilities.

Translation of currency

The valuation of assets and debts denominated in foreign currency has been made in accordance with the provisions of Section 340 h HGB. There was a deviation for stocks which are quoted on a stock exchange in € and whose nominal value or computed nominal value (for example individual stocks) is denominated in foreign currency. These might be stocks of US-American companies for example, whose capital is denominated in US-$. We have recorded these securities, observing the principle of lower of cost or market, at their acquisition costs or at the closing rates determined in € on a German stock exchange.

All other assets and debts denominated in foreign currencies were translated at reference rates of the European Central Bank or, in cases where no reference rates were available, at the average rates on the foreign exchange market on the balance sheet date. For the balance sheet items, the method of simply secured assets and debts and the option of sole recognition of losses from currency translation pursuant to Section 340 h HGB were applied.

C. NOTES TO THE BALANCE SHEET

Change in the basis of consolidation

Since the basis of consolidation has clearly changed since December 31, 2002, a comparison of the current amounts with those of the previous year given in the balance sheet is not meaningful. Therefore, shown below are the balance sheet positions for the former basis of consolidation, the total as at December 31, 2003, of the newly included subsidiaries and that of the consolidation referring to them:

ASSETS	in '000 € 12-31-2002	in '000 € Former basis of consolidation 12-31-2003	in '000 € Newly consolidated companies 12-31-2003	in '000 € Consolidation items 12-31-2003	in '000 € Group financial statements 12-31-2003
Cash reserve assets	1	-	1,388	-	1,388
Receivables from banks	45,077	52,661	66,605	- 44,923	74,343
Receivables from customers	89	130	10,084	-	10,214
Bonds and other fixed-interest securities	-	9,996	14,994	-	24,990
Stocks and other non-fixed interest securities	9,859	10,103	272	-	10,375
Participatory investments	1,711	-	1,569	-	1,569
Stocks in affiliated companies	243	5,102	-	- 5,102	-
Stocks in associated companies	1,922	5,523	-	- 5,523	-
Intangible assets	3,746	3,118	-	-	3,118
Tangible fixed assets	2,381	1,599	924	-	2,523
Own stocks or interests	4,623	-	-	-	-
Other current assets	26,478	745	389	-	1,134
Prepaid and deferred expenses	25	10	24	-	34
Deferred tax assets	-	-	-	-	-
Total assets	**96,155**	**88,987**	**96,249**	**- 55,548**	**129,688**

EQUITY AND LIABILITIES	in '000 € 12-31-2002	in '000 € Former basis of consolidation 12-31-2003	in '000 € Newly consolidated companies 12-31-2003	in '000 € Consolidation items 12-31-2003	in '000 € Group financial statements 12-31-2003
Liabilities to banks	602	22	23,348	- 19,354	4,016
Liabilities to customers	148	220	51,920	- 25,569	26,571
Other liabilities	318	30,776	594	-	31,370
Prepaid and deferred expenses	-	-	7	-	7
Provisions and accruals	1,703	1,697	1,242	-	2,939
Special item partly with reserve character	2	-	-	-	-
Stockholders' equity	93,382	56,272	19,138	- 10,625	64,785
Total equity and liabilities	**96,155**	**88,987**	**96,249**	**- 55,548**	**129,688**
Contingent liabilities	-	-	9,022	- 8,305	717
Other obligations	-	-	3,667	-	3,667

Classification of remaining terms

The classification of remaining terms is as follows:

	in € 2003	in € 2002	in € Former basis of consolidation 2003
Other receivables from banks			
a) in less than three months	46,602,894.05	37,198,677.77	43,961,036.64
b) more than three months and less than one year	0.00	560,006.96	0.00
c) more than one year and less than five years	0.00	0.00	0.00
d) more than five years	0.00	0.00	0.00
	46,602,894.05	**37,758,684.73**	**43,961,036.64**
Receivables from customers			
a) in less than three months	5,218,810.07	0.00	0.00
b) more than three months and less than one year	3,043,669.95	0.00	0.00
c) more than one year and less than five years	0.00	29,142.93	0.00
d) more than five years	0.00	0.00	0.00
e) of indefinite term	1,951,379.32	59,687.85	130,240.52
	10,213,859.34	**88,830.78**	**130,240.52**

The Berliner Effektengesellschaft AG and the Berliner Freiverkehr (Aktien) AG keep a large part of their receivables from banks at the Consors Capital Bank AG. As the Consors Capital Bank AG is from now on a subsidiary of the Berliner Effektengesellschaft AG these will be consolidated against the respective liabilities to customers of Consors Capital Bank AG and no longer shown in the Group balance sheet.

Receivables from and liabilities to affiliated companies

Classification due to balance sheet items	in '000 € 2003	in '000 € 2002
Receivables: Receivables from banks	-	38,335
Total	**-**	**38,335**
Liabilities: Liabilities to banks	-	559
Total	**-**	**559**

In the previous year the receivables from and the liabilities to the Consors Capital Bank AG were shown here. However, since it will be included in the Group financial statements from now on, the amounts have been removed. There are no affiliated companies of the amended basis of consolidation.

Total amount of all assets and debts denominated in foreign currency

The amounts represent the sums of the equivalents in € of the most various currencies. The difference does not indicate any exposed foreign currency positions.

	in '000 € 2003	in '000 € 2002	in '000 € Former basis of consolidation 2003
Assets	6,837	2,117	992
Debts	2,628	-	12

The increase in assets and debts denominated in foreign currency is due to the inclusion of the Consors Capital Bank AG in the Group financial statements. A large part of the stocks are in US-$.

Securities marketable on a stock exchange

	in '000 € 2003	in '000 € 2002	in '000 € Former basis of consolidation 2003
Listed on a stock exchange			
Bonds and other fixed-interest securities	14,994	0	0
Stocks and other non-fixed interest securities	273	0	0
Participatory investments	0	0	0
Stocks in affiliated companies	0	0	0
Not listed on a stock exchange			
Bonds and other fixed-interest securities	9,996	0	9,996
Stocks and other non-fixed interest securities	10,102	9,859	10,102
Participatory investments	1,268	1,711	0
Stocks in affiliated companies	0	243	0
Stocks in associated companies	0	1,922	0
Total of securities marketable on a stock exchange			
Bonds and other fixed-interest securities	24,990	0	9,996
Stocks and other non-fixed interest securities	10,375	9,859	10,102
Participatory investments	1,268	1,711	0
Stocks in affiliated companies	0	243	0
Stocks in associated companies	0	1,922	0

Of the securities in the portfolio 301,000.00 € are not marketable on a stock exchange. The remaining securities are marketable on a stock exchange. Stocks which are listed on the OTC-market of a German stock exchange do not qualify as listed on a stock exchange in the meaning of the RechKredV.

Goodwill

In the consolidation of the subsidiaries existing as at December 31, 2003, there resulted asset differences (goodwill) of 10,391,915.65 €.

The write-off on goodwill arising from the purchase of the Berliner Freiverkehr (Aktien) AG (formerly Diederich Freimakler GmbH) will happen over a period of ten years as of September 30, 1998. The goodwill arising of the first consolidation at the time of purchase of the Consors Capital Bank AG will be written off retrospectively over four years from January 1, 1999, and the goodwill from Ventegis Capital AG will be written off over 15 years from April 27, 2001, and October 17, 2001, respectively. In addition, due to the fact that the goodwill is no longer recoverable, special write-offs have been made in line with the inclusion at equity for the business years 2001 to 2003.

This results in the following development of goodwill:

Company	in '000 € Goodwill 12-31-2003	in '000 € Cumulated write-offs	in '000 € Residual book value 12-31-2003
Berliner Freiverkehr (Aktien) AG	6,295	3,305	2,990
Consors Capital Bank AG	1,760	1,760	-
Ventegis Capital AG	2,337	2,337	-
Total	**10,392**	**7,402**	**2,990**

Development of fixed assets

	in '000 € Acquisition costs	in '000 € Additions in the business year	in '000 € Disposals in the business year	in '000 € Proportionate changes in stockholders' equity	in '000 € Change in the basis of consolidation
Financial assets					
Stocks in associated companies	4,242	3,926	-	83	- 8,251
Stocks in affiliated companies	4,990	4,858	-	-	- 9,848
Participatory investments	11,694	-	-	-	8,373
Total financial assets	20,926	8,784	-	83	- 9,726
Intangible economic assets					
Intangible assets	294	118	-	-	269
Goodwill	6,295	-	-	-	4,097
Total intangible economic assets	6,589	118	-	-	4,366
Tangible fixed assets					
Business and office equipment	5,211	148	126	-	5,568
Payments on assets and assets under construction	126	173	175	-	7
Total tangible fixed assets	5,337	321	301	-	5,575
Total fixed assets	**32,852**	**9,223**	**301**	**83**	**215**

A result of the changeover to full consolidation, the Ventegis Capital AG, as at December 31, 2002, shown under "stocks in associated companies" is no longer accounted for in the fixed assets schedule. The amounts shown under "change in the basis of consolidation" are the book values of the assets included in the realms of the first consolidation of the Consors Capital Bank AG and the Ventegis Capital AG into the Group financial statements. The amounts of the newly consolidated companies accrued during the period of full consolidation are shown under write-offs in the business year.

Other current assets

Under the position "other current assets" those items are comprised which cannot be subsumed under other balance sheet items on the assets side. They relate to receivables from the tax authorities, accounting to 664,000.00 €, and revenue entitlements of 163,000.00 €.

Other liabilities

Under the position "other liabilities" those items are comprised which cannot be subsumed under other balance sheet items on the equity and liabilities side. Of the 31,369,000.00 € 30,005,000.00 € relate to liabilities to shareholders following the resolution to reduce the capital, 451,000.00 € to liabilities to the tax authorities, 280,000.00 € to payroll-deducted wages tax and social insurance contributions which have still to be paid, 256,000.00 € to trade accounts payable and 169,000.00 € to the adjusted items on foreign exchange valuation.

Provisions and accruals

Under provisions and accruals, positions have been removed of which the amount or date of maturity are not finally certain but which belong in the income statement of the business year 2003 or earlier. The company audit for the years 1997 to 1999, begun in June 2002 by the Finanzamt für Körperschaften I von

in '000 € Write-offs in total	in '000 € Write-offs in the business year	in '000 € Residual book value at 12-31-2003	in '000 € Residual book value in prior year	in '000 € Residual book value former basis of consolidation
-	-	-	1,922	5,523
-	-	-	243	5,101
18,498	1,711	1,569	1,711	-
18,498	1,711	1,569	3,876	10,624
552	115	129	126	128
7,402	647	2,990	3,620	2,990
7,954	762	3,119	3,746	3,118
8,409	1,077	2,392	2,255	1,495
-	-	131	126	121
8,409	1,077	2,523	2,381	1,616
34,861	**3,550**	**7,211**	**10,003**	**15,358**

Berlin (Corporation Tax Authority in Berlin), was completed in the business year 2003. On the basis of the present audit reports and not yet submitted tax assessments, back payments for taxes of about 397,000.00 € including interest are expected. The final tax assessments for the Berliner Freiverkehr (Aktien) AG have already been made so that the back payments for taxes arising from the company audit are shown under the position "other liabilities".

Other provisions and accruals are mainly made up of the following:

Provisions and accruals for	in '000 € 12-31-2003	in '000 € 12-31-2002	in '000 € Former basis of consolidation 12-31-2003
annual financial statements	447	236	230
charge-outs to the banking supervisory authorities	423	404	405
other business expenses	391	95	63
personnel expenses	322	161	169
compensation for damages	250	-	250
contract note and settlement charges	142	53	42
occupancy costs	138	52	118
threatening losses	64	160	64
remuneration to the Supervisory Board	33	-	-
contributions to the Chamber of Industry and Commerce	11	110	11
Other provisions and accruals	20	-	-
Total	**2,241**	**1,271**	**1,352**

Special item partly with reserve character
The "special item partly with reserve character" records the special write-offs pursuant to Sections 1-4 Fördergebietsgesetz (FördGG) – (Regional Aid Act). They are released regularly over the assets' effective period, in favour of the income statement. In 2003, releases were made in the amount of 1,571.00 €. There were no new formations.

Stock capital
As at December 31, 2002, the stock capital was 16,797,016.00 €. At the shareholders' meeting on June 16, 2003, first it was resolved to encash the 836,857 stocks of the company, owned by itself and to reduce the capital accordingly. In addition, a capital increase in the amount of 30,005,098.92 € from the company's own resources was resolved and the subsequent reduction of the same amount should be distributed as pay-out. As at December 31, 2003, the stock capital was 15,960,159.00 €, divided into 15,960,159 non-par individual stocks.

In the past business year, announcements regulated by Section 21 Subsection 1 of the Wertpapierhandelsgesetz (WpHG) – (Securities Trading Law) we received from Mr. Holger Timm, Berlin, from BNP Paribas S.A., Paris, France, and from H.T.B. Unternehmensbeteiligungen GmbH, Berlin.

Approved capital
No capital increases were performed from the existing tranches of approved capital. The Board was authorized by the shareholders' meeting of July 3, 2001, to increase the stock capital until July 2, 2006, with the consent of the Supervisory Board, by issue of new individual stocks against cash or non-cash contribution once or more than once by a total of up to 8,398,492.50 €. At the shareholders' meeting on June 16, 2003, a new authorization was resolved. Henceforth, until June 16, 2008, the Board is authorized, with the consent of the Supervisory Board, by issue of new individual stocks against cash or non-cash contribution, to increase the nominal capital of the company once or more than once by a total of up to 7,980,079.50 €.

Contingent capital
The shareholders' meeting of June 15, 1999, had resolved to contingently increase the stock capital by 600,000.00 € for an employee stock option scheme (contingent capital I) and by 5,940,000.00 € for the issue of stock option warrants without bonds (contingent capital II). On the basis of the contingent capital increase and in exploitation of the contingent capital II, a total of 527,802 stocks with a computed value of 1.00 € were issued up to December 31, 2003. At the shareholders' meeting on June 28, 2002, a further contingent capital increase of 600,000.00 € was resolved (contingent capital III). This entitles the Board to hand out convertible bonds and/or subscription rights without bonds to members of the Board and company employees as well as to members of the Board and employees of companies affiliated under the terms of Section 15 ff Aktiengesetz (AktG) – (Stock Corporation Act). As a result of the capital increase, the contingent capital amounts increase in proportion to the nominal capital of the company. Accordingly, contingent capital I is 1,728,000.00 €, contingent

capital II is 15,587,219.52 € and contingent capital III is 1,728,000.00 €.

Capital reserve
As a result of the resolution to encash the own stocks of the Berliner Effektengesellschaft AG, the part of the nominal capital allocated to the stocks was appropriated to the capital reserve. In line with the capital increase from the Berliner Effektengesellschaft AG's own resources there followed a withdrawal from the capital reserve in the amount of 30,005,098.92 €. As at December 31, 2003, the latter stood at 71,751,708.45 €.

Revenue reserves
Owing to the write-off on goodwill from the Berliner Freiverkehr (Aktien) AG, the revenue reserves fell by 630,000.00 €. A further deduction of 4,623,000.00 € is due to the utilization of the reserve for own stocks. Debit differences to the sum of 5,463,000.00 € occurred as a result of the consolidation of the majority acquisitions of the Consors Capital Bank AG and the Ventegis Capital AG. Of that amount, 1,183,000.00 € were used for losses during the period of full consolidation of the companies mentioned. For the subsequent years we have considered possible additional losses in the amount of 2,037,000.00 €, which will be accounted for in the balance sheet as debit differences. A further 2,244,000.00 € of the debit differences could be collected as profit as this is the amount of losses which will not be incurred in the coming years.

Own stocks
On June 28, 2002, the shareholders' meeting authorized the Board, pursuant to Section 71 Subsection 1 Number 8 AktG, to acquire own stocks for the purpose of sale or for encashment. It was limited in time until December 31, 2003, and to 10.0% of the nominal capital of June 28, 2002, id est 1,679,701 stocks.

On June 16, 2003, the shareholders' meeting revised the authorization. It is now limited in time until December 16, 2004, and to 10.0% of the nominal capital of June 16, 2003, id est 1,596,015 stocks.

The resolution of the shareholders' meeting on June 16, 2003, authorized the Board to either partly or completely encash acquired stocks with the consent of the Supervisory Board on the basis of the authorization granted. This authorization may be used in part or completely and on one occasion or on several occasions.

In 2003, the authorization from the year 2002 to purchase own stocks was made use of by selling stocks. The table following shows the number of stocks traded by calendar month. The purchases were made exclusively through the stock exchange. In 2003, Berliner Effektengesellschaft AG acquired 4,000 stocks for 24,000.00 €. The 836,857 own stocks existing in the company at June 16, 2003, were encashed by resolution of the shareholders' meeting. The reserve for own stocks, which as at December 31, 2002, amounted to 4,623,000.00 €, had to be increased by 24,000.00 € as a result of the purchase of further stocks. By the encashment of own stocks the reserve for own stocks was made use of to the full amount and offset against the book value of own stocks.

Month	Number of stocks purchased/transferred	Number of stocks sold/encashed	Proportion of nominal capital
Brought forward	832,857	-	4.96%
January 2003	4,000	-	0.02%
February 2003	-	-	0.00%
March 2003	-	-	0.00%
April 2003	-	-	0.00%
May 2003	-	-	0.00%
June 2003	-	836,857	0.00%
Total Authorization 2002	**836,857**	**836,857**	**4.98%**

No stocks were purchased within the realms of the new authorization.

Adjusted items for outside shareholders' interests
As at December 31, 2003, two subsidiaries, in which third party interests exist, will be included in the Group financial statements within the realms of a full consolidation. The shares of the stockholders' equity of the respective companies which are apportioned to third parties are accounted for here.

D. EXPLANATIONS TO THE INCOME STATEMENT

Change in the basis of consolidation
Since the basis of consolidation has clearly changed

since December 31, 2002, a comparison of the current amounts with those of the previous year given in the income statement is not meaningful. Therefore, shown below are the income statement positions for the former basis of consolidation, the total as at December 31, 2003, of the newly included subsidiaries and that of the consolidation referring to them:

	in '000 € 12-31-2002	in '000 € Former basis of consolidation 12-31-2003	in '000 € Newly consolidated companies 12-31-2003	in '000 € Consolidation items 12-31-2003	in '000 € Group financial statements 12-31-2003
Interest profits	1,629	1,183	506	- 172	1,517
Interest expenses	- 72	-	- 298	172	- 126
Current profits from stocks	21	10	-	-	10
Result from associated companies	- 4,199	83	-	-	83
Commission surplus	3,734	2,252	708	- 44	2,916
Net result from financial transactions	4,757	5,808	- 43	-	5,765
Other operating profits	865	2,084	383	2,162	4,629
Profits from the release of special items partly with reserve character	2	2	-	-	2
General administrative expenses	- 11,206	- 10,182	- 1,575	121	- 11,636
Write-offs and value adjustments on intangible assets and tangible fixed assets	- 1,617	- 986	- 179	- 647	- 1,812
Other operating expenses	- 69	- 757	- 64	4	- 817
Write-offs and value adjustments on receivables and certain securities as well as allocations to provisions and accruals in credit business	- 5,302	207	- 554	-	- 347
Write-offs and value adjustments on participatory investments, stocks in affiliated companies and securities treated as fixed assets	- 12,617	- 1,711	- 120	-	- 1,831
Result from ordinary activities	**- 24,074**	**- 2,007**	**- 1,236**	**1,596**	**- 1,647**
Extraordinary result	- 1,153	-	- 48	-	- 48
Taxes	- 117	588	- 82	1	507
Profits from the release of debit differences	-	-	-	1,183	1,183
Net income	**- 25,344**	**- 1,419**	**- 1,366**	**2,780**	**- 5**

Profits and expenses from financial transactions

The profits and expenses from financial transactions are income or losses which arise from purchase and sale of financial instruments, especially securities, as a result of market price fluctuations. Write-offs on trading stocks are dealt with separately. They are shown under "profit" or "expenses from financial transactions a) securities". Furthermore, differences on name-to-follow transactions are shown here under the subitem b). In the past business year there were no profits or expenses from futures or options. The results from foreign exchange positions, which arose in connection with trading stocks in securities, are included in the total amount.

Other operating profits

The position "other operating profits" is a compound item, under which profits are shown which do not belong anywhere else and which arise from ordinary activities.

	in '000 € 2003	in '000 € 2002	in '000 € Former basis of consolidation 2003
Profits from first consolidation	2,244	-	-
Interest on tax refunds	1,415	-	1,415
Other cost charge-outs	331	472	383
Redemand of turnover tax	199	-	-
Releases of other provisions and accruals	175	316	43
Profit from the sale of computer hardware	106	-	106
Income from the exit of tangible fixed assets	-	19	-
Other profits	159	58	138
Total other operating profits	**4,629**	**865**	**2,085**

Personnel expenses

Included in the personnel expenses are supplementary grants and bonuses of 149,000.00 €. Of this, the newly consolidated companies account for 71,000.00 €. This represents a total increase in supplementary grants and bonuses of 53,000.00 € compared with last year.

Other administrative expenses

Shown under the position "other administrative expenses" are all expenses of a business nature, such as occupancy costs, contributions to the banking supervisory authorities, audit costs and such things. For the Group the breakdown appears as follows:

	in '000 € 2003	in '000 € 2002	in '000 € Former basis of consolidation 2003
Expenses for stock exchange information services	1,181	1,181	1,170
Occupancy costs	1,095	865	1,015
Stock exchange charges for contract notes, Xetra	817	1,140	817
Computing expenses	695	562	457
Contributions to associations and banking supervisory authorities	429	548	422
Expenses for data lines	315	558	281
Legal and consultancy fees	195	381	182
Other administrative expenses	1,150	1,025	957
of which expenses relating to other periods	*63*	*193*	*63*
Total other administrative expenses	**5,877**	**6,260**	**5,301**

Other operating expenses

The position "other operating expenses" is a compound item, under which expenses are shown which do not belong anywhere else and which arise from ordinary activities.

	in '000 € 2003	in '000 € 2002	in '000 € Former basis of consolidation 2003
Compensation for damages	255	3	251
Utilization of supplied collaterals	150	-	150
Foreign exchange losses from financial assets	134	-	134
Interest on back payments for taxes	44	-	44
Losses from the exit of tangible fixed assets	8	41	8
Other expenses	226	25	170
Total other operating expenses	**817**	**69**	**757**

Write-offs and value adjustments on participatory investments

The considerable write-offs on participatory investments come from the financial statements of the Berliner Effektengesellschaft AG and were carried out observing strictly the principle of lower of cost or market. The market value or the applicable value was used as a benchmark. The applicable value was determined by assessing the profit-capacity value, the current stockholders' equity provisions and the profitability or current capital measures and the resulting evaluations. The write-offs concern Nasdaq Europe S.A.

Extraordinary expenses

Due to the close of its branch in Frankfurt/Main, the Consors Capital Bank AG incurred extraordinary expenses even up to and during the period of inclusion in the Group financial statements.

Income and profit taxes

The Berliner Effektengesellschaft AG Group received refunds on the submitted tax assessments for the assessment periods 2000 and 2001. The fiscal company audit for the year 1997 to 1999 was completed in 2003. Tax assessments based on the company audit have been partly submitted. Of the provisions and accruals of 432,000.00 € made already at the close of the previous year, 102,000.00 € were used for the submitted tax assessments. New formations in the amount of 14,000.00 € were made for the interest accrued in the past year. In total, refunds from income and profit taxes balance to the amount of 508,000.00 €.

E. OTHER INFORMATION

Forward transactions

During the business year 2003, on the basis of customer orders and liquidity management, foreign currency forward transactions attributed to the trading ledger were processed and settled. No such transactions occurred in the context of own-account trading. Apart from that, the private customer department concluded contracts attributed to the asset ledger involving other price risks in connection with customer trading.

During the entire business year there were no own-account transactions in contracts subject to interest rate risks.

All forward transactions were subject to the rules and regulations for the operation of trading transactions providing for the daily calculation and control according to the market valuation method by risk control. The credit equivalence amounts and margin usages in customer trading were monitored daily. All derivative transactions were carried out with banks of first class credit rating.

Forward transactions in foreign currencies

Transactions not yet due at the balance sheet date pertain to short-term forward transactions for the implementation and coverage of liquidity for customer trading. The transactions are classified as trading transactions according to the criteria of the trading ledger.

Forward transactions with other price risks

Under transactions with other price risks the stock options and stock index options standardized in the customer order are declared as asset ledger transactions at the balance sheet date.

Derivative transactions Representation of volume	in '000 € Nominal values		in '000 € Credit risk equivalents	in '000 € Replacement costs
	12-31-2003	12-31-2002	12-31-2003	12-31-2003
Currency risks	4,065	-	89	49
Transactions with other price risks	28,964	-	1,588	701
Total	**33,029**	**16,633**	**1,677**	**750**

Derivative transactions Classification of remaining terms Nominal values	in '000 € Stock and other price risks		in '000 € Currency risks		in '000 € Interest rate risks	
	12-31-2003	12-31-2002	12-31-2003	12-31-2002	12-31-2003	12-31-2002
up to one year	28,964	-	4,065	-	-	-
Total	**28,964**	**-**	**4,065**	**-**	**-**	**-**

Derivative transactions Classification of counterparties	in '000 € Nominal values		in '000 € Credit risk equivalents	in '000 € Replacement costs
	12-31-2003	12-31-2002	12-31-2003	12-31-2003
OECD-banks	18,547	-	211	73
Customers	14,482	-	1,466	677
Total	**33,029**	**-**	**1,677**	**750**

Derivative transactions Trading transactions	in '000 € Nominal values		in '000 € Credit risk equivalents	in '000 € Replacement costs
	12-31-2003	12-31-2002	12-31-2003	12-31-2003
Currency contracts	4,065	-	89	49
Total	**4,065**	**-**	**89**	**49**

Other financial obligations

There are obligations of 5,022,000.00 € from rental, leasing and servicing contracts. They relate mainly to rental contracts for office premises.

The Berliner Effektengesellschaft AG Group has taken up guarantee lines from various banks. The total amount is 173,000.00 €. Above all, they serve as collateral for rental contracts. We have pledged balances and securities with a value of 107,000.00 € for the guarantee lines. At the balance sheet date, further collaterals amounting to 15,654,000.00 € for the coverage of cash clearing for securities transactions and margin obligations arising from customer trading by the Consors Capital Bank AG were transferred to banks which, only to a small extent, were used for corresponding liabilities to these banks.

Interests held

The following information relates to December 31, 2003, or the business year 2003, unless otherwise specified.

Affiliated companies included in the Group financial statements:

Berliner Freiverkehr (Aktien) AG, Berlin

Nominal capital:		23,000,000.00 €
Interests held:	100.0%	23,000,000.00 €
Stockholders' equity:		34,810,635.53 €
Net income:		- 46,856.19 €

Consors Capital Bank AG, Berlin

Nominal capital:		10,994,463.00 €
Interests held:	98.6%	10,840,142.00 €
Stockholders' equity:		10,082,229.52 €
Net income:		- 3,092,847.34 €

Ventegis Capital AG, Berlin

Nominal capital:		3,487,520.00 €
Interests held:	68.5%	2,388,559.00 €
Stockholders' equity:		9,055,299.18 €
Net income:		- 319,791.07 €

The associated companies are:

Ableton AG, Berlin

Nominal capital:		87,000.00 €
Interests held:	21.3%	18,500.00 €
Stockholders' equity as at December 31, 2002:		- 1,307,107.18 €
Net income 2002:		- 533,046.00 €

Cybernet Internet Services International Inc., Delaware, USA

Nominal capital:		26,445.66 US-$
Interests held:	21.0%	5,577.40 US-$
Stockholders' equity as at December 31, 2002:		- 137,994,000.00 €
Net income 2002:		- 38,458,000.00 €

Geniotronic AG, Berlin

Nominal capital:		500,000.00 €
Interests held:	25.9%	129,700.00 €
Stockholders' equity as at December 31, 2002:		- 656,346.30 €
Net income 2002:		- 533,232.89 €

Online Securities Holding Inc., Delaware, USA

Nominal capital:		230,004.12 US-$
Interests held:	34.6%	79,655.30 US-$
Stockholders' equity as at December 31, 2001:		2,025,120.00 US-$
Net income 2001:		- 2,323,600.00 US-$

Paraworld AG, Dieburg

Nominal capital:		61,665.00 €
Interests held:	20.7%	12,750.00 €
Stockholders' equity as at June 30, 2000:		14,133,015.88 €
Net income 2000:		- 4,299,940.80 €

The associated companies are of subordinate importance for the Group financial statements. If included in the annual financial statements, it would not have any substantial impact because of their balance sheet totals and results.

Employees

The number of employees has developed as follows:

	Female	Male	Total
Average of the year			
Board members	1.0	3.8	4.8
Traders	6.0	28.8	34.8
Other employees	19.5	22.3	41.8
Maternity regulations	3.0	0.0	3.0
Student trainees	1.8	13.8	15.6
Trainees	0.3	0.3	0.6
Total	**31.6**	**69.0**	**100.6**
off which part-time employees (number of persons)	7.3	16.8	24.1
off which part-time employees (equal to full-time employees)	4.3	5.8	10.1
As at December 31, 2003			
Board members	1.0	6.0	7.0
Traders	6.0	28.0	34.0
Other employees	34.0	34.0	68.0
Maternity regulations	4.0	0.0	4.0
Student trainees	1.0	15.0	16.0
Trainees	1.0	1.0	2.0
Total	**47.0**	**84.0**	**131.0**
off which part-time employees (number of persons)	11.0	19.0	30.0
off which part-time employees (equal to full-time employees)	6.0	5.1	11.1

For the purpose of calculation of the yearly average, the companies new to the basis of consolidation only have an effect on the figures as at December 31, 2003.

Corporate bodies of Berliner Effektengesellschaft AG

According to Section 285 Number 10 HGB, listed below are the members of the Board and the members of the Supervisory Board, as well as their memberships in supervisory boards and comparable managing bodies in domestic and foreign business establishments, as at December 31, 2003. For those Supervisory Board members who have resigned from office before, the listed mandates and the occupation practised refer to the time of the respective resignation.

Members of the Board

Dr. Jörg Franke, Frankfurt/Main,
Speaker

Chairman of the Supervisory Board:
RTS Realtime Systems (Deutschland) AG, Frankfurt/Main
Chairman of the Stock Exchange Council:
Berlin-Bremen Stock Exchange, Berlin and Bremen
(since March 20, 2003)
Deputy Chairman of the Supervisory Board:
Berliner Börse AG, Berlin
Member of the Supervisory Board:
Mummert Consulting AG, Hamburg
Nasdaq Deutschland AG, Berlin and Bremen
(since February 25, 2003)
Member of the Board:
Bundesverband der Finanzintermediäre an den deutschen Wertpapierbörsen (Federal Association of Financial Intermediaries on the German Stock Exchanges), Frankfurt/Main
Member of the Advisory Board:
Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt/Main
Industrie- und Handelsunion Dr. Wolfgang Boettger GmbH & Co. KG, Berlin
(since December 2, 2003)

Holger Timm, Berlin,
Speaker,
Chairman of the Board of
Berliner Freiverkehr (Aktien) AG

Chairman of the Supervisory Board:
Consors Capital Bank AG, Berlin
(since October 23, 2003)
Ventegis Capital AG, Berlin
Member of the Supervisory Board:
EuroChange AG, Berlin

Members of the Supervisory Board

Andrä Dujardin, Berlin,
entrepreneur

Member of the Advisory Board:
Berliner Volksbank eG, Berlin

Wolfgang Hermanni, Berlin,
businessman
Chairman

Chairman of the Supervisory Board:
Berliner Freiverkehr (Aktien) AG, Berlin
EuroChange AG, Berlin
Member of the Supervisory Board:
Consors Capital Bank AG, Berlin
(since October 23, 2003)
Ventegis Capital AG, Berlin

Jean-Philippe Huguet, Neuilly-sur-Seine, France,
General Secretary and CFO, Cortal Consors S.A.
(since February 20, 2003)

Chairman of the Supervisory Board:
eInsurance Agency AG, Munich
(since January 21, 2003)

Dr. Andor Koritz, Berlin,
lawyer
Deputy Chairman

Member of the Supervisory Board:
Berliner Freiverkehr (Aktien) AG, Berlin
Consors Capital Bank AG, Berlin
(since October 23, 2003)

Detlef Prinz, Berlin,
entrepreneur

Member of the Supervisory Board:
Hansa Luftbild Arabia E.C., Manama, Bahrain
(since May 22, 2003)
Messe Berlin GmbH, Berlin
Member of the Advisory Board:
Dräger-Stiftung, Munich/Lübeck
(since August 1, 2003)

Dr. Günter Rexrodt, Berlin,
member of the Board, WMP EuroCom AG

Chairman of the Supervisory Board:
AGIV Real Estate AG, Hamburg
Member of the Supervisory Board:
AWD Holding AG, Hanover
DTZ Zadelhoff Holding GmbH, Frankfurt/Main
Landau Media AG, Berlin

Dr. Uwe Schroeder-Wildberg, Nuremberg,
member of the Board (CFO), MLP AG
(until January 31, 2003)

Chairman of the Supervisory Board:
Consors Capital Bank AG, Berlin
Member of the Supervisory Board:
Consors France S.A., Paris, France
eInsurance Agency AG, Munich

Remuneration of the corporate bodies

From the fully consolidated companies, Dr. Jörg Franke received fixed remuneration of 370,000.00 €. 63,000.00 € of this was in contributions to a pension fund and benefits in kind in the form of a company car. Mr. Holger Timm received fixed remuneration of 123,000.00 € from the fully consolidated companies. The Board did not receive any variable remuneration in the past business year. Remuneration to members of the Supervisory Board was 78,000.00 € in the Group and is made up as follows:

	Remuneration in €
Wolfgang Hermanni	24,312.33
Dr. Andor Koritz	18,512.33
Andrä Dujardin	11,600.00
Detlef Prinz	11,600.00
Dr. Günter Rexrodt	11,600.00

Payments or benefits for personally rendered services were not made to Board members or Supervisory Board members.

Stock ownership/Trading in company stocks by members of the corporate bodies

Last year, members of the Board neither acquired nor sold any stocks. As at December 31, 2003, Board members held 4,541,069 stocks and 235,000 option rights on company stocks, of which 4,541,069 stocks and 55,000 option rights went to Mr. Holger Timm as well as 180,000 option rights went to Dr. Jörg Franke.

In the past year, the members of the Supervisory Board neither acquired nor sold any stocks. As at December 31, 2003, the members of the Supervisory Board held less than 1.0% of the stock capital and no option rights on company stocks.

Stock option scheme

In 2000, for the first time, the Berliner Effektengesellschaft AG applied a stock option scheme for the employees of all companies belonging to the Group. In each of the years from 2000 to 2003 employees were offered 200,000 option rights. For each option the bearer is entitled to buy one individual stock of the company, which corresponds to one share of the nominal capital at 1.00 €. The condition for exercising the option rights allocated for the years 2000 to 2002 is an increase of at least 5.0% in the closing price of the stock of the Berliner Effektengesellschaft AG on the Berlin Stock Exchange, compared with the average closing price of the company's stock of the last 20 trading days before conceding the option right.
The condition for exercising the option rights allocated in 2003 is, at the time of exercising the option, an increase of at least 6.0% in the closing price of the stock of the Berliner Effektengesellschaft AG on the Berlin Stock Exchange, in each year of maturity, compared with the average closing price of the company's stock of the last ten trading days before conceding the option right. Further details on the stock option scheme as at December 31, 2003, are summarized below:

Year of allocation	Options offered	Options accepted	Option rights still existing	Exercise period	Exercise price	Exercise obstacle
2000	200,000	186,500	74,000	03-01-2002 – 02-28-2005	27.000 €	29.17 €
2001	200,000	194,000	167,500	03-01-2003 – 02-28-2006	27.000 €	26.43 €
2002	200,000	196,500	188,500	03-01-2004 – 02-28-2007	10.350 €	10.72 €
2003	200,000	196,500	196,500	03-01-2005 – 02-28-2008	3.445 €	3.47 €

Group segment reporting
The Group segment reporting was drawn up according to Deutscher Rechnungslegungsstandard Nr. 3 (German Accounting Standard Number 3) in conjunction with Deutscher Rechnungslegungsstandard Nr. 3-10 (German Accounting Standard Number 3-10), which contains supplementary regulations for banks.

Since the basis of consolidation has expanded during the business year bringing with it further operational segments, the structure of the Group segment reporting has changed. In the last business year, both the banking activities and the venture capital business were accounted for in the respective companies. In 2003, the Berliner Freiverkehr (Aktien) AG did not yet carry out any transactions which might have come under the additionally allowed banking activities. Therefore, the operational segments are: order book management/securities trading, banking activities and venture capital. The separation of the operational segments is made according to the operational function of the companies within those segments. The business area order book management/securities trading is not divided further. Within the realms of the order book management and the stockbrokerage business, transactions in securities are either relayed directly, placed with a time limit (name-to-follow transactions) or passed on to the relative order book manager. A useful and arbitrary-free restriction of these activities is not possible, mainly because of expenses and profits. Since a trader administers these tasks in parallel for certain securities, the splitting of his job, for example by means of timing, is also ruled out. The allocation of expenses and profits to the segments is carried out on the basis of responsibility. If direct allocation is not possible, a suitable distribution code is used. The Group result is shown as a summary of segment data and data of central divisions and consolidation.

The central divisions cover tasks which serve the general control and management of the business and cannot be assigned directly to one operational segment. These include, for example, the tasks of the Group's accounts department together with the integration of the accounts department/controlling of the Berliner Freiverkehr (Aktien) AG, the activities of the Board and the support of the IT-infrastructure and IT-development. The services exchanged between the segments have been documented using their accounted for values.

The result of interest profits/expenses which does not arise from activities of the Consors Capital Bank AG is made up of the profits from investments in liquidity funds. This business is run at central division so that the profits are allocated accordingly. The commissions received and paid, which are largely made up of courtage, are allocated to the segments which actually carried out the underlying business. Commissions paid in connection with payment transactions and guarantees arranged for the Group are shown under central division. The result from financial transactions, which comprises mainly the differences on name-to-follow transactions, is also added to the segment which is responsible for operations. Here, the results included from the valuation of foreign currency balances held at banks are, on principle, accounted for by central division. The basic principle of allocating administrative expenses to the segments is that they should pay for the expenses they incur. Higher level items, for example the provision of the IT-structure, are included in the central division. An arithmetical charge-out to individual segments is not in operation at the moment.

The segment assets and segment liabilities contain the equity assets or liabilities of those segments still to be assigned to the operational function of the companies, as well as the equity assets or liabilities for the Berliner Freiverkehr (Aktien) AG, arising from trading activities. The current account balances held at banks, which serve mainly payment transactions and investments in liquidity funds are shown under central division.

The risk positions are the risk assets and the market risk positions at each segment level, according to Grundsatz I (Principle I). The equity capital was divided on the basis of differentiated benchmarks. The basis of the breakdown is a risk orientated approach. The risk positions flow into the division, along with existing limitations and the allocation of the amount from the commission surplus and the result from financial transactions and personnel expenses. The return on allocated capital is shown as a quota share of the result after provision for risks per segment and the allotted capital. The cost/income ratio is the quota share from administrative expenses and the sum of profits according to the classification of the income statement.

Group cash flow statement
The Group cash flow statement was drawn up according to Deutscher Rechnungslegungsstandard Nr. 2 (German Accounting Standard Number 2) in conjunction with Deutscher Rechnungslegungsstandard Nr. 2-10 (German Accounting Standard Number 2-10), which contains supplementary regulations for banks.

On account of the activities of the companies in the Group, cash and cash equivalents contain the cash balances as well as the balances held at central banks, of all companies included in the Group financial statements and the current account balances due daily, held at banks, by Berliner Effektengesellschaft AG, Berliner Freiverkehr (Aktien) AG and Ventegis Capital AG. The cash flow from operating activities includes the changes in the overnight funds and fixed-term deposits of these companies.

Minority stakeholders of the Ventegis Capital AG have made capital contributions of 456,000.00 €. They did not receive any distributions.

There were no non-cash events of significance in 2003.

Group stockholders' equity schedule

The Group stockholders' equity schedule was drawn up for the first time for the Group financial statements according to Deutscher Rechnungslegungsstandard Nr. 7 (German Accounting Standard Number 7). As a result of the consolidation of shares at the time of purchase, the reserves in the Group have increased. The background to this is the results accrued from shares acquired in previous years, taking into consideration the write-offs on goodwill pertaining to these shares.

Berlin, March 4, 2004

Berliner Effektengesellschaft AG

Holger Timm

Dr. Jörg Franke

GROUP SEGMENT REPORTING

BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

	Order book management/ Securities trading		Banking activities		Venture capital		Central divisions/ Consolidation		Group	
	in '000 € 2003	in '000 € 2002	in '000 € 2003	in '000 € 2002	in '000 € 2003	in '000 € 2002	in '000 € 2003	in '000 € 2002	in '000 € 2003	in '000 € 2002
Interest surplus	12	34	145	-	50	-	1,194	1,544	1,401	1,578
Result from associated companies	-	-	-	-	-	-	83	- 4,199	83	- 4,199
Commission surplus	2,283	3,741	710	-	- 2	-	- 75	- 7	2,916	3,734
Result from financial transactions	5,714	4,949	21	-	- 64	-	94	- 192	5,765	4,757
Total profits	8,009	8,724	876	-	- 16	-	1,296	- 2,854	10,165	5,870
General administrative expenses (including write-offs)	- 5,646	- 6,305	- 1,451	-	- 303	-	- 6,048	- 6,518	- 13,448	- 12,823
Other expenses/profits	- 2	- 28	315	-	18	-	3,482	824	3,813	796
Result before provision for risks	2,361	2,391	- 260	-	- 301	-	- 1,270	- 8,548	530	- 6,157
Total provision for risks	-	-	- 491	-	- 64	-	207	- 5,301	- 348	- 5,301
Result after provision for risks	2,361	2,391	- 751	-	- 365	-	- 1,063	- 13,849	182	- 11,458
Segment assets	1,438	877	71,586	-	7,103	-	6,060	44,334	86,187	45,211
Cash reserve assets	-	-	1,386	-	1	-	-	1	1,387	1
Receivables from banks	1,242	773	60,920	-	6,621	-	5,560	44,304	74,343	45,077
Receivables from customers	125	60	9,280	-	309	-	500	29	10,214	89
Trading assets	71	44	-	-	172	-	-	-	243	44
Segment liabilities	1,170	750	76,204	-	-	-	- 46,787	-	30,587	750
Liabilities to banks	950	602	24,283	-	-	-	- 21,217	-	4,016	602
Liabilities to customers	220	148	51,921	-	-	-	- 25,570	-	26,571	148
Securitized liabilities	-	-	-	-	-	-	-	-	-	-
Trading liabilities	-	-	-	-	-	-	-	-	-	-
Risk positions	9,354	8,110	81,634	-	10,377	-	17,026	68,789	26,380	76,899
Risk assets	1,943	1,933	80,515	-	9,286	-	18,067	66,703	20,010	68,636
Market risk positions	7,411	6,177	1,119	-	1,091	-	- 1,041	2,086	6,370	8,263
Equity capital (without retained earnings)	30,710	24,838	11,751	-	9,055	-	45,613	99,407	97,129	124,245
Average number of employees (including student trainees and trainees)	50.4	52.0	9.3	-	1.0	-	39.9	41.5	100.6	93.5
Return on allocated capital	7.7%	9.6%	- 6.4%	0.0%	- 4.0%	0.0%	- 2.3%	- 13.9%	0.2%	- 9.2%
Expenses/profit ratio	70.5%	72.5%								

Return = Result after provision for risks/equity capital

GROUP CASH FLOW STATEMENT
BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

	in '000 € 2003	in '000 € 2002
Net income	- 5	- 25,344
Non-cash items contained in the net income, and reconciliation to the cash flow from operational activities	-	-
Write-offs, value adjustments and write-ups on financial and tangible fixed assets	3,524	17,562
Changes in provisions and accruals	70	- 259
Change in non-cash items	27,024	6,219
Income/loss from the sale of financial and tangible fixed assets	141	894
Other adjustments (balance)	- 30,011	- 189
Subtotal	743	- 1,117
Changes in net assets and liabilities from operational activities after correction for non-cash components	-	-
Receivables		
from banks	- 8,955	941
from customers	234	-
Securities (unless financial assets)	- 9,933	- 9,772
Other asset items from operational activities	32,755	- 405
Liabilities		
to banks	111	431
to customers	- 3,478	-
Securitized liabilities	-	-
Other equity and liability items from operational activities	- 6,714	- 362
Extraordinary payments received	-	-
Extraordinary payments made	-	-
Cash flow from operating activities	4,763	- 10,284
including: Interest and dividends received	2,907	1,706
Interest paid	- 199	-
Payments of profit tax	26,538	14
Payments received from the sale of		
Financial assets	427	10,429
Tangible fixed assets	1	50
Payments made for the purchase of		
Financial assets	- 4,859	-
Tangible fixed assets	- 192	- 367
Effects from the change in the basis of consolidation		
Payments received from the sale of consolidated companies and other business units	-	-
Payments made for the purchase of consolidated companies and other business units	-	-
Changes in funds from other investment activities (balance)	-	-
Cash flow from investment activities	- 4,623	10,112
Payments received from capital increases	456	-
Dividend payments	-	-
Purchase and sale of own stocks	- 24	- 495
Changes in funds from subordinated capital as well as other hybrid capital (balance)	-	-
Payments received from financial loans taken up	-	-
Payments made for the redemption of financial loans	-	-
Cash flow from financing activities	432	- 495
Cash holdings at the end of the prior period	4,252	4,919
of which cash reserve assets	*1*	*3*
of which receivables from banks due daily	*4,251*	*4,916*
Cash flow from operating activities	4,763	- 10,284
Cash flow from investment activities	- 4,623	10,112
Cash flow from financing activities	432	- 495
Changes in cash and cash equivalents on account of exchange rates, basis of consolidation and valuation	476	-
Cash holdings at the end of the period	5,300	4,252
of which cash reserve assets	*1,388*	*1*
of which receivables from banks due daily	*3,912*	*4,251*

GROUP STOCKHOLDERS' EQUITY SCHEDULE

BERLINER EFFEKTENGESELLSCHAFT AG, BERLIN

	in '000 € 1-1-2003	in '000 € Capital increase from the company's own resources	in '000 € Capital reduction	in '000 € Purchase/ encashment of own stocks	in '000 € Group net income	in '000 € Rest of the Group result	in '000 € Total Group result	in '000 € 12-31-2003
Stock capital of parent company	16,797	30,005	- 30,005	- 837	-	-	-	15,960
Capital reserve	100,920	- 30,005	-	837	-	-	-	71,752
Group stockholders' equity earned	- 24,335	-	-	- 4,623	178	822	1,000	- 27,958
Own stocks appointed for encashment	-	-	-	-	-	-	-	-
Cumulated rest of the Group result as far as applicable to the shareholders of the parent company	-	-	-	-	-	2,037	2,037	2,037
Stockholders' equity of parent company according to the Group balance sheet	93,382	-	- 30,005	- 4,623	178	2,859	3,037	61,791
Own stocks not appointed for encashment	- 4,623	-	-	4,623	-	-	-	-
Stockholders' equity of parent company	88,759	-	- 30,005	-	178	2,859	3,037	61,791
Stockholders' equity of minority stakeholders								
Minorities' capital	-	-	-	-	-	5,640	5,640	5,640
Cumulated rest of the Group result as far as applicable to minority stakeholders	-	-	-	-	- 183	- 2,462	- 2,645	- 2,645
Stockholders' equity of minority stakeholders	-	-	-	-	- 183	3,178	2,995	2,995
Group stockholders' equity	**88,759**	**-**	**- 30,005**	**-**	**- 5**	**6,037**	**6,032**	**64,786**

SUMMARIZED MANAGEMENT REPORT AND GROUP MANAGEMENT REPORT OF BERLINER EFFEKTENGESELLSCHAFT AG TO THE ANNUAL FINANCIAL STATEMENTS AND GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

1. GENERAL COMMENTS ON THE ECONOMIC ENVIRONMENT

For the financial services industry, the business year 2003 was marked by an untypical weak first quarter in securities trading and led once again in the second quarter, up to and including May, to a marked downturn in business activities resulting to some extent in considerable monthly losses for the Berliner Freiverkehr (Aktien) AG. Thus, in the first quarter vis-à-vis an already weak previous year, a further decline of an average 40.0% in the total of orders in securities trading was noted. An additional problem for the Group was caused by the intense lack of interest from private investors in trading in foreign securities since, with its various services, the Group is very much geared towards private investors. Within the total volume of trade on German stock exchanges the proportion of foreign securities of the overall turnover fell from ca. 13.0% in the previous year to ca. 5.6%. The partly very strong focus, also by private investors, on the few DAX-securities does not afford financial services providers very attractive profit margins.

As of June, the second half of the year was stable and, at times, there was even an improvement in the total of orders compared with the previous year, so the average number of orders for the whole year fell by "only" 20.0%. Stimulus for the market came not only from the sharp increase in DAX-securities but also from the upheaval on the leading US-American technology exchange, Nasdaq, and other so-called emerging markets in which particularly the Berliner Freiverkehr (Aktien) AG is very active.

In the past year, no impetus at all came from the area of new issues. For the first time in Germany there was not one single new company coming to the stock market and even on the important US-market only a very hesitant revitalization of the important business for the branch, investment banking, was registered.

2. POSITIONING OF THE COMPANY AND THE GROUP IN THE ENVIRONMENT

While the Berliner Effektengesellschaft AG does not practise any operational activities, it does have a stake in companies which offer banking and financial services or activities which are otherwise connected with these. Where necessary, it supports and co-ordinates junior companies in their business activities. Participatory investments are entered into or increased as far as it is appropriate for the positioning as services provider around the capital markets. In autumn, therefore, the participatory investments in Consors Capital Bank AG and Ventegis Capital AG were expanded to a majority holding henceforth enabling the Group to provide further services around the capital markets.

The Berliner Freiverkehr (Aktien) AG, which was part of the Group for the whole business year, acts as an order book manager on the Frankfurt/Main and Berlin-Bremen Stock Exchanges, has further admissions on stock exchanges in Munich, Stuttgart and Düsseldorf and, as the centre of its business, operates its own off-floor trading platform, TradeGate®.

At the beginning of the year, in order not to burden the technical systems of the Berliner Freiverkehr (Aktien) AG with commercially uninteresting classes, the area of order book management was revised by ca. 1,000 classes from 7,800 to 6,800 different securities. Throughout the year there are always numerous delistings which are roughly weighed out by a similar number of newcomers. With increasing volume of orders in autumn, the Berliner Freiverkehr (Aktien) AG reinforced its listing activity, especially in Chinese companies, so that by the year end around 7,050 securities were being looked after.

As planned, in April the Berliner Freiverkehr (Aktien) AG assumed its activity as market maker on the newly founded Nasdaq Deutschland and for several market participants acted as a so-called best executor. Unfortunately the new stock exchange could not generate order flow to the degree expected and was discontinued by the shareholders after only three months' operation. There were no immediate negative consequences for the Berliner Freiverkehr (Aktien) AG from this regrettable development, since the focus of its business development was centred on its own trading platform anyway. By way of illustration, it is worth noting that the proprietary trading system TradeGate®, to which only Cortal Consors S.A. was connected as order flow provider at that time, conducted more transactions than the whole of Nasdaq Deutschland with all market makers and market participants put together.

Experience values from the USA, where off-floor trading platforms, so-called ECNs, were able to gain a significant market share of over 50.0% vis-à-vis the traditional stock exchange centres and similar developments in the area of certificates and warrants in Germany have encouraged the Berliner Freiverkehr (Aktien) AG to consistently further develop and market its off-floor (stock) trading system TradeGate®. To assure the technical connection of the most possible market participants, other system providers such as Cats-OS of the Citigroup are also accessed. In autumn, the first successes were achieved when, alongside Cortal Consors S.A., four additional market participants were gained whose customers can henceforth trade off-floor directly with the Berliner Freiverkehr (Aktien) AG.

As a further important step, an application was made for the current authorization as a financial services provider to be expanded. In a letter dated July 21, 2003, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) – (The Federal Financial Supervisory Authority), banking supervisory department, granted a permit allowing, alongside the financial services of relaying of securities transactions and own-account trading for others, the additional banking activities of financial commission and new issues business. Hence, the Berliner Freiverkehr (Aktien) AG is a securities trading bank in future and the purpose of business in the articles of association has been changed accordingly.

The expansion of the Group's activity to include universal banking and a venture capital company should lead, together with the general synergy effects for all three subsidiaries, to a reciprocal positive impact on the further development of the business. Therefore, the Board members of all companies in the Group devise reciprocally co-ordinated business concepts. The control of the Group is exercised, among other ways, via the corporate bodies of the Berliner Effektengesellschaft AG, who take up supervisory mandates in the Group's subsidiaries.

3. INVESTMENTS

As a result of the increase in participatory investments described in 2., the Berliner Effektengesellschaft AG holds the majority of shares in Consors Capital Bank AG and Ventegis Capital AG, so that as at December 31, 2003, both companies were included in the Group financial statements in the context of a full consolidation. A total of 8,784,000.00 € was invested in the increase in shares. Furthermore, in the last business year the company purchased a licence for software with which the reports in line with institutional supervision can be made automatically. This was brought into use at the beginning of 2004. For the provision of the software the connected institute, the Berliner Freiverkehr (Aktien) AG, will be invoiced appropriately. It is planned that other Group companies will also make use of this software.

For Group purposes, investments were made of normal amounts for items to be disclosed as tangible fixed assets. This concerns primarily the upgrading, extension or renewal of the existing IT-system.

4. EMPLOYEES

The yearly average of the number of employees in the Berliner Effektengesellschaft AG has increased slightly. As at December 31, 2003, just as at the close of the previous year, there were eight employees in the company including the Board.

In consequence of the wider basis of consolidation, the number of employees in the Group increased. Without the newly included companies in the Group financial statements as at December 31, 2003, a small reduction of two people would have been observed.

Compared with other companies in the peer group, the basic salaries of the employees move around the average, or rather at the lower end of the scale. By way of incentive, the companies operate a bonus pooling scheme which is geared towards the before tax results. Pay-outs are made to the employees according to their position, length of service and individual performance. As no income could be achieved in the past year, no performance-related bonuses were paid. Besides the income orientated bonus scheme all employees can take part in the annual stock option scheme of the Group's parent company, the Berliner Effektengesellschaft AG.

The age structure shows a high proportion of employees under the age of 30 who work mainly in the Group's trading and IT-departments. Employee turnover is low. Persons leaving because of personal reasons (change of location, maternity etc.) were not replaced due to declining business. Following the sharp expansion in the years 1999 to 2001, most employees have been with the company for between three and five years.

5. OTHER IMPORTANT TRANSACTIONS OF THE BUSINESS YEAR

In October Mr. Holger Timm, Speaker of the Board, indirectly procured control of the company, since the H.T.B. Unternehmensbeteiligungen GmbH, of which he is the sole shareholder, bought 40.78% of the voting rights of the Berliner Effektengesellschaft AG from Consors International Holding GmbH, thus controlling almost 70.0% of the voting rights. With its remaining 15.0% of the voting rights, Consors International Holding GmbH, a wholly owned subsidiary of Cortal Consors S.A., is still an important shareholder. For the stabilization and long-term security of good business relations, the Group itself aspires to a comprehensive agreement of co-operation with Cortal Consors S.A. on an operational level.

6. STATUS DEVELOPMENT

6.1. Net assets position

The net assets position of the Berliner Effektengesellschaft AG shows, alongside a large approach of participatory investments, a high proportion of securities and bank balances. The receivables from taxes, in past years accounted for under "other current assets", were balanced in the last business year, significantly reducing the importance of this balance sheet item. The table below shows the development of assets over the last three years:

Berliner Effektengesellschaft AG	in '000 € 12-31-2001	in '000 € 12-31-2002	in '000 € 12-31-2003
Intangible assets	-	-	164
Tangible fixed assets	78	109	51
Financial assets	82,963	60,001	66,513
Receivables and other current assets	26,148	26,542	577
Own stocks	6,935	4,623	-
Other securities	-	5,055	15,187
Cash on hand, bank balances	24,651	21,861	22,789
Prepaid and deferred expenses	4	-	2
Total assets	**140,779**	**118,191**	**105,283**

The net assets position of the Berliner Effektengesellschaft AG Group is marked by relatively high solvency. Alongside the assets in securities of the liquidity reserves, the receivables from banks represent the largest positions in assets. The receivables from taxes, in past years accounted for under "other current assets", were balanced last year, significantly reducing the importance of this balance sheet item. To a great extent, the increase in receivables from banks and customers as well as bonds can be ascribed to the consolidation of the Consors Capital Bank AG. The table below shows the development of assets over the last three years:

Berliner Effektengesellschaft AG Group	in '000 € 12-31-2001	in '000 € 12-31-2002	in '000 € 12-31-2003
Cash reserve assets	-	1	1,388
Receivables from banks	49,724	45,077	74,343
Receivables from customers	1,508	89	10,214
Bonds and other fixed-interest securities	-	-	24,990
Stocks and other non-fixed interest securities	158	9,859	10,375
Participatory investments	7,121	1,711	1,569
Stocks in affiliated companies	16,290	243	-
Stocks in associated companies	6,155	1,922	-
Intangible assets	4,370	3,746	3,118
Tangible fixed assets	3,080	2,381	2,523
Own stocks or interests	6,935	4,623	-
Other current assets	26,077	26,478	1,134
Prepaid and deferred expenses	17	25	34
Total assets	**121,435**	**96,155**	**129,688**

6.2. Financial position

As at December 31, 2003, high liabilities and, compared with last year, significantly reduced stockholders' equity were accounted for in the Berliner Effektengesellschaft AG. The reason is the resolution of the shareholders' meeting on June 16, 2003, to distribute 30 million € of the stockholders' equity to the shareholders. The amounts due to affiliated companies arose from the charge-outs of trade tax and, as a result of payment by the tax authorities during the business year, were likewise reduced. The table below shows the development of equity and liabilities over the last three years:

Berliner Effektengesellschaft AG	in '000 € 12-31-2001	in '000 € 12-31-2002	in '000 € 12-31-2003
Stock capital	16,797	16,797	15,960
Reserves	133,374	124,535	90,743
Retained earnings	- 17,252	- 30,863	- 32,343
Provisions and accruals	476	666	808
Trade accounts payable	1	19	56
Amounts due to affiliated companies	7,276	7,004	2
Other liabilities	107	33	30,057
Total equity and liabilities	**140,779**	**118,191**	**105,283**

The liabilities of the Group as at December 31, 2003, are characterized by the consolidation of the bank. Apart from stockholders' equity, the largest positions are other liabilities. These cover 30 million € designated for distribution to the shareholders. As a result of the consolidation of the Consors Capital Bank AG and the capital reduction, the stockholders' equity ratio reduced itself distinctly. The table below shows the development of equity and liabilities over the last three years:

Berliner Effektengesellschaft AG Group	in '000 € 12-31-2001	in '000 € 12-31-2002	in '000 € 12-31-2003
Liabilities to banks	75	602	4,016
Liabilities to customers	197	148	26,571
Other liabilities	472	318	31,370
Prepaid and deferred expenses	-	-	7
Provisions and accruals	1,962	1,703	2,939
Special item partly with reserve character	3	2	-
Stockholders' equity	118,726	93,382	59,753
Debit differences from consolidation of capital	-	-	2,037
Outside shareholders' interests	-	-	2,995
Total equity and liabilities	**121,435**	**96,155**	**129,688**

6.3. Profitability

The Berliner Effektengesellschaft AG has no turnover. It attains earnings from Group charge-outs and from the investment of liquidity funds at banks and in money market securities. The late payment of taxes for the assessment periods 2000 and 2001 resulted in high interest payments from the tax authorities to the company. This was passed on in part to the Berliner Freiverkehr (Aktien) AG, which had a trade tax affiliation with the company during the said assessment periods. Above all, the expenses concern current personnel expenses, tax charge-outs, occupancy costs and other operating expenses. Compared with previous business years, the write-offs on financial assets have decreased significantly. The table below shows the development of the income statement over the last three years:

Berliner Effektengesellschaft AG	in '000 € 12-31-2001	in '000 € 12-31-2002	in '000 € 12-31-2003
Other operating profits	409	870	658
Personnel expenses	- 1,456	- 912	- 1,022
Write-offs	- 24	- 22	- 28
Other operating expenses	- 2,637	- 1,001	- 1,825
Other interest and similar profits	1,370	1,059	2,088
Write-offs on financial assets and securities under current assets	- 13,255	- 21,151	- 1,711
Interest and similar expenses	-	- 40	- 14
Result from ordinary activities	**- 15,593**	**- 21,197**	**- 1,854**
Extraordinary result	-	- 1,153	-
Income and profit taxes	1,285	- 90	398
Other taxes	- 59	- 10	-
Net income	**- 14,367**	**- 22,450**	**- 1,456**

The important positions of the Group income statement are commission surplus and result from financial transactions. The development of these components plays a mainly decisive role in the development of the Group's results. In the last three years there has been a sharp downturn in commission surplus. The same downward trend of previous years in results from financial transactions, balance of profit and expenses from financial transactions, did not continue in the last business year. Due to the positive development in the results from financial transactions and general administrative expenses, the profitability of the Group improved. Furthermore, the expansion of the basis of consolidation led to an increase in almost all positions in the income statement. At the same time, as of September 30, 2003, the assets of

Consors Capital Bank AG and, as of November 18, 2003, the assets of Ventegis Capital AG were incorporated into the respective positions in the income statement. The net losses are offset against the debit differences from the consolidation of capital which resulted from the first consolidation. The debit differences, which are not expected to be charged with any future losses from the respective companies, were collected in the income statement under "other operating profits". The table below shows the development of the income statement over the last three years:

Berliner Effektengesellschaft AG Group	in '000 € 12-31-2001	in '000 € 12-31-2002	in '000 € 12-31-2003
Interest profits	2,524	1,629	1,517
Interest expenses	- 11	- 72	- 126
Current profits	17	21	10
Result from associated companies	- 2,372	- 4,199	83
Commissions received	12,863	5,942	5,711
Commissions paid	- 3,630	- 2,208	- 2,794
Profit from financial transactions	37,203	24,371	19,236
Expenses from financial transactions	- 32,647	- 19,614	- 13,472
Other operating profits	2,241	865	4,629
Profits from the release of special items partly with reserve character	3	2	2
General administrative expenses	- 15,093	- 11,206	- 11,636
Write-offs and value adjustments on intangible assets and tangible fixed assets	- 1,853	- 1,617	- 1,812
Other operating expenses	- 1,039	- 69	- 817
Write-offs and value adjustments on receivables and certain securities as well as allocations to provisions and accruals in credit business	- 7,801	- 5,302	- 347
Write-offs and value adjustments on participatory investments, stocks in affiliated companies and securities treated as fixed assets	- 49,419	- 12,617	- 1,831
Result from ordinary activities	**- 59,014**	**- 24,074**	**- 1,647**
Extraordinary result	-	- 1,153	- 48
Income and profit taxes	922	- 107	508
Other taxes, unless recorded under other operating expenses	- 1	- 10	- 1
Release of debit differences	-	-	1,183
Net income	**- 58,093**	**- 25,344**	**- 5**

7. RISK REPORT

7.1. General

The Berliner Effektengesellschaft AG Group moves in an environment which is subject to strong fluctuation regarding business volume on the one hand, and a revolution in general conditions on the other. In this environment, further and continued development of the techniques for handling, monitoring and controlling of the relevant risks is essential. In principle, risk is understood to be the negative difference between actual incidents and expected incidents. The basis of risk management system is the classification of risks into market price risks, operational risks, counterparty default risks, risks from participatory investments and liquidity risks.

The risk management system which is based on the decentralized controlling and monitoring of risks differentiates between the areas most exposed to risk, risk management in the narrow sense and risk control, which monitors the risk situation and supports risk management, in particular with information on risks assumed. The controlling department is also largely responsible for the further development of the risk management system.

The rather short time that Nasdaq Deutschland was in operation showed that it is not only the development in the capital markets which is important for the development of the core business areas of the Group. Certainly, the tendencies in the German and European stock exchange landscape and the interrelated technical developments and general conditions are not to be disregarded. These tendencies and their implications for the Group's business areas and the technical necessities should be kept track of at an early stage. Wrong decisions can lead in the first instance to high costs, loss of profits and time delays. For the continued activity in stock exchange trading attention must be turned primarily to a further shift towards electronic trading systems and their effect.

7.2. Market price risks

Market price risks are understood to be the negative differences from the expected market price development. Market prices are interest rates, stock prices and foreign exchange rates. Any change brings about changes in value of the financial instruments within the portfolio such as stocks, bonds or bank balances in foreign currency which, can lead to write-offs which effect results. Since a focal point of the Group's business activities lies in the trading and relaying of transactions of stocks of foreign companies, especially US-American securities, an indirect foreign currency risk also has to be borne. For example, in an ideal market, changes in the US-$ foreign exchange rate bring about corresponding changes in the stock price in €. In the realms of risk management system this risk is seen as an implicit part of stock price risk.

In the Berliner Effektengesellschaft AG no business transactions are made which are geared towards the attainment of success in trading. Risks from the change in interest rates do exist, but since the investment is effected solely from available liquidity funds, no risks within the realms of term transformation are taken. From the company's point of view, a negative difference between achieved and expected yield is in fact the biggest risk but the consequences are of lesser importance.

In the past business year, the control limits set in the subsidiaries were monitored successfully. These limits are based on the upper loss limits decided by the respective Board. The upper loss limits were agreed by each company's Board on the basis of terms of stockholders' equity provisions and partly on the expected results for 2003.

In the Berliner Freiverkehr (Aktien) AG during 2003, there were around 40 instances of the mainly little-used limits set for market price risks being exceeded. In each case, the reason the specified limit was exceeded was because the subsidiary's monitoring system was incorrectly provided with reference prices. Occasionally, the supplying systems deliver incorrect prices, often mistaken decimal places. Among other things, this can be caused by wrong entries made by traders on the reference markets which are corrected immediately. As a rule, these incorrect rates are replaced immediately by new, correct ones. When risk control is notified that a set limit has been exceeded, checks are made as to whether this can be ascribed to one particular class. Normally, in the case of incorrect rates' supply, this works well. If obviously an erroneous reference rate has been entered for the valuation, the Board member responsible for controlling receives the appropriate information. Apart from the correction of the reference rate, no further action is necessary then. If the threatening losses are due to real price differences, the Board member responsible for controlling consults with the relevant Board member for trading over the steps to be taken and informs risk control of the decision. Actual losses which exceed a certain threshold value are followed by an automatic reduction of the limit concerned. In a subsequent comparison of the actual and planned result of the company, a decision is made on the retention or change of the limit alignment. In 2003 there were no adjustments made to the control limits.

On the grounds of its business strategy market price risks in Consors Capital Bank AG exist only to a small extent. Limits were set for market price risks due to stock prices, foreign exchange rates and interest rate changes. These limits are subject to monitoring by the controlling department of the Consors Capital Bank AG.

7.3. Operational risks

Operational risks are understood to be such risks arising out of inappropriate or faulty company operations or those caused by employees, systems or external occurrences, including legal risks.

At the moment, operational risks are controlled and monitored in the respective companies of the Group. As a first step, the creation of a risk matrix within the realms of a risk inventory and the establishment of a risk reporting procedure has proved of value. The risk matrices are to be checked for changes at regular intervals and adjusted where applicable. Basically, in the Group companies, the occurrence of operational risks is counteracted using comprehensive documentation of the organizational and operational structure with descriptions of procedures, guidelines and job instructions.

In the past business year, of the Berliner Effektengesellschaft AG no adjustments were made to the risk matrix. The reporting procedures for new risks and damages were introduced at the same time as those for the Berliner Freiverkehr (Aktien) AG. There were no reports.

The existing risk matrix of the Berliner Freiverkehr (Aktien) AG was revised mainly with respect to the classification of risks. There followed the addition of the categories "frequency of damages" and "expected damages per instance of risk" in four categories instead of the previous two. As far as experience values were available, appropriate early warning indicators were incorporated into the risk matrix. In order to obtain an overview of damage instances, all employees are required to report damages which exceed a defined minimum limit to risk control. There were no completion confirmations in the year 2003. In the area of IT-Operations an additional list of system modifications, faults and failures is maintained. In the past year faults occurred regularly but did not cause any noteworthy damages.

The Consors Capital Bank AG, primarily in consequence of the closure of the branch in Frankfurt/Main, compiled a new report on the potential losses from operational risks. According to a statement from the Board, no losses from operational risks occurred.

7.4. Counterparty default risks

The counterparty default risk names the danger that a debtor fulfills his liabilities either too late, incompletely or not at all. The counterparty default risk concerns securitized and non-securitized receivables as well as interests in other companies.

The Berliner Effektengesellschaft AG is subject to counterparty default risks mainly in the form of investment of liquidity funds at banks. The counterparty default risks resulting from interests in other companies, in particular from participatory investments, are handled separately.

The Berliner Freiverkehr (Aktien) AG has predominantly receivables from banks. The most important bank connection where the main part of the investments in liquidity funds were made, is that with the Consors Capital Bank AG, which belongs to the affiliated companies. In addition, there are accounts with further domestic banks and one foreign bank. Apart from these bank accounts, which are used for payment transactions and cash deposits, there are receivables from repayments on taxes and receivables from securities transactions from other stockbrokers. As these are regulated by stock exchange systems and market participants are subject to supervision by the stock exchanges and the BaFin, the risks here are considered minimal.

The Consors Capital Bank AG is subject to counterparty default risks mainly from receivables from customers and investment of liquidity funds at banks. The counterparty default risks arising from receivables from customers are agreed in line with specified rules of competence dependent on size, credit-worthiness of the party and the supplied collateral. The credit-worthiness assessment of the customers and the supplied collateral are the most important elements in the process of approval. During the period of validity, the receivables are evaluated every month according to internal criteria. As of 2004, the probability of customer defaults will be identified monthly and communicated to the Board in the realms of the risk report. The counterparty limits for the investment of liquidity funds are fixed annually by the Board. The monitoring of the specified limits is carried out by risk control.

7.5. Risks from participatory investments

Risks from participatory investments comprise the danger of incurring losses in value from an accordingly negative development in the associate companies. Possibly, in the case of a close working relationship, this could also lead to loss of image.

Apart from the majority stakes which are all included in the Group financial statements, the Berliner Effektengesellschaft AG also has small minority stakes which have all been written off in full. No collateral for their liabilities was set as at the balance sheet date. Therefore, from these participatory investments there is no threat of a direct burden on the company's results.

Within the Group, further risks from participatory investments lie especially in Ventegis Capital AG. Here, the risks from participatory investments can be counted as prevalent risks. In order to take steps against these risks, the company, among other things, carries out intensive due diligence checks prior to acquiring the participatory investment, pays out the investment funds step-by-step according to clearly defined interim targets, reports monthly and accompanies the associate company continually and closely. As far as possible, Ventegis Capital AG has in the past made use of indemnification clauses as provided by the KfW Bankengruppe and the tbg Technologie-Beteiligungs-Gesellschaft mbH. Furthermore, a distribution of risk is achieved through co-venturing.

7.6. Liquidity risks

Liquidity risk is understood to be the danger that payment obligations might not be made at all, on time or in full, or that on the grounds of illiquid markets assets cannot be sold, or sold at an expected price.

Control of solvency of the Berliner Effektengesellschaft AG and the Berliner Freiverkehr (Aktien) AG occurs within a plan of payments received and outgoing payments over the next twelve months. The first quarter is reported on a monthly basis, thereafter reports are made on a quarterly basis. If there are certain shortfalls, reports are made more often than normal. In the last year the self-imposed limits did not fall short. In addition, the Berliner Freiverkehr (Aktien) AG is subject to the regulations of Grundsatz II (Principle II), which makes certain minimum demands on the proportion of financial funds and financial obligations. During the past year, the index numbers wavered between 18.8 and 43.3 by a minimum figure of 1.

In order that Consors Capital Bank AG can fulfill its payment obligations now and in future, completely and on time, a daily liquidity forecast is made on the payment obligations in money and foreign exchange dealings, based on intrinsic system data and on the reports received from divisions within the bank. Without delay, all departments notify the central point, the money dealing department, in writing of their requirements in liquidity funds (received and outgoing) which are then allotted there. The disposal of the account at the Deutsche Bundesbank is made via the balances in overnight funds/short-term money held at third party banks. Furthermore, investments are made only with first class domestic banks and in floating rate notes of domestic public establishments. Consors Capital Bank AG is also subject to the regulations of Principle II. During the past year, the index numbers wavered between 1.4 and 3.9.

7.7. Reporting

In the case of damages occurring, the Board of the Berliner Effektengesellschaft AG is informed immediately. In addition, every month the Board receives an explanation to the development of the company, incorporated into the report on the Group's development.

Every day, the Boards of the Berliner Freiverkehr (Aktien) AG and Consors Capital Bank AG receive a risk report containing essential information, for example the realized results of the last trading day as well as statements on limit changes and any unusual occurrences such as noteworthy limit-overshoot and unusual business transactions with regard to business partners, volume or conditions. These risk reports complement the monthly reports made available to the Boards on the economic development. In addition to the balance sheet and the income statement of the respective company, they contain the details necessary for the further control.

For the Group, a consolidated monthly report is compiled which shows the most important developments and, alongside the Group figures, also contains information on the results of the companies included. In order to improve the transparency of general administrative expenses, the members of the Board and department heads are provided with an analysis of the costs allocated to their area. In meetings, questions can be raised and any necessary action, for example cost savings, discussed. Along with improved transparency it is aimed to increase the sensibility of those responsible.

7.8. Institutional supervision

Following the sale by Consors International Holding GmbH of the majority holding of the Berliner Effektengesellschaft AG, the Berliner Effektengesellschaft AG Group is no longer subordinate to any domestic or foreign institute. As of October, the Berliner Effektengesellschaft AG and its subsidiaries once again form their own institutional Group. Since the BaFin has not yet appointed a superior institute, the Berliner Freiverkehr (Aktien) AG has administered the reporting duties of a superior institute. Accordingly, a monthly consolidated interim statement with breakdowns, calculations based on Principles I and II and, quarterly, reports on any large loans and loans in millions must be submitted. The index numbers coming out of the Principles always fulfilled the minimum demands without difficulty. Thus, the stockholders' equity ratio, which places the liable equity capital within the framework of the Kreditwesengesetz (KWG) – (Banking Law) in relation to the risk assets, varied between 122.0% and 150.0%. The overall figure which places the calculable capital funds which correspond with our liable stockholders' equity, in relation to the risk positions, varied between the same values.

The Berliner Freiverkehr (Aktien) AG and the Consors Capital Bank AG are in addition subject to supervision by the BaFin. The regulations relevant for the institutes were adhered to.

8. DECLARATION PURSUANT TO SECTION 312 AKTG

According to Section 312 AktG, the Board of the Berliner Effektengesellschaft AG has submitted a report on the relationships with affiliated companies for the year 2003 because, up until October 2, 2003, it was a dependent company of the BNP Paribas S.A. Group. Following the sale of shares to the H.T.B. Unternehmensbeteiligungen GmbH there is no longer any dependency. The final declaration of this report is:

"Apart from the legal transactions stated above, no legal transactions were undertaken in the reporting period, which would have to be reported. The Board of Berliner Effektengesellschaft AG, Berlin, declares, in accordance with Section 312 AktG, that for each legal transaction with the controlling company and its affiliated companies the company received an appropriate consideration. The judgment was made in each case on the basis of the circumstances at the time the legal transaction was concluded."

9. OUTLOOK

The Berliner Effektengesellschaft AG expects, especially from Consors Capital Bank AG, teething losses which were already accounted for at the time of purchase resulting from the reorientation of the institute. Long-term, the Berliner Effektengesellschaft AG regards the prospects of the Ventegis Capital AG as positive. Prerequisite is an upturn in the capital markets and with it an increasing interest in investments in company shares. In the course of the recovery of the capital markets in Germany, profitable sales of participatory investments should be possible.

For the coming business year, the Group expects a stabilization in securities trading and a slight improvement in dealings up to the level of the second half of 2003. In particular, the first quarter should bring a definite improvement on 2003, since the first quarter of 2003 was additionally burdened by the political environment (crisis in Iraq).

The Group will further expand its existing business areas and adapt to the current developments of the general environment, in particular the new European legal conditions. Alongside the Group's own trading platform TradeGate®, to which other institutes besides the important co-operating partner Cortal Consors S.A. are to be connected, especially the new issues business could regain significance after a total standstill in 2003.

The business year 2004 will be a decisive year for the Consors Capital Bank AG. The management of the bank will further advance the core competencies. To a large extent, success will depend on how far the bank is capable of expanding its existing core competencies and developing new strategic business areas.

As the ownership structure with regard to the majority shareholder has now been decided, in 2004 the company will further optimize the new Group structure with, once again, three independent operational subsidiaries and enhance a superior, collective Group strategy with various services around the capital markets. How successful the integration into a Group strategy is, will have considerable impact on the Group's results.

Berlin, March 4, 2004

Holger Timm

Dr. Jörg Franke

AUDITORS' REPORT

We have audited the Group financial statements (covering the Group balance sheet, the Group income statement, the notes to the Group financial statements, the Group segment reporting, the Group cash flow statement and the Group stockholders' equity schedule) of Berliner Effektengesellschaft AG and the Group management report for the business year from January 1, 2003, to December 31, 2003. The preparation of the Group financial statements and the Group management report in accordance with the German commercial laws' provisions are the responsibility of the company's Board. Our responsibility is to express an opinion, based on our audit, on the Group financial statements and the Group management report.

We conducted our audit of the Group financial statements in accordance with Section 317 HGB and the generally accepted German Standards for audits of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) – (Institute of Accountants). Those Standards require that we plan and perform the audit such that material misstatements affecting the presentation of the net assets, financial position and profitability in the Group financial statements, in accordance with generally accepted principles of bookkeeping and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations of possible misstatements have been taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the Group financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the companies included in the Group financial statements, the eligibility of the companies for consolidation, the framework of the accounting and consolidation principles used and significant estimates made by the Board, as well as evaluating the overall presentation of the Group financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the Group financial statements give a true and fair view of the Group's net assets, financial position and profitability, in accordance with generally accepted principles of bookkeeping. On the whole, the Group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development.

Berlin, March 4, 2004
PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Eckes
Wirtschaftsprüfer
(Accountant)

Schreiber
Wirtschaftsprüfer
(Accountant)

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board was kept extensively informed by the Board of the Berliner Effektengesellschaft AG, on the development of the Group and its companies in the 2003 business year, occurring in four meetings and including written and oral reports. A variety of important business issues of both a general and particular nature were discussed and decided upon after having been elaborately treated and, in a continual dialogue. The Supervisory Board fulfilled all its incumbent duties as required by the law and the articles of association.

Main discussion points

The discussions were centered on the course of business activities, the economic position of the company, its future prospects, its strategic orientation in a rather varied market and competition environment, the changes in ownership structure experienced as a consequence thereof and also the return to the approved organizational structure around the business areas of stock exchange trading, investment and private banking and venture capital.

Risk management

The members of the Supervisory Board took care that the Board of the company took the suitable measures and is running a supervision system such that any developments endangering the continuation of the company be recognized early (Section 91 Subsection 2 Aktiengesetz [AktG] – [Stock Corporation Act]). In its function as a financial holding, the company has an efficient controlling system at its disposal and compiles monthly consolidated figures of comparison. The supervision of risks was particularly improved at the wholly owned operational subsidiary Berliner Freiverkehr (Aktien) AG, where, even more, an independent internal auditor was brought in. In the opinion of the Supervisory Board, the existing risk supervision system fulfills all the statutory requirements and is capable of enabling the Supervisory Board to contemporarily carry out its supervision obligations.

Corporate governance and Declaration of Conformity

In its meeting on December 8, 2003, the Supervisory Board dealt extensively with the latest recommendations of the Government Commission German Corporate Governance Code, dated May 21, 2003, as published by the Federal Ministry of Justice in the official section of the elektronischer Bundesanzeiger (electronic Federal Gazette), and principally agreed upon their implementation at the Berliner Effektengesellschaft AG except for two items. On the same day and thereby within the deadline, the Board and the Supervisory Board submitted its second Declaration of Conformity according to Section 161 AktG and made it permanently accessible to the shareholders on the company's website. Its contents are described on pages 31 and 32 of this Annual Report.
All members of the Board and the Supervisory Board of the Berliner Effektengesellschaft AG undertook anew the obligation to personally follow the recommendations and, to the greatest possible extent, the suggestions of the Government Commission German Corporate Governance Code. The Board and the Supervisory Board of the Berliner Effektengesellschaft AG are convinced that they have complied with the recommendations and, to the greatest possible extent, the suggestions of the Government Commission German Corporate Governance Code during the reporting period and intend to do so in the future.

Committees activities

The recommendations of the Government Commission German Corporate Governance Code also advise the formation of committees. In the business year 2002, a balance committee had already taken up its work and at the meeting on June 16, 2003, it was expanded from two to now three members, they being Mr. Wolfgang Hermanni, Mr. Jean-Philippe Huguet and Dr. Günter Rexrodt. In particular, the committee had on its agenda the annual financial and the Group financial statements, dealt with the quarterly reports, issued the audit assignment to the auditors and defined the focal point of the audit as well as the amount of payment. In the personnel committee – confirmed in this office were Mr. Wolfgang Hermanni and Mr. Andrä Dujardin – the most important topics were the structure and amount of the Board's remuneration and the acceptance of external supervisory board mandates by the two Speakers of the Board of the Berliner Effektengesellschaft AG.

Election of the Supervisory Board
In the same meeting on June 16, 2003, the Supervisory Board unanimously re-elected the Chairman, Mr. Wolfgang Hermanni, and his deputy Dr. Andor Koritz. The Supervisory Board had already been nominated in the preceded shareholders' meeting.

Audit
The annual financial statements for the 2003 business year, including the bookkeeping system and the management report, all compiled by the Board in accordance with the provisions of the Handelsgesetzbuch (HGB) – (German Commercial Code) and the Aktiengesetz (AktG) – (Stock Corporation Act), was examined and certified with an unqualified audit opinion by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Lise-Meitner-Straße 1, 10589 Berlin, who had been appointed at the shareholders' meeting on June 16, 2003. The Supervisory Board in turn examined the annual financial statements and the management report and both were discussed and endorsed with the Board and the external auditors at the meeting on March 25, 2004, thus the annual financial statements have been officially approved. We are in agreement with the Board on their proposal for the application of retained earnings.

The Board also submitted to the Supervisory Board the Group financial statements (covering the Group balance sheet, the Group income statement, the notes to the Group financial statements, the Group segment reporting, the Group cash flow statement and the Group stockholders' equity schedule) and the Group management report, for the year 2003, both compiled in accordance with the provisions of the Handelsgesetzbuch (HGB) – (German Commercial Code) and the Aktiengesetz (AktG) – (Stock Corporation Act), and, in addition to that, the audit report issued with the unqualified audit opinion of the external auditors of the Group, PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Lise-Meitner-Straße 1, 10589 Berlin, who had been appointed at the shareholders' meeting on June 16, 2003. The Supervisory Board examined the Group financial statements and the Group management report and they were discussed and approved with the Board and the external auditors at the meeting on March, 25, 2004.

The Supervisory Board would like to express its thanks and appreciation to both Speakers of the Board, Mr. Holger Timm and Dr. Jörg Franke and to the employees of all Group companies for the responsibility and dedication shown in their work during the last year.

Berlin, March 25, 2004

Wolfgang Hermanni
Chairman of the Supervisory Board

IMPRINT

Picture on page 5:
Udo Hesse, Berlin

We used the acronym “Nasdaq” instead of the term “The Nasdaq Stock Market®”

“Nasdaq Deutschland AG” and “Nasdaq Deutschland” as well as “Berlin-Bremen Stock Exchange” and “Berlin Stock Exchange“ we partly used synonymously

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