ANNUAL REPORT 2006

BAVARIA INDUSTRIEKAPITAL AG

Group key figures

	2006	2005
Key earnings figures in EUR million		
Group turnover	332.6	132.5
EBITDA	51.3	13.1
Consolidated net income	31.5	8.5
Key balance sheet figures in EUR million		
Equity	61.2	18. 1
Total assets	232.4	100.0
Fixed assets	56.1	21.6
Cash flow in EUR million		
Cash flow from current operations	15.6	- 1.6
Cash flow from financing	9.7	0.7
Cash and cash equivalents as of 31 December	53.6	24.1
Key share figures in EUR		
Earnings per share	14.30	5.00
Dividend pre share	3.00	0.98
Equity per share	27.8	10.6
Number of employees	2,946	1,480

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Letter for the shareholders

Fellow shareholders,

2006 was a very successful business year: turnover rocketed 150% to over EUR 332m. Net income practically quadrupled to EUR 31.5m. This growth has prompted us to propose tripling the dividend to EUR 3.00 for you, our shareholders. Gauged at the closing price of our share on 29 December, this is tantamount to a 4.6% dividend yield.

This dividend yield – particularly in terms of growth figures - is seldom met with at the stock exchange and it documents the successful start of BAVARIA in the Deutsche Börse Entry Standard in 2006. The share price more than doubled from a EUR 26.00 initial issue price to EUR 65.10 at the end of the year. Within the same period the going concern value rose from EUR 57m to EUR 144m.

Success on the stock exchange reflects the success of our portfolio companies of which we at BAVARIA are very proud. Just let me below briefly report on three central matters in the portfolio from 2006.

On 18 June 2006 we acquired Kienle + Spiess GmbH from the Cogent Power Group. This is a company manufacturing stamp and diecast components for motors and transformers mainly for the automotive industry. Kienle + Spiess GmbH had a turnover of EUR 225m in 2006 from its five plants in Great Britain, Germany and Hungary and is the European market leader. Before we moved in, Kienle + Spiess - operating at the margins of a group - was struggling with the typical problems: overhigh costs particularly in the indirect field, high reject rates and highly complex logistics as a result of a lack of responsibility of the individual plants. We noted on a number of occasions that the workforce was very much aware of these problems. As a result, it was not long before the newly-appointed management body came to an agreement with the highly cooperative works council on reducing surplus personnel and costs in administration. Introduction of the tried-and-tested Toyota Manufacturing System focussing on continuous process improvements led to a rapid and significant reduction in reject rates; a new profit center structure brought about greater transparency and cost consciousness at plant level. The measurable success of this work: after a number of loss-making years, the company was again operating highly profitably as early as the second half of 2006.

Right at the start of 2006, BAVARIA acquired Steeltech s.a.r.l. based in Creutzwald from DBT GmbH, a 100% subsidiary of RAG. To safeguard turnover, a three-year supply contract was finalised with the seller which included passing on some of the cost savings achieved to the seller. This allowed us to position ourselves for the first time and at an early stage as a "contract manufacturer" for industrial concerns. Although it is usual, for instance, in the automotive industry to concentrate on key competencies such as distribution, marketing and final assembly and to leave component manufacturing to suppliers, this has only just begun in traditional mechanical engineering. The company is in the throes of restructuring at the moment, but we are confident that once it is over Steeltech will get back to its former earnings power.

At the end of 2006, BAVARIA took over the machinery and plant business for producing synthetic continuous yarns together with all employees from the Swiss Rieter Group as part of an asset deal. The new portfolio company under the SwissTex Winterthur AG name supplies customers across the world with extrusion systems for carpet and industrial yarns.

In the first few weeks following takeover, re-negotiated lines of credit enabled the financing basis of the acquired company to be put on a sound footing.

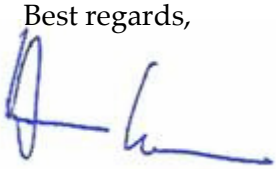
Kienle + Spiess, Steeltech and SwissTex Winterthur show the extent to which leading European industrial concerns are now cooperating with BAVARIA. Restructuring also proves that our approach is a paying proposition – one that openly and honestly discusses problems and solutions with those people on the spot and then rapidly implements them. We are convinced - as is shown by experience - that effective restructuring is very much down to constructive cooperation with both works council and employees. This, of course, does not rule out rapid and clear-cut decisions at management level and professional support by BAVARIA experts on the spot. Our restructuring effectiveness over the past few years is also attributable to the high degree of trust that is now placed in us in takeovers and which our approach fully endorses.

Of course, our successful restructuring is primarily there to serve your company.At the same time, this benefits your workforces in the form of secure, promising jobs, rising wages and earnings-related remuneration components. We would like to expressly thank the 3,000 employees and managers in the portfolio companies for their successful work over the past year.

We also wish to thank you, our fellow shareholders, for the trust placed in us – it is your capital that enables BAVARIA to expand. Thanks to the good, operative trend of our portfolio companies, we expect the price potential for our shares to extend beyond this current year. This optimism is backed up by the fact that only in the coming year will the successes of fiscal 2006 at the individual portfolio companies be fully in evidence in our consolidated financial statements. Since we do not conclude any profit and loss transfer agreements with our subsidiaries, each year-end company account has to be approved and audited before it is booked to have an effect on net income in the Group.

The start of 2007 sees BAVARIA progressing down a very good path. Our turnaround investment holding business model is a trail-blazer – and not just on the German market. Our turnaround successes have created European standards in traditional industries. Our growth and earnings power are preparing the way for a further increase in the going concern value. The high degree of optimism we have for fiscal 2007 stems from a very successful 2006 fiscal year.

Best regards,



Reimar Scholz

Chief Operations Officer

Executive organs

Executive Board

Reimar Scholz

Chief Operations Officer

Born 1965, Diplom-Kaufmann, MBA (INSEAD, Fontainebleau)

Reimar Scholz is the Chief Executive and founder of BAVARIA Industriekapital AG. The Diplom-Kaufmann learned the management trade from the bottom up in various management posts with General Electric in the USA and Great Britain. He then became managing director of two IT companies. Reimar Scholz had one of them, namely Articon Integralis AG, listed on the stock exchange and through supplementary purchases turned it into the European market leader for IT services.

Robin Laik

Chief Financial Officer

Born 1972, Diplom-Kaufmann

Robin Laik has been the Chief Financial Officer at BAVARIA Industriekapital AG since July 2006. After reading business economics in Augsburg he occupied various commercial management positions in the medical and fashion branches. Before that the Diplom-Kaufmann, as CFO, had monitored on-the-spot restructuring at a number of Bavaria Group subsidiaries.

Jan C. Pyttel

Head of Acquisitions (up to 29.03.2007)

Born 1965, Diplom-Kaufmann

Up to 29.03.07Jan C. Pyttel was a member of the Executive Board of BAVARIA Industriekapital AG and as managing director had built up a group of medium-sized textile leasing firms. Beforehand he worked for Lazard and Salomon Brothers in Frankfurt and London in investment banking. Up to 1993 he had amassed considerable experience in restructuring with the "Treuhandanstalt".

Supervisory Board

Dr. Matthias Heisse, Lawyer, Munich

Chairman of the Supervisory Board (since 24.05.2006)

Fellow founder and Managing Partner of Heisse Kursawe Eversheds, Corporate Consultancy Chambers

Bernard Jan Wendeln, Businessman, Munich

Assistant Chairman of the Supervisory Board (since 24.05.2006)

Managing Director of Wega Support GmbH, the asset administrators and before that Investment Manager in the Munich office of APAX Partners

Dr. Gernot Eisinger, Businessman, Munich

Member of the Supervisory Board (since 05.09.2006)

Fellow-founder and managing shareholder of Afinum, a medium-sized portfolio company, and prior to that partner of Triumph-Adler AG and Managing Director of TA Spezialbauholding

Dr. Ulrich Wöhr, Corporate Consultant, Oberursel

Former Chairman of the Supervisory Board

stepped down on 02.05.2006

Dr. Günter Hönig, Managing Director, Munich

Former Assistant Chairman of the Supervisory Board

stepped down on 06.04.06

Arndt Wolpers, Businessman, Ammerland

Former member of the supervisory Board

stepped down on 05.09.06

Report of the Supervisory Board

In the past year the Supervisory Board advised and monitored the Executive Board and took charge of those assignments incumbent upon it in keeping with the law, corporate articles and corporate governance principles of the Company. The Board also convinced itself of the adequacy of the management. It regularly monitored the work of the Executive Board and acted in an advisory capacity.

During the reporting period a total of 4 Supervisory Board meetings took place on 14.03.2006, 29.06.2006, 25.09.2006 and on 01.12.2006. In addition, the Supervisory Board regularly exchanged information and opinions with the Executive Board members. It was not only at meetings that the Chairman and members of the Board discussed subjects and questions of prime significance with the members of the Executive Board.

In this way the Supervisory Board was regularly kept informed both verbally and in writing by the Executive Board on the situation and development of the Company and together with the latter Board prepared a reporting for the Supervisory Board. Moreover, basic questions of business and corporate policy, corporate strategy, the financial development and earnings position of the Company with special attention being paid to the major trends on the market and at competitors were discussed together with the business transactions of prime importance for the Company. Steps requiring the approval of the Supervisory Board were handled by this board as part of its control and advisory function.

1. Focus of consulting work on the Supervisory Board

Consulting work of the Supervisory Board was chiefly oriented to the following in fiscal 2006:

- ⇒ Business developments of the Group and AG, budgets and the stage reached with the acquired portfolio companies;
- ⇒ Basic questions as to corporate policies including formal questions such as the necessity of changing the corporate articles and shaping rules of procedure;
- ⇒ Important ongoing individual themes, especially the strategic alignment of Bavaria Industriekapital AG, business developments and personnel matters.

2. Year-end and consolidated financial statements, final audit

Accounting procedures, the year-end financial statements, the consolidated financial statements, the management report of Bavaria Industriekapital AG and the Group management report were audited by PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, which was chosen as auditor by the General Shareholders' Meeting. The Supervisory Board has on hand a declaration of impartiality by the auditors as envisaged by Section 7.2.1 of the Corporate Governance Code. The examinations led to an auditor's statement invoking no reservations.

At its meeting dated 02.04.2007, at which the auditor also took part, the Supervisory Board approved the outcome of these audits after gaining an insight into the auditor's reports. Following the Supervisory Board's concluding findings from its own examination, no objections were raised about the year-end financial statements, the consolidated financial statements, the management report and the proposal of the Executive Board on appropriation of retained earnings.

The Supervisory Board approved both the year-end accounts of Bavaria Industriekapital AG for fiscal 2006 prepared by the Executive Board and the consolidated financial statements and went along with the earnings appropriation proposal of the Executive Board.

3. Staff matters

In fiscal 2006, Dr. Günter Hönig, Dr. Ulrich Wöhr and Mr. Arnd Wolpers stepped down from the Supervisory Board respectively on 06 April 2006, 02 May 2006 and 05 September 2006. The Company wishes to thank these gentlemen for their valuable services.

In the light of an order of the District Court Munich and at the suggestion of the Executive Board, Messrs. Bernard Jan Wendeln and Dr. Matthias Heisse were appointed as members of the Supervisory Board on 24 May 2006. Furthermore, Dr. Gernot Eisinger was elected as a member of the Supervisory Board from a resolution passed by the General Shareholders' Meeting on 05 September 2006.

At the Supervisory Board meeting of 29 June 2006 Dr. Matthias Heisse was elected Chairman and Mr. Bernard Jan Wendeln Assistant Chairman of the Supervisory Board.

Messrs. Dr. Heisse and Mr. Wendeln were confirmed through election as members of the Supervisory Board at the General Shareholders' Meeting of 05 September 2006. Thereupon Dr. Heisse was confirmed in office as Chairman of the Supervisory Board and Mr. Wendeln as Assistant Chairman through a resolution passed by the Supervisory Board on 25 September 2006.

4. General Shareholders' Meeting of Bavaria Industriekapital AG in fiscal 2006

The regular General Shareholders' Meeting of Bavaria Industriekapital AG took place on 05 September 2006. The resolutions passed included paying out a dividend of EUR 0.98 per share from retained earnings to the shareholders and authorising the Executive Board to acquire its own shares through the Company and to issue convertible bonds.

The Supervisory Board wishes to thank the Executive Board members, all the employees of the Group of Bavaria Industriekapital AG and workforce representatives for their commitment and work in fiscal 2006. The Board wishes you every success in furthering company developments in fiscal 2007.

Munich, 02.04.2007

For the Supervisory Board

Dr. Matthias Heisse

- Chairman -

The BAVARIA share

The number of companies going public in Germany in 2006 was the highest for some considerable time – a total of 210 companies were listed anew on the Frankfurt Stock Exchange. BAVARIA Industriekapital AG going public ranks as one the most successful issues of the past year.

The share was taken up for trading on 26 January 2006 at an issuance price of EUR 26.00 at the Frankfurt Stock Exchange in the Entry Standard Index. The issuance price was in the upper category of the EUR 22.00 to EUR 26.00 price span. At this price the issue was over-subscribed several fold. 575,000 shares were placed with inclusion of the fully exercised multiple allocation. The initial quote for the BAVARIA share at EUR 28.90 and the first final price at EUR 28,88 were considerably up on the issuance price. This positive trend on going public was continued during the year. Hence, the share ended the year at a price of EUR 65.10 – equivalent to a plus of 150.4% over the initial issue price.

The price rise of the share was the second best of all newcomers to the stock exchange and considerably better than all comparative indexes. On a yearly comparison basis, the German share index DAX rose 22.0%. The index for mid caps, MDAX, climbed 28.6% and SDAX, the index for small caps, 31.0%. The Entry Standard Index, in which the BAVARIA share is listed, even recorded a 11.5% minus over the previous year.

Good news prompts price rise

All in all, trends on the stock markets developed very positively in 2006. Following a marked movement upwards at the start of 2006, May brought in a price correction on the markets triggered, in particular, by interest and inflation fears, depreciation of the US dollar and rising raw material prices. June saw the stock exchanges registering their lowest levels for the year ahead of a broad-based and sound upwards movement in the second half of the year. Positive business and corporate data propelled share prices upwards.

In a similar manner to the capital markets, the BAVARIA share registered a rise in price in the first few months of 2006. However, even the BAVARIA share could not disengage itself from the general downward spiral that followed; the price was temporarily in the EUR 28.00 range yet never slipped under the initial issue price. In the second half of the year, the share developed considerably better than did the Stock Exchange. The reasons for the price rally: the Company recorded marked rises in turnover and profits from one quarter to the next and clearly surpassed expectations. Substantial growths in the price of the share were recorded particularly in the last quarter of 2006.

The BAVARIA share price soared in 2006 and thus clearly surpasses the SDAX and Entry Standard comparative indexes.

Dividend for the shareholders

The very positive trend in business has allowed an attractive dividend to be paid out for 2006. In view of the increase in profits, the Executive and Supervisory Boards will propose to the General Shareholders' Meeting on 25 May 2007 for a dividend of EUR 3.00 per share to be paid (previous year: EUR 0.98). This corresponds to a rise in excess of 200% as against the previous year. The payout will, in all probability, be effected on 29 May 2007 - the first working day following the General Shareholders' Meeting.

The positive trend in business also led to considerable interest in the share. In 2006 the average daily trading in BAVARIA securities was around 4,404 shares or EUR 156,600. The highest day's trading was on 26 January 2006 involving 102,922 shares or EUR 2.97 million. This was the first trading day for the share.

Dialogue with the shareholders

BAVARIA Industriekapital AG places considerable value on maintaining a dialogue with investors. The Management put on numerous roadshows in 2006. The Company also used the first General Shareholders' Meeting in Munich on 5 September 2006 to maintain and develop contacts with the shareholders.

All relevant publications such as annual and quarterly reports, presentations and press releases can be obtained under http://www.baikap.de. For more information please contact the team in Munich under 089 / 729 8967-0.

Shareholders' structure

The subscribed capital of BAVARIA Industriekapital AG is divided into 2,205,000 bearer share certificates. The Executive Board of the Company holds some two thirds of the shares with the free float being around 33%.

Facts & figures on the share

Number of shares	2,205,000
Kind of shares	Bearer share certificates
Share capital	EUR 2,205,000
Voting rights	Each share has a vote entitlement
WKN	260555
ISIN	DE0002605557
Stock exchange symbol	B8A
Stock exchange segment	Entry Standard
Fiscal year	Same as calendar year
Accounting	In acc. with HGB (Commercial Code)
Designated sponsor	Concord Effekten AG
Announcements	Electronic Bundesanzeiger (German Federal Gazette)
Year's top price (28.12.2006)	EUR 65.99
Year's lowest price (15.02.06)	EUR 26.60
Year-end closing price (29.12.06)	EUR 65.10
Market capitalisation (29.12.06)	EUR 143.55m
Earnings per share	EUR 14.30
Dividend pre share	EUR 3.00

Corporate Governance

The Executive Board and Supervisory Board of BAVARIA look upon Corporate Governance as standing for responsible management and control of companies oriented to long-term value creation. Significant aspects of good corporate governance are efficient cooperation between Executive Board and Supervisory Board, clear-cut rules, respect for shareholder interests as well as frankness and transparency in corporate communications. In fiscal 2005 BAVARIA Industriekapital AG began to align itself with the provisions in keeping with § 161 AktG and understands corporate governance to be a constantly developing and improving process.

The conformity declaration on the Corporate Governance Code in keeping with § 161 AktG has always been made available to shareholders. The Executive and Supervisory Boards of BAVARIA Industriekapital AG declare that the governance recommendations of the code commission on company management and monitoring (Corporate Governance Code) are met - save for the following exceptions:

Executive Board composition

At variance with Section 5.1.2 of the Code, there is currently no long-term successor planning for the Executive Board. However, the recommendation is to be implemented in the not-too-distant future.

Committees

At variance with Sections 5.3.1 and 5.3.2 of the Code, the Company's Supervisory Board have not formed any committees. This does not seem necessary at the moment or expedient in view of the size of the Company and the Board.

BAVARIA Industriekapital

BAVARIA Industriekapital AG is a turnaround investment holding company. The business model comprises the purchasing, restructuring, rehabilitation and disposal of portfolio companies. Through its successful turnaround approach, BAVARIA creates fresh values in traditional industries and participates in the turnover and earnings rises of its portfolio.

A company's capital is in its staff. This has been very much in BAVARIA's mind since its establishment in 2003. The investment specialist based in Munich acquires industrial companies in times of upheavals and then restructures them in an intensive dialogue with employees and representatives alike. As a result, the holding company has been able to retain thousands of jobs and create numerous new ones. As of 31 December 2006, BAVARIA employed some 3,000 qualified staff in eleven portfolio companies – the holding company's decisive capital.

Chance for a new start

The BAVARIA portfolio companies operate across the world in manufacturing industry and industrial services. The spectrum ranges from the plant constructor to the automotive sub-contractor. They are united in the fact that although disposing of a strong market position and a solid clientele, they were in a process of upheaval when BAVARIA entered the scene. This can mean an acute earnings weakness, a non-settled company successor or unsatisfactory existence as a marginal activity of a larger group. At all events, BAVARIA takes on the majority shareholding – preferably to 100% - from the very beginning and then ensures that growth and profitability are rapidly returned. BAVARIA's long track record in this business and its financial clout enable it to invest even in industries operating in a problematical field and to rapidly obtain successes there.

Together locally with the employees

With management and employees to success: this idea is right at the heart of BAVARIA's active portfolio management. Even before a take-over is finalised, a holding company specialist team develops a tailored turnaround concept for the new portfolio company, consults with all those locally involved and then ensures swift implementation. However, the principal responsibility clearly rests with the management and employees on the spot. After all, they know exactly where the trouble is. Their active incorporation distinguishes BAVARIA's approach from those of numerous other financial investors.

Long-term perspectives

BAVARIA only invests in firms with clearly recognisable improvement potentials and thus with good chances for a successful turnaround. A rapid return to profit is of the utmost priority. As such, the companies are given the time needed and financial support to get their business going over the long term. BAVARIA participates in this growth strategy through increasing turnover and earnings – and thus rising going concern values.

Over the next few years, BAVARIA will concentrate on companies with turnover upwards of EUR 50 million. The focus will be on both German and European companies. Eight German and three international firms presented below are currently in the portfolio.

Presentation of portfolio companies

Kienle + Spiess

Based in: Sachsenheim

Founded: 1935

Take-over by Bavaria: June 2006

Turnover 2006: EUR 226,7m

EBITDA 2006: EUR 3.8m

Employees: 1,500

First-time consolidation: 30.06.2006

Kienle + Spiess GmbH is a manufacturer of stamp and diecast components for constructing electrical machinery. The company produces quality products for reputable motor and generator industry firms such as manufacturers of electrical instruments, ventilators, pumps and domestic appliances. With a market share in excess of 20%, Kienle + Spiess is a leading supplier in Western Europe.

Paulmann & Crone

Based in: Lüdenscheid

Founded: 1851

Take-over by Bavaria: June 2005

Turnover 2006: EUR 64.3m

EBITDA 2006: EUR -1.8m

Employees: 500

Paulmann & Crone GmbH develops and manufactures high-grade synthetic products for the automotive industry. The company specialises in injection moulding and produces components in the form of thermoplast and duroplast materials for vehicle interiors. Its products include ashtray systems, drink holders, shelf systems, shutters and decorations.

Steeltech

Based in: Creutzwald, France

Founded: 1954

Take-over by Bavaria: January 2006

Turnover 2006: EUR 49.1m

EBITDA 2006: EUR 6.6m

Employees: 170

With a track record in excess of 50 years in mechanical and plant engineering, Steeltech s.a.r.l. is an established supplier and partner for hydraulics, steelwork, machining and the natural stone industry. The French company is a specialist in welding complex components and producing hydraulic cylinders. Together with customers, it also develops tailored solutions.

Langbein & Engelbracht

Based in: Bochum

Founded: 1934

Take-over by Bavaria: May 2004

Turnover 2006: EUR 28.9m

EBITDA 2006: EUR 1.2m

Employees: 130

Langbein & Engelbracht GmbH is a worldwide operating firm in equipment engineering focussing on paper, surface and processing engineering. The rich-in-tradition company develops, manufactures and installs custom-adapted systems for reputable manufacturers from the automotive, chemicals, paper, plastic industry, packaging, wood processing and refuse incineration fields.

Hamba

Based in: Neunkirchen/Wellesweiler

Founded: 1939

Take-over by Bavaria: April 2004

Turnover 2006: EUR 27.0m

EBITDA 2006: EUR 1.9m

Employees: 120

Hamba Filltec GmbH & Co. KG is a leading manufacturer of filling and sealing machinery for beakers and bottles for the food industry. The company has more than 3,000 installed machines in use across the world. Both liquids and soft-liquid products, such as juices, milk, butter, yogurt and quark can be filled on Hamba equipment.

almaKÜCHEN

Based in: Ahaus

Founded: 1971

Take-over by Bavaria: September 2004

Turnover 2006: EUR 25.6m

EBITDA 2006: EUR -0.3m

Employees: 200

Aloys Meyer GmbH & Co. KG is a direct-sell kitchen manufacturer. The company has 15 kitchen studios and accompanies the complete value-added process from ordering, planning and manufacturing through to delivery, installation and service. The kitchen specialist produces around 3,500 kitchens a year – involving no additional intermediate trading costs.

SwissTex

Based in: Winterthur, Switzerland

Founded: 1931

Take-over by Bavaria: December 2006

Turnover 2006: - reestablished-

EBITDA 2006: - reestablished-

Employees: 90

SwissTex Winterthur GmbH develops, produces and sells machinery and equipment for producing continuous filament yarns. The Swiss company is a competent partner in the technical filament market and provides flexible systems guaranteeing high productivity. SwissTex supplies customers worldwide with extrusion systems for carpet and industrial yarns.

Neef IT Solutions

Based in: Karlsruhe

Founded: 1924

Take-over by Bavaria: September 2004

Turnover 2006: EUR 12.9m

EBITDA 2006: EUR -0.3m

Employees: 90

Neef IT Solutions AG is a system company for assured IT solutions. The company is active in network technology, client/server systems and IT security and covers the whole range of services of IT infrastructure, IT security and video technology. As such, Neef IT Solutions is a reliable partner for the entire technology service life.

Elfotec

Based in: Mönchaltorf, Switzerland

Founded: 1976

Take-over by Bavaria: December 2006[1]

Turnover 2006: EUR 12.0m

EBITDA 2006: EUR -1.0m

Employees: 60

Elfotec AG is the largest independent toner manufacturer in Europe. The company has a wide range of compatible quality toners for analogue and digital copiers as well as printers. Manufacturing is largely automated on the fully integrated Elfotec production lines – something ensuring an exceptional level of consistency, productivity and quality.

[1] not consolidated in 2006

Hering

Based in: Gunzenhausen

Founded: 1884

Take-over by Bavaria: January 2004

Turnover 2006: EUR 9.0m

EBITDA 2006: EUR 0.6m

Employees: 70

Hering AG is a traditional company in the heat exchanger field and for many years now has been the international leader in oil cleaning units. The equipment engineering company develops and manufactures products in the heat exchanger, air/dry technology and vacuum technology fields. Hering works for reputable manufacturers from the chemicals, food technology and environmental/cooling technology industries.

R+E Automationstechnik

Based in: Fellbach - Schmiden

Founded: 1994

Take-over by Bavaria: May/ November 2006[2]

Turnover 2006: EUR 2.8m

EBITDA 2006: EUR 0.1m

Employees: 20

R+E Automationstechnik GmbH is a specialist in developing and manufacturing installation systems for the medical and pharmaceutical industries as well as for electrical engineering and the automobile industry. The machines enable the most varied of products to be automatically supplied and mounted, such as switches, sockets, gear components, disposal injection needles and catheters.

[2] not consolidated in 2006.

Turnaround at Kienle + Spiess

In June 2006 BAVARIA acquired Kienle + Spiess GmbH and in the following months laid the basis for extending the strong market position of the rich-in-tradition stamp and diecasting part manufacturer. Following five painful years of losses in succession, the BAVARIA portfolio company booked a profit in 2006.

Before this, Kienle + Spiess - founded in Sachsenheim in 1935 - was part of European Electrical Steels, a company of the Cogent Power Group. This firm is 75% owned by the Corus Metal Group and 25% owned by SSAB Svenskt Stål, the Swedish steel producer. Within the Group association, the medium-sized company struggled with the typical problems of operating at the margins of a globally oriented company: overhigh costs particularly in the indirect field, over-complex logistics due to the lack of responsibility of the individual plants and also comparatively high reject rates. That was why the bottom line of the company was in the red for many years. In fiscals 2002 to 2004 alone, losses of two-digit millions were recorded with turnovers of around EUR 200m. Even in 2005, the stamp and diecast component manufacturer booked a loss of EUR 7.1m from a turnover of EUR 205m.

Particularly for three reasons, BAVARIA is convinced that Kienle + Spiess - with five plants in Germany, Britain and Hungary - has a great potential: a high-grade assortment of products, a reputable list of customers and a strong market position. Kienle + Spiess provides a comprehensive supply of technical solutions from steel and diecast rotors and transformers to tool structures and finished components. This tradition-based company supplies reputable motor and generator industry firms such as producers of electrical instruments, ventilators, pumps and household appliances. With a market share in excess of 20%, Kienle + Spiess ranks as a leading supplier in Western Europe.

Back to its former strengths

Thus in June 2006 BAVARIA decided to undertake its largest takeover up to then in the form of a 100% acquisition of Kienle + Spiess with 1,500 employees. Even before this the turnaround investment holding company had been at work in scrutinising its latest portfolio company. Its best practice team comprises a network of experienced and highly qualified corporate consultants and can therefore cover all the operating areas of prime significance for restructuring, such as personnel, organisation, sales and marketing, financing, accounting and controlling.

The analysis of the Kienle + Spiess team was endorsed wholeheartedly: after all, the workforce and their representatives were well aware of local problems. These included the cost encumbrance of a group, surplus personnel in administration and a confused distribution of assignments between plants. In close cooperation with the newly appointed management and a cooperative works council, the BAVARIA team implemented improvements here very quickly. Costs were hauled back to those usual in the industry by reducing employee numbers in administration and by a consistent, across-the-board

lowering of overheads. In Great Britain the only unavoidable plant closure was initiated following successful negotiations with the trade unions.

Collectively with managers and staff

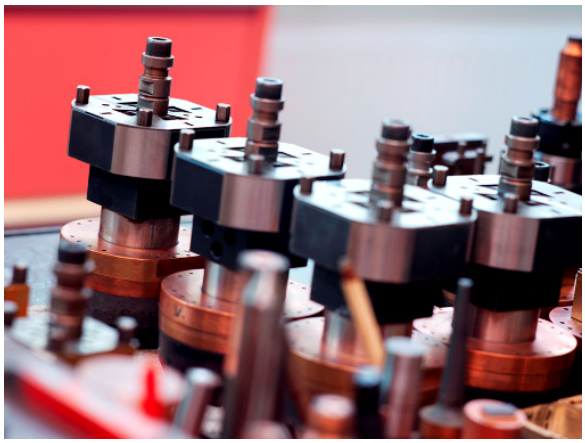
Close cooperation with works councils and trade unions is a vital part of the BAVARIA approach. The Company and its specialist teams consistently incorporate both employee representatives and the employees themselves into decision-making on the spot and so stop any conflicts of interest developing between those involved during turnaround.

However, the BAVARIA approach goes much further: in close consultation with the newly appointed management, the in-situ experts examine all the company processes and can quickly sound out improvement potentials. Four major themes emerged in the case of Kienle + Spiess. In particular, the implementation of a competitive cost structure and the introduction of separate cost centres was to ensure a rapid rise in profitability. This was to be complemented with new outline pacts with major customers and pilot projects for product innovations. Finally, a more rapid and secure order handling was to raise customer satisfaction.

This shows that the BAVARIA approach is not just down to cost cutting but provides a balanced blend of cost cuts, process improvements and tapping other turnover sources. Together with management and following an intensive dialogue with all those involved, these steps are laid down by the turnaround investment holding company in a 100 day master plan immediately after takeover. The turnaround investment holding company then ensures its swift implementation. Local management can resort to the assistance of the BAVARIA team at any time.

Return to profit

Thanks to the implementation of the tailored turnaround strategy, Kienle + Spiess very soon raised the earnings potentials. After a number of loss-making years, the company was again back in profit in the second half of 2006. The newly created profit centers, in particular, contributed to enhanced transparency and greater cost awareness at plant level. The same-time launching of the Toyota Manufacturing System focussing on continuous improvements has even now led to a 6% rise in output at the plants and a reduction of the rejects rates. Delivery reliability was up from some 70% to just under 80% within six months.



As a result, BAVARIA is convinced that Kienle + Spiess now has a good basis for raising still further its turnover and earnings power in the years to come and will develop into another successful portfolio investment.

Successful asset deal at SwissTex

In December 2006, BAVARIA took over the machinery and equipment business for producing synthetic continuous yarns together with all employees from the Swiss Rieter Group as part of an asset deal. The point of the spin-off is to get newly named SwissTex Winterthur back onto the success track.

Too much diversification, too small, too expensive: in 2006 there was no longer any future for the synthetic fibre business at Rieter AG – the internationally operating industrial concern. Consequently, the company parted from the two operations in this field that were not part of its key business: a subsidiary was sold to a French company and BAVARIA was awarded the filament segment. As of 1 December 2006, the turnaround investment holding company purchased the machinery and equipment business for producing continuous synthetic fibre yarns (filaments) from Maschinenfabrik Rieter AG in Winterthur.

Rich-in-tradition equipment engineer

The new portfolio company develops, produces and markets complex machinery and equipment for the filament market. Across the world, the rich-in-tradition equipment engineer stands for modern flexible systems guaranteeing high productivity for the manufacturers of carpet and industrial yarns. However, the 80 employees could not fully develop their strengths within the group. The division chalked up considerable losses in the years up to 2006. Basically the reasons were down to the high charges and overheads of an industrial concern. In addition, the equipment engineer could not fully utilise the benefits of this association. The customer structure, for instance, did not match the other activities of the Rieter group.

Extensive set of agreements

As the filament business was part of a larger company of the Rieter group, BAVARIA took over these activities and all the staff under an asset deal. This corporate spin-off is based on an extensive set of agreements laying down the most important operations. They include two rental agreements, a number of service level agreements including the licensing agreements and several agency agreements regulating marketing relationships.

This innovative deal structure has enabled the various interests to be optimally harmonised. By strategically focussing on the preceding and subsequent stages of value creation and hiving off the equipment engineer, the Rieter group acknowledged the fact that it had created a good starting position for its continued profitable growth in the textile machinery business. In its medium-sized structure, the hived-off business can better participate in the growth of the synthetic fibre machinery business and seize the chances that often could not be realised within the group. The win/win situation for seller and buyer alike underlines the fact that Rieter with its three subsidiaries remains the most important customer of the new company.

Start clear for Swisstex

A new name stresses the independence of the former Rieter equipment engineer: the new BAVARIA portfolio company now operates under the name of SwissTex Winterthur AG. Its financing basis places the newly negotiated lines of credit on a sound footing from the word go.

An overhead expenses project was started immediately following the take-over in close cooperation with management and BAVARIA specialists. Initial economies have already been forthcoming from, for instance, step-by-step insourcing of the SAP merchandising system and outside purchasing of former group services. With BAVARIA support, SwissTex is currently optimising inventories and improving purchasing conditions. Both steps should also lead to considerable economies. The turnaround does not only involve BAVARIA operating on the cost side. Rather the attention from the word go is very much on tapping other turnover potentials. SwissTex is currently pushing vigorously ahead with developing an agent-based sales network. The advantage here is of turnover-dependent commission arising instead of fixed costs for sales staff.

These steps and a multitude of others are making SwissTex fit for the future. Even this fiscal year the company is planning for a rise in turnover to just over EUR 30m and a return to the profit zone. Turnaround specialist BAVARIA sees considerable earnings potential at the Swiss company.

GROUP MANAGEMENT REPORT

General conditions and business

Overall economic conditions and market

Fiscal 2006 produced a pronounced revival in business throughout Europe and in Germany. The growth of gross domestic product in Germany was 2.4% in 2006 as against only 0.9% in 2005 (Source: 2006/07 Report of the expert advisory board). For the first time the business revival - largely borne beforehand by international demand – substantially affected the German economy.

The gross domestic product of the Euro zone was 2.7% in 2006 (Source: Eurostat) as against 1.4% in 2005. In the USA, the growth of the gross domestic product was 3.4% in 2006 as against 3.2% in 2005.

In view of the rise in value-added tax, the expert advisory board's opinion is that growth in Germany will slow to 1.8% in 2007. The Ifo business climate index continuously improved from January 2006 to December 2006: however, it fell slightly up to February 2007. Our assumption is for a slightly weaker overall business trend in 2007; even so, there is still room for positive surprises.

The European Central Bank raised its base rate in a number of steps during the past year. The short-term 3.75% interest rate for March 2007 its at its highest level for five years.

BAVARIA Industriekapital AG can look back on a highly successful fiscal year. Four transactions were carried out in 2006 (Kienle + Spiess group with companies in Germany, Hungary and the UK, R+E Automatisierungstechnik GmbH, Elfotec group with companies in Switzerland and the UK and takeover of the activities of the Rieter Filament Yarn Business Unit which was incorporated into Bavaria Maschinenfabrik GmbH).

We are convinced that BAVARIA will continue its success story into 2007. The requirements for this are there. Germany continues to be an important and interesting market for BAVARIA.

BAVARIA business model

The BAVARIA business model comprises the acquisition, restructuring, rehabilitation and disposal of portfolio companies. In restructuring matters, we work with our own specialist team which is on hand to support the local management.

We constantly examine our acquisition criteria. In future we want to concentrate on:

- ⇒ Branches: manufacturing industry or industrial services;
- ⇒ Turnover: upwards of EUR 50m;
- ⇒ Acquisition of a majority interest, preferably 100%;
- ⇒ Recognisable improvement potentials.

BAVARIA Industriekapital AG

BAVARIA Industriekapital AG is the parent company of the BAVARIA Group: it is directly or indirectly involved in all the BAVARIA Group activities. As in the year before, BAVARIA Industriekapital AG was almost exclusively financed from equity in fiscal 2006. The Company's equity rose EUR 28.8m in the year under review as of 31.12.2006 due in large measure to the EUR 13,0m capital increase and the EUR 13.8m net income.

The change in the net cash position of BAVARIA Industriekapital AG well gauges the success of our activities. The picture is as such:

Change in net cash position 2006 (in EUR '000)

Operative cash flow	
Net income	13.8
Increase in accruals	+ 0.5
Change in receivables and other assets	- 8.4
Change in liabilities and other liabilities and equity	+ 3.3
	9.2
Cash flow from investment activities	
Change in fixed assets	- 2.1
	- 2.1
Cash flow from financing activities	
Payments from equity transfer	+ 13.0
Payments for dividends to shareholders	-2.2
	10.8
Payment-effective change of the cash & cash equivalents	17.9
Cash & cash equivalents at the start of the period	1.3
Cash & cash equivalents at the end of the period	**19.2**

In 2006 the net cash position of BAVARIA Industriekapital AG improved by EUR 17.9m. Related to today's share numbers of 2,205,000, this is equivalent to an improvement of EUR 8.11 per share (past year: EUR 0.93 per share).

Capital increase and BAVARIA Industriekapital AG going public

As of 26 January 2006 the subscribed capital of BAVARIA Industriekapital AG was raised by EUR 0.5m to EUR 2.2m under a public placement of EUR 1.7m. The placement was extremely successful. Given multiple over-subscription, the allocation was at the upper end of the price range. Thanks to the issuance price of EUR 26.00 per share, the net funds of BAVARIA Industriekapital AG were raised by EUR 13,000,000. The share premium of EUR 12.5m was put into the capital reserve.

The share prices of the BAVARIA Industriekapital AG share (WKN: 260555) developed very positively in 2006. Particularly in the second half of the year, the share price soared and attained a price of EUR 66 (a 154% increase) on 31.12.2006.

BAVARIA Industriekapital AG pay-out

Following the pay-out of a EUR 0.98 dividend per share for fiscal 2005 on account of the resolution passed by the General Shareholders' Meeting of 5.9.2006, the Executive Board wishes to propose a dividend of EUR 3.00 per share for fiscal 2006 to the General Shareholders' Meeting. The pay-out sum thus rises from EUR 2.2m to EUR 6.6m.

Group

Fundamentals

The consolidated financial statements of BAVARIA Industriekapital AG are drawn up in keeping with the provisions of the German Commercial Code, German company law and the principles of proper accounting.

Changes to the investment portfolio in the fiscal year

In fiscal 2006, BAVARIA Industriekapital AG acquired four companies.

- ⇒ In June 2006 we concluded out largest turnover acquisition up to that date – namely Kienle + Spiess GmbH including three operative subsidiaries. The Kienle + Spiess group manufactures stamp and diecast components for motors and transformers mainly for the automotive industry. With its four plants in Britain, Germany and Hungary, the company recorded turnover of EUR 141.8m and full-year result of EUR -3.5m in the last six months of the fiscal 2006. This result comprises extraordinary non-recurrent expenditure of EUR 2.8m.
- ⇒ In May and November 2006, 50% of R+E Automatisierungstechnik GmbH was acquired. The company specialises in constructing assembly machines; its total operating performance was EUR 3.2m coupled with a break-even result in fiscal 2006.
- ⇒ In December 2006 BAVARIA Industriekapital AG acquired the synthetic fibre activities of Rieter AG. This company renamed BAVARIA Maschinenfabrik GmbH Winterthur had a rising order intake in the first few months after acquisition and has budgeted turnover of some EUR 31m for 2007.
- ⇒ In addition, at the end of December, 50% of the Elfotec Group with companies in Switzerland and Ireland was taken over. The Elfotec Group manufactures toners for the re-filling field. With year-end turnover of some EUR 12m, the company registered a loss of some EUR 1.5m. The assumption of the management is that product folio streamlining and production process optimisation will see break-even being obtained in 2007.

No company was sold in fiscal 2006. The share ownership list provides a full listing of the subsidiaries of the BAVARIA Group as of 31.12.2006.

Paulmann & Crone GmbH made use of the option not to be included in the consolidated financial statements in keeping with § 296 Section 1, No. 1 HGB (German commercial code).

Development of the companies already in our investment portfolio in the past fiscal year.

Hamba Filltec GmbH & Co. KG

With a turnover of EUR 27.0m, Hamba registered an EBIT of EUR 1.6m (previous year: EUR 1.6m) and a net income of EUR 1.7m (previous year: EUR 1.3m) in fiscal 2006. This represented a rise in turnover of over 30% over the previous year. The order intake also developed very positively. The expectation is for fiscal 2007 to continue the successful course in view of the high order backlog and a planned increase in turnover. 2006 was associated with dynamic growth. The extra business was mastered without any noticeable increase in personnel. Following very strong growth over the past two years, Hamba is in a decisive phase in 2007 in terms of strategically setting the points. The pending FDA certification of a bottle filling unit and start of cooperation with a Chinese company this year will set the foundations to provide Hamba with a growth perspective beyond its regular customers and products. The future challenge is to monitor the sustainability of this growth - from the organisational/structural side, too. This includes a moderate increase in personnel accompanied by a future-oriented development of internal company organisation and the market platform.

Langbein & Engelbracht GmbH

The course of business at Langbein & Engelbracht in 2006 was satisfactory. Income from turnover rose from EUR 24.9m in 2005 to EUR 28.9m in 2006. The marked improvement of the earnings position permitted a 2.1% sales profitability to be obtained with a net income of EUR 0.6m (0.2% sales profitability in the past year with a net income of EUR 0.1m).

The management's assumption is for the business revival to continue in 2007. We expect greater turnover and a further increase in sales profitability for Langbein & Engelbracht.

Hering AG

In fiscal 2006 Hering registered a net income of EUR 0.3m (previous year: EUR 0.4m) from a turnover of EUR 9.0m (previous year: EUR 8.9m). The company expects a 10% rise in turnover for fiscal 2007. The significant growth phases of 2004 and 2005 were followed in fiscal 2006 by a further improvement of the production processes at Hering. For instance, a newly launched production control system has helped to make production sequences more transparent and efficient.

Neef IT Solutions AG

In fiscal 2006, Neef chalked up a loss of EUR 0.5m (previous year: net income of EUR 0.1m) from turnover of EUR 12.9m (previous year: EUR 14.0m). Concentration on the key business is showing initial success to the extent that the 2007 order intake is well above that of 2006. One of the aspects of the restructuring concept involves a marked tightening of personnel costs. We assume that Neef will again be back in profit in 2007.

Alma Küchen GmbH & Co. KG

Alma Küchen raised its income from turnover by over 14% in 2006 from EUR 22.4m to EUR 25.6m. The net loss for the year for 2006 was EUR 1.0m (previous year: net loss for the year of EUR 1.9m) At the EBITDA level, break-even was practically reached in 2006. With the help

of a new studio concept, Alma Küchen is planning for a renewed increase in turnover in 2007. At the same time, raised output is to be obtained without a hike in personnel costs.

Paulmann & Crone

The return of loss-makers, relocation of selective activities into the Czech Republic and the closure of two production facilities were responsible for a drop in the turnover of Paulmann & Crone from EUR 94.2m in 2005 to EUR 64.3m in 2006. Despite this decline, the company's net loss for the year was nevertheless lowered from EUR 17.2m in 2005 to EUR 4.1m. This result was achieved from a marked reduction in the cost of personnel and materials. However, the most greatest rehabilitation success came from the quality and production sector. Production, for instance, was aligned to the Toyota Production System (TPS) and a KANBAN manufacturing system set up. In 2006 the company recovered the maximum quality criteria of its principal customers. Internally the quality improvements were reflected in a significant drop in corrective work from costs of EUR 1.2m in 2005 to under EUR 0.5m in 2006.

Paulmann & Crone GmbH made use of the option not to be included in the consolidated financial statements in keeping with § 296 Section 1, No. 1 HGB (German commercial code).

Steeltech s.a.r.l.

In December 2005, Steeltech was acquired by Deutsche Bergbau Technik (DBT). The company obtains more than 90% of its value creation from supplying hydraulic cylinders and ducts for underground coal mining. The company recorded turnover of EUR 49.1m and a full year result of EUR 3.5m in 2006. Its turnover climbed by over 20% as against the previous year. Even so, Steeltech still represents a major challenge for management as it has to be transformed from a pure supply operator to one producing numerous products for a wider range of customers. The marked reduction of orders at Steeltech from its principal customer in the spring of 2007 points to a reduction of turnover in 2007. A short-term profitability and liquidity gap arose at the beginning of 2007 from this unexpectedly rapid reduction in orders. For ongoing developments here we would ask you to consult the "Events following fiscal year-end" item.

Total net worth, financial and earnings position

BAVARIA Group turnover rose in fiscal 2006 from EUR 132.5m the previous year to EUR 332.6m. This was mainly due to the larger scope of consolidation and the first-time consolidations of new acquisitions. Whilst Paulmann & Crone GmbH provided most of the turnover in 2005, the newly acquired Kienle + Spiess Group did so in 2006.

The BAVARIA Group has a sound financial structure as reflected in net funds of EUR 53.6m (previous year: EUR 23.7m) and debts due to banks of EUR 1.7m (previous year: EUR 1.7m). Hence there was an improvement of EUR 29.5m in the net cash-in-hand of the BAVARIA Group from EUR 22.4m (including marketable securities) in 2005 to EUR 51,9m in fiscal 2006. This reveals the extent of the BAVARIA Group's earnings strength. The Executive Board looks upon the constant multiplication of net cash assets within the Group as an important indicator of the Company's success.

Earnings before depreciation, net financial income and taxes were EUR 13.9m in fiscal 2005; they shot up to EUR 48.6m (+ 265%) in fiscal 2006. Consolidated net income in the Group was EUR 31.5m in 2006 compared to EUR 8.5m the previous year. In both periods under review, consolidated net income was affected by negative differences from the consolidation of capital. Differences of EUR 16.5m and EUR 19.2m were dissolved for 2005 and 2006 respectively. We refer to the Notes as regards the overall development of the favourable and adverse differences from the consolidation of capital.

Balance sheet relations

Total assets in the Group climbed from EUR 100.0m in the prior period to EUR 232.4m in fiscal 2006.

Assets side

Fixes assets were 24.1% of total assets – this is equivalent to EUR 56.1m. Fixed assets mainly consist of plant premises (EUR 24.6m) and equipment and machinery (EUR 20,4m).

The assets side reveal net funds of EUR 53.6m. As in the previous year, practically a quarter of the total assets of the BAVARIA Group balance sheet consist of net funds.

Liabilities side

The earnings situation in the Group enabled equity - including the difference from the consolidation of capital - to be raised from EUR 25.2m to EUR 70.4m.

Pension reserves in 2006 were EUR 51.8m in 2006. They were up EUR 44.0m as against 2005 due primarily to the incorporation of the Kienle + Spiess Group into the scope of consolidation. As a result. total accruals in the BAVARIA Group increased to EUR 86.9m.

There is no change in the financial liabilities at EUR 1.7m.

The Group's year-end financial statements include details of the statement of cash flows and of employee numbers of the BAVARIA Group.

Events occurring after fiscal year-end

Kienle + Spiess management reached an agreement with the works council in Britain on a compensation package for uniting the Ellesmere Port and Bilston sites. The yearly economies from this will ensure the competitiveness of the company's British sites.

The reduction of orders by Steeltech's principal customer at the beginning of 2007 prompted the management of the company to file for insolvency on 16.02.07 without consulting the shareholder. BAVARIA has appealed against insolvency being filed. Since our estimation at the time of insolvency being filed was that the company was neither insolvent nor excessively in debt and was not expected to be, BAVARIA is currently seeking to return the company to the non-insolvency status.

Chances and risks

The future business development of the BAVARIA Group is associated with chances and risks which, in turn, are connected with the BAVARIA Group business model. The BAVARIA Group risk management concentrates on minimising risks and estimating possible income together with the attendant risk. A survey and assessment of the key operating figures of the BAVARIA portfolio companies are done monthly so as to detect any crises.

Industry-related chances and risks: Chances and risks in acquiring companies

The attractiveness of the "Companies faced with upheavals" market segment is leading to increased competition. This can result in higher purchasing prices which may have a negative impact on the returns per transaction. The BAVARIA Groups banks on its credibility as an experienced and successful rehabilitation professional over a frequently inexperienced competitor on both the economic and legal sides.

BAVARIA might individually acquire portfolio companies whose restructuring is more difficult that expected. That is why, in individual instances, insolvency cannot be ruled out given a difficult starting position and a purchasing decision that has to be quickly taken. This can therefore impact negatively on the consolidated net income. Although the portfolio companies of the BAVARIA Group operate in a variety of operating fields so that the risk is scattered, a business dip on a market can still have a negative impact on the total net worth, financial and earnings position of the BAVARIA Group.

Chances and risks of disposal

General economic conditions may make it difficult to sell a portfolio company. Thus, repercussions on the total net worth, financial and earnings position of the BAVARIA Group cannot be excluded.

Market risks of the portfolio companies

Quantity and price variations on the capital and raw material markets may have a negative impact on the total net worth, financial and earnings position of the BAVARIA Group. We face these risks on an individual company basis by continuously monitoring indicators so as to counteract them at an early phase.

Failure risk at the BAVARIA Industriekapital AG level

Only in exceptional circumstances and to a very limited degree will the Executive Board of BAVARIA Industriekapital AG continue to enter into guarantees and other commitments vis-à-vis the portfolio companies. The chief risk lies in quantifying the individual restructuring outlay of a company and a possible resulting insolvency of a portfolio company. Monitoring of this risk is constantly done.

Personnel risk

The acquisition, restructuring and sale of companies necessitate a high degree of professional competence and management experience of the persons involved. Under its business model, BAVARIA must ensure that sufficiently qualified personnel are available.

Financial risks

The management considers that the development of the BAVARIA Group is very much dependent on currency, interest rate and financing risks. They, in turn, can have a significant impact on the total net worth, financial and earnings position of the BAVARIA Group.

Outlook

BAVARIA Industriekapital AG and its investment portfolio have successfully started 2007. We will continuously check on possible new acquisitions. We do not intend to raise our rate of acquisition. We will orientate ourselves upwards as far as quality and size is concerned in any new acquisitions. This means we will endeavour to acquire three to four new acquisitions a year in 2007 and beyond - given that the corporate appraisals are realistic

Looked at from this angle, no statements on turnover and earnings expectations at the BAVARIA Group can be made. After all, they depend on the number, size and degree of restructuring of the companies to be acquired. In the light of the present portfolio and success had at the start of fiscal 2007, the Executive Board's assumption is that BAVARIA Industriekapital AG will develop positively in the years ahead.

Munich, 19 March 2007

The Executive Board

Raimar Scholz Robin Laik

CONSOLIDATED FINANCIAL STATEMENT

Consolidated profit and loss account: 1 January to 31 December 2006

		2006		2005	
		EUR	EUR	EUR	EUR
1	Sales	332,629,733.82		132,511,111.85	
2	Reduction of the inventories in finished and non-finished products	3,581,733.56		-4,666,007.22	
3	Own work capitalised	295,400.25		0.00	
			336,506,867.63		**127,845,104.63**
4	Other operating income		47,414,555.40		29,934,808.97
5	Cost of materials				
	a) Raw materials, supplies and merchandise for resale	-154,420,014.44		-50,426,351.02	
	b) Purchased services	-44,682,271.09		-26,942,490.63	
			-199,102,285.53		**-77,368,841.65**
6	Personnel costs				
	a) Wages and salaries	-72,113,194.18		-40,019,963.39	
	b) Social insurance and other social charges and benefits Pensions EUR 1,234,000 (previous year: EUR 0)	-16,453,497.03		-8,599,186.39	
			-88,566,691.21		**-48,619,149.78**
7	Depreciation on intangible assets of the fixed assets and property, plant & equipment		-14,101,762.70		-3,592,076.84
8	Other operating expenses		-44,832,230.20		-18,652,330.37
9	Other interest and similar income		800,254.39		326,760.39
10	Interest and similar expenses		-715,168.03		-15,155.91
11	Depreciation on financial assets and on marketable securities of the current assets		-52,999.00		-28,499.00
12	**Profit/loss on ordinary operations**		**37,350,540.75**		**9,830,620.44**
13	Extraordinary income	0.00		784,936.00	
14	Extraordinary expenses	-2,780,220.04		0.00	
15	**Extraordinary result**		**-2,780,220.04**		**784,936.00**
16	Taxes on income and earnings		-2,277,218.34		-2,092,562.36
17	Other taxes		-769,899.64		0
18	**Net income**		**31,523,202.73**		**8,522,994.08**
19	Net profit carried forward from previous year		12,003,580.99		5,705,295.08
20	Earnings appropriated to earned surplus		0.00		-3,745.02
21	Profit relating to other shareholders		-2,485,926.04		-60,063.15
22	**Consolidated profit**		**41,040,857.68**		**14,164,480.99**

Consolidated balance sheet as of 31 December 2006

Assets		31st December 2006		31st December 2005	
		EUR	EUR	EUR	EUR
A.	**Fixed assets**				
I.	Intangible assets				
	1. Patents, trademarks, licenses and similar rights	324,329.33		416,329.00	
	2. Goodwill	6,695,663.75		1,381,189.52	
			7,019,993.08		**1,797,518.52**
II.	Property plant & equipment				
	1. Land, leasehold rights and buildings incl, buildings on leased land.	24,639,192.64		10,392,110.00	
	2. Machinery and equipment	20,434,420.34		7,623,800.00	
	3. Other equipment, plant and office equipment	2,954,246.28		1,775,341.90	
	4. Advance payments and construction-in-progress	986,515.86		0.00	
			49,014,375.12		**19,791,251.90**
III.	Financial assets				
	1. Shareholdings in affiliated companies	1,254.15		12,251.00	
	2. Investments	21,949.00		0.00	
	3. Other loans	2,340.00		0.00	
			25,543.15		**12,251.00**
			56,059,911.35		**21,601,021.42**
B.	**Current assets**				
I.	Inventories				
	1. Raw materials and supplies	25,787,582.95		10,908,785.00	
	2. Work-in-progress	17,520,124.74		9,647,449.00	
	3. Finished products & merchandise	16,690,300.07		3,937,407.00	
	4. Advance payments made	270,421.78		450,765.00	
			60,268,429.54		**24,944,406.00**
II.	Receivables and other assets				
	1. Trade receivables	47,512,393.29		25,773,839.56	
	2. Receivables from affiliated companies	185,751.70		0.00	
	3. Other assets	14,450,406.57		3,456,100.73	
			62,148,551.56		**29,229,940.29**
III.	Marketable securities				
	Other marketable securities		**0.00**		**402,320.00**
IV.	Cash-in-hand, balances with banks		**53,587,517.59**		**23,669,728.48**
			176,004,498.69		**78,246,394.77**
C.	**Prepaid expenses**		**367,293.29**		**155,384.00**
			232,431,703.33		**100,002,800.19**

Liabilities		2006		2005	
		EUR	EUR	EUR	EUR
A.	**Equity**				
I.	Subscribed capital (Contingency capital Euro 187,000 / previous year: 170,500)	2,205,000.00		1,705,000.00	
II.	Capital reserve	12,795,000.00		295,000.00	
III.	Earned surplus	5,500.00		5,500.00	
IV.	Difference from currency translation	1,412,963.06		-66,348.00	
V.	Offsetting item for holdings of other shareholders	3,747,496.41		2,011,729.80	
VII.	Consolidated profit	41,040,857.68		14,164,480.99	
			61,206,817.15		**18,115,362.79**
B.	**Difference from the consolidation of capital**		**9,232,747.10**		**7,109,553.73**
C.	**Accruals**				
	1. Accruals for pensions and similar commitments	51,817,293.77		7,776,687.00	
	2. Tax reserves	5,388,615.53		6,052,261.02	
	3. Other accruals	29,644,322.91		20,956,225.22	
			86,850,232.21		**34,785,173.24**
D.	**Liabilities**				
	1. Debt due to banks	1,699,596.35		1,718,026.80	
	2. Advance payments received on orders	12,444,056.02		7,587,417.00	
	3. Trade payables	45,517,342.66		19,449,988.81	
	4. Notes payable	166,215.50		77,337.00	
	5. Other liabilities	10,956,420.89		10,837,376.82	
			70,783,631.42		**39,670,146.43**
E.	**Deferred income**		**4,358,275.45**		**322,564.00**
			232,431,703.33		**100,002,800.19**

Consolidated equity change statement

EUR ('000)	Share numbers in circulation	Subscribed capital	Capital reserve	Earned surplus	Difference from the currency translation	Offsetting item for holdings of other shareholders	Cons. profit	Cons. euity
1 January 2005	**50,000**	**50**	**0**	**2**	**0**	**451**	**5,705**	**6,208**
Net income 2005							8,523	8,523
Dividend payouts								
Capital increase	1,655,000	1,655	295					1,950
Appropriation to the earned surplus				4			-4	0
Foreign currency differences					-66			-66
Holdings of other shareholders						1,561	-61	1,500
31 December 2005	**1,705,000**	**1,705**	**295**	**6**	**-66**	**2,012**	**14,163**	**18,115**
Net income 2006							31,523	31,523
Dividend payouts							-2,161	-2,161
Capital increase	500,000	500	12,500					13,000
Appropriation to the earned surplus								
Foreign currency differences					1,479			1,479
Holdings of other shareholders						1,736	-2,485	-749
31 December 2006	**2,205,000**	**2,205**	**12,795**	**6**	**1,413**	**3,748**	**41,040**	**61,207**

Consolidated statement of cash flows

	2006	2005
	EUR	EUR
Consolidated net income ahead of extraordinary item	34,304	7,738
Earnings proportions of minority shareholders without payment-effective holdings	-1,342	-60
Depreciation on fixed asset items	14,102	3,592
Changes in accruals	-9,434	2,099
Dissolution of differences from the capital consolidation	-19,219	-17,139
Dissolution of differences from the final consolidation	-3,789	0
Other payment-ineffective changes	-2,780	719
Gross cash flow	**11,842**	**-3,051**
Change in inventories	4,777	5,327
Change in receivables, other assets and rest of the assets	10,476	5,796
Change in liabilities and rest of total equities & liabilities	-11,528	-10,409
Payment from/of extraordinary items	0	785
Cash flow from current operations	**15,567**	**-1,552**
Change in the fixed assets	3,274	1,958
Payments for capital expenditure into the financial assets	-4,000	0
Cash flow from capital expenditure activities	**-726**	**1,958**
Payments as part of the capital increase	13,000	1,950
Payouts to shareholders	-2,161	0
Payouts to minority shareholders	-1,144	0
Payments from repayments of financial liabilities	-33	-1,212
Cash flow from financing activities	**9,662**	**738**
Payment-effective change of the cash and cash equivalents	24,503	1,144
Net funds addition from change in scope of consolidation	4,851	7,925
Currency differences	12	0
Cash and cash equivalents at start of the period	24,072	15,003
Cash and cash equivalents as of 31 December	**53,438**	**24,072**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BAVARIA Industriekapital AG - Brief profile

BAVARIA Industriekapital AG was set up on 3 April 2002. It is based in Munich and is entered in the Commercial Register, Department B, under No.: 143 858 at the Amtsgericht (local district court).

BAVARIA Industriekapital AG takes over companies in the midst of an upheaval (non-settled company succession, restructuring pending and rehabilitation or earnings weakness) and through an active restructuring and rehabilitation management raises their earnings. Consequently, BAVARIA does not just limit itself to keeping and administering investments – as do the traditional investment companies. Acquired portfolio companies are consistently developed to exhaust their potential as far as possible. This, in turn, raises BAVARIA's going concern value.

Scope of consolidation

The consolidated financial statements include both BAVARIA Industriekapital AG as the parent company and affiliated companies in which BAVARIA Industriekapital AG either directly or indirectly has the majority of the voting rights or in which direct control is handled in another way.

The companies included in the scope of consolidation of BAVARIA Industriekapital AG are separately shown in the annex - 'Share ownership list'. The annex is saved in the Commercial Register of the Munich Local District Court. For reasons of secondary importance, five companies have not been included in consolidation. They mainly involve shell companies without an operative business.

The scope of consolidation changed as follows in the fiscal year:

- ⇒ As of 17.06.2006 five companies (below: Kienle + Spiess Group) were taken over from European Electrical Steels Nederland B.V., a company of the Cogent Power Group. They were: Kienle + Spiess Stanz- und Druckgießwerk GmbH based in Sachsenheim, Kienle + Spiess Hungary Ipari kft., Tokod/ Hungary, Wardstorm Ltd., Ellesmere Port/ UK, Sankey Laminations Ltd., Ellesmere Port/ UK, and Geo L. Scott & Co. Ltd., Ellesmere Port/ UK. First-time consolidation was undertaken as of 30.06.2006.
- ⇒ As of 1.12.2006 a purchase contract was signed with Rieter AG for the machinery and equipment business for manufacturing synthetic continuous yarns. This division was taken on by a BAVARIA Industriekapital AG subsidiary and operates under the name of BAVARIA Maschinenfabrik GmbH Winterthur. The business unit supplies customers worldwide with extrusion systems for carpet and industrial yarns. First-time consolidation was undertaken as of 01.12.06.
- ⇒ As of 20.12.2006 the Elfotec Group with a company each in Switzerland and Ireland was taken over. As the largest independent toner manufacturer in Europe, the Elfotec Group is known for its wide range of compatible quality toners for analogue and digital copiers and printers. First-time consolidation was undertaken as of 31.12.06.
- ⇒ In May and November 2006, 50% of R+E Automatisierungstechnik GmbH was acquired. The company specialises in constructing assembly machines. The company was not included in the consolidated financial statements in view of its secondary importance.
- ⇒ In the case of Paulmann & Crone GmbH, BAVARIA Industriekapital AG made use of the inclusion option in keeping with § Section 1 No. 1 of the HGB (German

Commercial Code). The company's continuance is not sufficiently safeguarded in view of the economically difficult situation. The BAVARIA Executive Board has resolved that the required financial support must come from a strategic investor. Any stay in the BAVARIA Group is ruled out. The assets of the company are destined within the exploitation scenario for debt redemption. In contrast, the company's additional debts do not pose any charge on assets for the Group. The company was taken out of the scope of consolidation as of 31.12.2006.

The income from turnover, extraordinary items and net income of the companies acquired in the year under review run to:

		2005			2006		
		Turnover	Net income	Extrad. item	Turnover	Net income	Extrad. item
Elfotec AG	TCHF	8,172	225	663	9,351	1,900	1,996
Elfotec Ltd.	TEUR	11,890	-1,307	0	10,702	-1,542	0
Kienle + Spiess GmbH	TEUR	144,251	97	-1,017	157,408	325	0
Kienle + Spiess Hungary	MHUF	10,425	19	8	13,525	615	60
Wardstorm Ltd.	TGBP	0	2,037	0	0	5,000	0
Sankey Ltd.	TGBP	24,004	165	0	16,799	-1,592	-2,124
Geo L. Scott Ltd.	TGBP	23,077	-2,591	0	26,465	-5,935	-544

In addition, the comparability of successive consolidated financial statements as a result of a major change to the scope of consolidation in keeping § 294 Section 2 HGB is ensured by the details of income from turnover, earnings and net worth of the companies in segment reporting.

Consolidated financial statements closing date

The consolidated financial statements are prepared as of the closing date of the BAVARIA Industriekapital AG parent company (31 December 2006).

The fiscal years of the major operative portfolio companies concur with the fiscal year of the parent company. Any facts of importance to value at the subsidiaries up to the preparation of the consolidated financial statements have been duly allowed for.

Principles of consolidation

Accounting principles

The year-end financial statements of BAVARIA Industriekapital AG as of 31.12.2006 were drawn up in keeping with the provisions of the German Commercial Code and German company law. The year-end accounts of the individual companies were drawn up as per the principles of §§ 238ff HGB, in particular as per the regulations for corporations in keeping with §§ 264ff HGB and the provisions of German company law.

These consolidated financial statements have been drawn up in keeping with §§ 290 ff. HGB.

Some of the legally prescribed items of the balance sheet and the profit and loss account have been included. The requisite allocations and annotations are listed in the notes.

The consolidated profit and loss account is drawn up on the "total cost"-type of short-term results accounting.

Consolidation methods - Methods of capital consolidation

The capital was consolidated as complying with the statutory option in keeping with § 301 Section 1 Clause 2 No.1 of HGB as per the book value method on the basis of the valuations of the shareholdings in the companies included in the consolidated financial statements at the time of first-time inclusion into the consolidated financial statements (§ 301 Section 2 HGB).

If not individually assignable, any asset-side offsetting differences were capitalised in the consolidated balance sheet and depreciated over an effective life of 10 years.

Allowing for their character, the adverse differences from the consolidation of capital are shown separately in the consolidated balance sheet between equity and borrowed capital.

Proportionally included companies

The companies of the Elfotec Group (Elfotec AG, Mönchaltdorf/ Switzerland und Elfotec Ltd., Annacotty/ Ireland) were proportionately included in the consolidated financial statements in keeping with their 50% holding. Acquisition produced a goodwill of EUR 959,000 (Elfotec Ltd.) and a negative difference of EUR 2,402,000 (Elfotec AG).

Other consolidation procedures

Receivables, liabilities, income from turnover, other expenditure and other income, interest earned and the corresponding expenditure at the companies included in consolidation were eliminated.

Deferred taxation is undertaken on the major consolidation procedures affecting net incomes given that the deviating tax charge is likely to balance itself in later fiscal years.

Accounting and valuation techniques

The following accounting and valuation techniques were largely instrumental in preparing the year-end financial statements of BAVARIA Industriekapital AG.

The accounts of the companies included in the consolidated financial statements of BAVARIA Industriekapital AG were prepared on the basis of uniform accounting and valuation principles.

The nongratuitously acquired intangible assets were valued at acquisition cost less systematic straight-line method of depreciation. The period of benefit is 3 - 5 years as a rule; the period of benefit of goodwill is 10 years.

Fixed asset items are capitalised at acquisition cost and depreciated by the straight-line method in keeping with the effective life. Low-value assets are fully expensed in the year of acquisition. Financial assets are disclosed at the lower of acquisition costs or the value to be attached at fiscal year-end

Financial assets are disclosed at the lower of acquisition costs or values to be attached.

Inventories are disclosed at the lower of acquisition/production costs or the values to be attached and allow for the appropriate costs of general administration.

Receivables and other assets were valued at the nominal value less a flat-rate depreciation for general credit risks. Individual depreciations were undertaken in the case of dubious receivables.

Other marketable securities are shown at the lower of acquisition costs or their value.

Net funds are shown at the nominal value. Inventories in foreign currency are valued at the foreign exchange rate at fiscal year-end.

Pension plan accruals were set up in the light of the contractual pension claims. Establishing these accruals was based on the ongoing comparative charts of Prof. Dr. Klaus Heubeck with a 6% accounting interest rate.

Tax and other accruals were set up on the basis of sound business judgement and allow for all discernible risks and uncertain commitments.

Liabilities are deferred with their repayment value. Liabilities in foreign currency were shown at the lower of the selling rate as of fiscal year-end.

Euro is the **operating currency of parent company** BAVARIA Industriegesellschaft AG.

Notes to the balance sheet

Fixed assets

The development of fixed assets is shown below

		Acquisition and production cost					
		1/1/2006 EUR ('000)	**Addit.** EUR ('000)	**Disposals** EUR ('000)	**Reclass.** EUR ('000)	**Change cons. Scope** EUR ('000)	**12/31/2006** EUR ('000)
I.	**Intangible assets**						
1.	Patents, trademarks, licenses and similar rights	3,857	193	50	0	-2,054	1,946
2.	Goodwill	1,721	10,651	0	0	0	12,372
		5,578	**10,844**	**50**	**0**	**-2,054**	**14,318**
II.	**Property, plant and equipment**						
1.	Land and buildings	24.939	110	1,296	0	15,475	39,228
2.	Machinery and equipment	47.01	2,062	1,582	537	-12,614	36,104
3.	Other equipment, plant office equipment	15.501	478	1,984	86	-3,360	10,721
4.	Advance payments made and construction-in-progress	0	391	0	-624	1,219	986
		88,141	**3,041**	**4,862**	**-1**	**720**	**87,039**
III.	**Financial assets**						
1.	Holdings in affiliated companies	66	1	0	-12	53	108
2.	Investments	0	10	0	12	0	22
3.	Other loans	0	3	0	0	0	3
		66	14	0	0	53	133
		93,785	**13,899**	**4,912**	**-1**	**-1,281**	**101,490**

		Depreciation						Book values	
		1/1/2006 EUR ('000)	**Addit.** EUR ('000)	**Disposals** EUR ('000)	**Reclass.** EUR ('000)	**Change cons. Scope** EUR ('000)	**12/31/2006** EUR ('000)	**12/31/2006** EUR ('000)	**12/31/2005** EUR ('000)
I.	**Intangible assets**								
1.	Patents, trademarks, licenses and similar rights	3,440	196	0	0	-2,014	1,622	324	417
2.	Goodwill	340	5,336	0	0	0	5,676	6,696	1,381
		3,780	**5,532**	**0**	**0**	**-2,014**	**7,298**	**7,020**	**1,798**
II.	**Property, plant and equipment**								
1.	Land and buildings	14,546	1,229	939	0	-248	14,588	24,640	10,393
2.	Machinery and equipment	40,078	6,493	1,516	0	-29,385	15,670	20,434	7,623
3.	Other equipment, plant office equipment	13,726	847	1,966	0	-4,840	7,767	2,954	1,775
4.	Advance payments made and construction-in-process	0	0	0	0	0	0	986	0
		68,350	**8,569**	**4,421**	**0**	**-34,473**	**38,025**	**49,014**	**19,791**
III.	**Financial assets**								
1.	Holdings in affiliated companies	54	53	0	0	0	107	1	12
2.	Investments	0	0	0	0	0	0	22	0
3.	Other loans	0	0	0	0	0	0	3	0
		54	**53**	**0**	**0**	**0**	**107**	**26**	**12**
		72,184	**14,154**	**4,421**	**0**	**-36,487**	**45,430**	**56,060**	**21,601**

Intangible assets

Goodwill has developed as follows in the fiscal year:

2005				2006		
Add. .	Disp.	Depreciation	Book value	Add.	Depreciation.	Book value
1,791	70	171	1,381	10,651	5,336	6,696

Goodwill as of 31.12.2006 is primarily made up of Hering AG (EUR 1,049,000) and a company of the Kienle + Spiess Group acquired in the year under review (EUR 5,448,000).

The period of benefit of goodwill is a uniform 10 years; that of the rights and licenses in compliance with the tax regulations 3 to 5 years. They are depreciated by the straight-line method.

Property, plant and equipment

The effective life for plant and office equipment is 3 to 10 years. The buildings are depreciated on the basis of tax provisions.

Financial assets

The shareholdings in affiliated companies item contains the non-consolidated investments at the acquisition price less requisite depreciation at the lower of the value to be attached.

Current assets

(without marketable securities and cash-in-hand, balances with banks)

	2005 EUR ('000)	**2006** EUR ('000)
Raw materials and supplies	10,909	25,788
Work-in-progress	9,647	17,520
Finished goods and merchandise	3,937	16,690
Advance payments made	451	270
Trade receivables	25,774	47,512
Receivables from affiliated companies	0	186
Other assets	3,456	14,450
	54,174	**122,416**

The larger scope of consolidation was responsible for a considerable increase of the current assets as against the previous year.

Most of the other assets contain receivables vis-à-vis the tax office.

All receivables and other assets are due within a year.

Equity

Equity rose in the period under review by EUR 43,092,000 to EUR 61,207,000.

	2005 EUR ('000)	2006 EUR ('000)
Subscribed capital	1,705	2,205
Capital reserve	295	12,795
Earned surplus	6	6
Currency differences from consolidation	-66	1,413
Offsetting item for holdings of other shareholders	2,011	3,747
Consolidated retained earnings	14,164	41,041
Equity	**18,115**	**61,207**

Consolidated retained earnings of EUR 41,041,000 contain accumulated income from the previous year of EUR 12,004,000.

Subscribed capital

As of 31.12.2006, the nominal capital amounts to EUR 2,205,000.

On 10.11.2005, the General Shareholders' Meeting passed a resolution to raise the nominal capital of EUR 1,705,000 by EUR 500,000 under a public invitation to EUR 2,205,000 for a cash contribution through the issuance of 500,000 new EUR 1.00 share certificates.

The nominal capital was raised and the shares issued in January 2006.

Approved capital

From the proposal made by the Executive and Supervisory Boards, the General Shareholders' Meeting of 10.11.2005 passed a resolution to empower the Executive Board with approval of the Supervisory Board to raise the Company's nominal capital by 09.11.2010 by and up to a total of EUR 1,102,500 by means of a single or multiple issuance of new bearer share certificates for cash or contributions in kind.

The corporate articles not containing the approved capital will be complemented to this effect in § 4 Section 3.

Contingent capital - Share options for employees

From the proposal made by the Executive and Supervisory Boards, the Company has decided from the resolution passed at the General Shareholders' Meeting of 20.12.2005 to raise the Company's nominal capital by and up to EUR 170,500 from the issuance of and up to 170,500 bearer share certificates as part of a contingent capital increase (Contingent Capital I). The contingent capital increase will only be carried out to the extent that option rights are issued and that their bearers make use of their option right up to 31.12.2009.

The contingent capital increase involves an employee participation programme; the statutory pre-emptive right of the shareholders is ruled out. The corporate articles not containing the contingent capital increase will be changed to that effect in § 4 through the incorporation of a revised Section 4.

Convertible bonds for members of the Supervisory Board

From the proposal made by the Executive and Supervisory Boards, the Company has decided from the resolution passed at the General Shareholders' Meeting of 05.09.06 to raise the Company's nominal capital by and up to EUR 16,500 from the issuance of and up to 16,500 bearer share certificates as part of a contingent capital increase (Contingent Capital II). The contingent capital increase is only carried out to the extent that convertible bonds are issued and use is made of the included option right of conversion into share certificates.

Each of the Supervisory Board members was offered 5,500 convertible bonds for purchase - thus 16,500 bonds in total. The Supervisory Board members have exercised their pre-emptive right.

Share option rights -Those entitled to rights

Up to 31.12.2009, the Company can exercise single or multiple option rights of and up to 170,500 shares - for members of the Company's Executive Board up to 42,650 shares, for management members of the affiliated companies up to 42,650 shares, for Company senior executives up to 42,600 shares and for the affiliated companies and other employees of the Company and affiliated companies up to 42,650 shares.

Period of issuance

The option rights can be issued to those entitled once or several times either within 10 trading days beginning 12 trading days following the General Shareholders' Meeting or following publication of an annual and quarterly report.

The option rights have a 4-year term starting with the end of the respective issuing period.

Exercising rights

Subject to the option conditions to be established by the Executive Board with the approval of the Supervisory Board or to the extent that Executive Board members have rights entitlement, each option right brings with it the entitlement to purchase a bearer share certificate.

The exercising right can only be undertaken in a unit of at least 50.

In addition for the managing directors, there are various option programmes for shareholdings or sub-participations of the individual companies at various levels.

Difference from the consolidation of capital

The negative difference shown as of 31.12.2006 from capital consolidation is dissolved with net income effect over the following years in keeping with its cause.

The development of this item was as follows in fiscal years 2005 and 2006:

2005			2006				
Addit.	Dissol.	Book value	Addit.	Holdings 3rd parties	Dissol.	Final consol.	Book value
12,638	16,500	7,110	26,181	1,050	19,219	3,789	9,233

The EUR 3,789,000 disposal from final consolidation results from the final consolidation of Paulmann & Crone as of 31.12.2006.

Accruals

	2005 EUR ('000)	2006 EUR ('000)
Accruals for pensions	7,777	51,817
Tax reserves	6,052	5,389
Other accruals	20,956	29,644
	34,785	**86,850**

For adapting the tax burden from the individual company accounts to the consolidated net income, an adverse deferred taxation item of EUR 1,775,000 (previous year: EUR 4,862,000) was disclosed. This item was included with the capitalised deferred taxes from the individual company balance sheets. As in the previous year, calculation of the deferred taxes was based on a 40% average rate.

The rise in pension accruals is largely down to the first-time consolidation of Kienle + Spiess GmbH.

The other accruals mainly contain commitments from the personnel field, outstanding invoices, restructuring steps and from warranties. The rise of other accruals is primarily down to the first-time consolidation of the Kienle + Spiess Group.

On account of the accruing option for former undertakings being invoked in keeping with Article 28 EGHGB, accruals for pensions and similar commitments reveal an underfunding as of 31.12.2006 of EUR 1,491,000 (previous year: EUR 1,566,000).

Liabilities

	2005 EUR ('000)	2006 EUR ('000)
Debt due to banks	1,718	1,700
Advance payments received on orders	7,588	12,444
Trade payables	19,450	45,517
Notes payable	77	166
Other liabilities	10,837	10,956
	39,670	**70,783**

There was a marked increase in trade payables in fiscal 2006. This is chiefly down to the first-time consolidation of the Kienle + Spiess Group.

The liability time limits are comprised as follows:

2006 EUR ('000)	**< 1 year**	**1-5 years**	**> 5 years**	**Total**
Debt due to banks	472	1,000	228	1,700
Advance payments received on orders	12,444	-	-	12,444
Trade payables	45,517	-	-	45,517
Notes payable	166			166
Other liabilities	10,956		0	10,956
	58,599	**1,000**	**228**	**70,783**

2005 EUR ('000)	< 1 year	1-5 years	> 5 years	Total
Debts due to banks	230	920	568	1,718
Advance payments received on orders	7,588	0	0	7,588
Trade payables	19,450	0	0	19,450
Notes payable	77	0	0	77
Other liabilities	9,947	890	0	10,837
	37,292	**1,810**	**568**	**39,670**

Guarantees and other commitments

Bond in favour of SIG Plastics

Bavaria Industriekapital AG takes on a guarantee of payment in favour of SIG Plastics for the obligation of Bavaria Maschinenbau Holding AG towards SIG Plastics.

The bond is restricted to EUR 650,000. Extending to all claims - rent payment and all compensation claims - the bond continues to be limited to those rent payments due up to the end of the fixed term of the rental agreement on 28.02.2007 and which are to be put forward in writing up to 31.12.2010.

In keeping with the agreement dated 6./13 February 2006 and in favour of SIG Plastics Holding GmbH, Waldshut-Tiengen, Baikap undertakes to take on a guarantee of payment for Bavaria Maschinenbau Holding AG, Munich, as against SIG Plastics Holding GmbH, Waldshut-Tiengen, in relation to its bond obligation as against SIG Plastics Holding GmbH, Waldshut-Tiengen, for all rent payment and all compensation claims which SIG Plastics Holding GmbH, Waldshut-Tiengen, is entitled to in future vis-à-vis Hamba Filltec GmbH & Co. KG, Neunkirchen, in connection with the rental agreement on account of a return of the rental property at variance with the agreement .

Transfer by way of security in favour of Zürich Versicherung

To secure all existing and future claims – also of the conditional and terminated type – which Zürich Versicherung is entitled to vis-à-vis Hering AG, Bavaria Industriekapital AG assigns its claims to the balance of an account to Zürich Versicherung. The bank account currently has a balance of around EUR 150,000.

Transfer by way of security in favour EUROPEAN ELECTRICALS STEELS NEDERLANDS B.V.

Under a settlement agreement dated 2.08.2006 the complete inventory of the Kienle + Spiess Group was transferred by way of security to EUROPEAN ELECTRICALS STEELS NEDERLANDS B.V. The company buildings of Geo L. Scott Ltd. and Sankey Laminations Ltd. were also transferred by way of security. The transfers by way of security of the buildings cease to apply when the Kienle + Spiess Group has fulfilled its financial obligations of EUR 7,740,000 towards EUROPEAN ELECTRICALS STEELS NEDERLANDS B.V. The Kienle + Spiess Group has meanwhile complied with these obligations.

Statement as against Paulmann & Crone GmbH, Lüdenscheid

On 24.01.07 Bavaria Industriekapital AG informed Group company Paulmann & Crone GmbH, Lüdenscheid, which was taken out of consolidation as of 31.12.2006, that it would be supported in obtaining a factoring line. To this end, Bavaria Industriekapital AG declared itself ready to submit, if need be, a letter of support of up to EUR 1 million to the factoring company. Paulmann & Crone GmbH has meanwhile received this factoring line without the support of Bavaria. Thus no submission of a bond has occurred.

Supply guarantee of Hamba Filltec GmbH & Co. KG

Hamba Filltec GmbH & Co. KG, Neunkirchen guarantees the supply of certain components for underground coal mining to Deutsche Bergbau Technik. This guarantee is initially restricted to fiscal years 2006 and 2007; supplies in fiscal 2006 were fulfilled in their entirety.

Financial obligations

There are financial obligations of EUR 39,650,000 for the fixed basic rental periods stemming from purchase commitments and long-term rental and leasing agreements The financial obligations are made up by maturities as follows:

Term	2005 EUR ('000)	2006 EUR ('000)
< 1 year	19,540	29,694
1 - 5 years	11,679	8,096
> 5 years	1,990	1,860
Total	**33,209**	**39,650**

There are financial obligations of EUR 25,167,000 from purchase commitments in connection with orders in the order backlog of the companies.

Other collateral

Warranty and downpayment guarantees amounting to EUR 7,071,000 have been disclosed.

There is a registered land charge of EUR 2,000,000 at Langbein & Engelbracht GmbH as collateral for a credit line.

There is a registered land charge of EUR 3,579,000 at Hering AG as collateral for a credit line.

Notes to the profit and loss account

Income from turnover

2006 only proportionately contains the income from turnover of the Kienle + Spiess Group companies as from 30.06.2006; the income from turnover of Bavaria Maschinenfabrik GmbH is proportionately included from 1.12.2006. The income from turnover of the Elfotec Group companies are not included in 2006. This is because the business transfer took place as of 21.12.2006 and 31.12.2006 was chosen as the time of first-time consolidation.

BAVARIA Group turnover from sales by region:

	2005 EUR ('000)	**2006** EUR ('000)
Germany	82,003	230,316
European Union	34,605	69,403
Rest of Europe	2,741	4,730
America	6,330	13,968
Asia	3,210	10,311
Africa	0	800
Rest	3,622	3,102
	132,511	**332,630**

Other operating income

Other operating income is made up as follows:

	2005 EUR ('000)	**2006** EUR ('000)
Income from dissolution of differences	16,500	19,219
Income from release of accruals	3,272	7,663
Income from debt consolidation	6,828	6,262
Income from final consolidation of holdings in affiliated companies	123	3,670
Income from exchange rate profits	15	2,750
Income from remission of liabilities	0	2,500
Income from change of value adjustments	1,173	686
Income from disposal of fixed assets	458	285
Others	1,566	4.380
	29,935	**47,415**

Negative differences arise from acquisitions where the purchase price is under the book value of the balance sheet equity of the company taken over. These differences are dissolved in the consolidated financial statements in keeping with what caused them with a net income effect based on the progress in restructuring the portfolio companies.

The income from debt consolidation arose in 2005 from Paulmann & Crone GmbH, Lüdenscheid, being purchased and in 2006 from the Kienle + Spiess Group as well as Elfotec AG and Elfotec Ltd. being purchased. It chiefly results from taking over existing shareholder loans as part of the acquisition and setting off these receivables with the higher of the nominal loan liabilities of the consolidated company in question.

The EUR 1,931,000 income from exchange rate earnings stem from the currency translation of turnover between Group companies.

Cost of materials

The cost of materials was EUR 199,102,000 in fiscal 2006 (previous year: EUR 77,368,000).

Personnel costs

Personnel costs rose significantly in a comparison of periods. This is chiefly down to the first-time consolidation of the Kienle + Spiess Group.

	2005 EUR ('000)	2006 EUR ('000)
Wages and salaries	40,020	72,113
Social insurance charges, pensions and benefits	8,599	16,453
	48,619	**88,567**

Net interest income

The interest expenses for 2006 are principally down to financing costs from factoring Paulmann & Crone GmbH.

	2005 EUR ('000)	2006 EUR ('000)
Interest and similar income	326	800
Interest and similar expenses	15	715
	311	**85**

Depreciation on intangible assets

The management of the Kienle + Spiess Group decided on bringing together two production sites onto one. This will result in the equity of Geo L. Scott Ltd. (GLS), in all probability, being used up in fiscal 2007. Consequently, the GLS goodwill of EUR 3,704,000 was amortized as an exceptional measure and a restructuring accrual set up in the GLS balance sheet

Since the planning on hand assumed a significant continuous write-down, the Elfotech Ltd. goodwill of EUR 959,000, which came about in the fiscal year, was completely amortized as an exceptional measure.

Depreciation on financial assets

In 2005 a value adjustment was undertaken on the shareholding of Verwaltungsgesellschaft 43 AG of EUR 28,000. In 2006 a EUR 53,000 depreciation was undertaken on a company in insolvency which was not consolidated in fiscal 2006.

Taxes on income and earnings

The expenditure on taxes on earnings include both the taxes on earnings and income that are to be directly paid as well as the deferred taxes.

Deferred taxes are accrued for the tax effects of temporary result deviations between the tax and commercial balance sheets. No consideration is given to the effects of differences which are not expected to be balanced in the foreseeable future. Deferred taxes stemming from temporary differences can emerge both in the individual accounts of the taxable companies and in the consolidated financial statements as part of valuation and consolidation steps.

As in the previous year, the deferred taxes of EUR 3,430,000 earnings (previous year: EUR 1,494,000 expenditure) were calculated at an average rate of 40%.

Extraordinary item

The management of the Kienle + Spiess Group decided on bringing together two production sites onto one. Accruals amounting to EUR 2,780,000 were set up for compensation and other expenditure in this connection.

Segment reporting

In the 2005 Annual Report we presented a form of segment reporting that was meant to provide our investors with greater transparency in the development of our investment portfolio. We formed groups based on the fiscal year of acquisition. Today we feel it is more informative to report on each subsidiary and look upon each one as a segment.

No major non-payment-effective items, earnings from investments in associated companies and income from other investments are included

The major products and services of the segments include:

Hering:	development and production of heat exchangers, ventilating and drying technology
NEEF:	IT services
Hamba:	development and production of filling and sealing machines
L&E:	development and production of dryers, bonnets, supply and spent air systems for the paper industry, paint systems for the automotive industry and thermal spent air purification
Alma:	concept and production of kitchens
Steeltech:	production of equipment for underground coal mining
K+S:	production of stamping and diecast parts for constructing electrical machinery in the automotive industry
Elfotec:	production of toners
SwissTex (= Bavaria Maschinenfabrik):	development and production of machinery for manufacturing continuous yarns
Paulmann & Crone:	synthetic products for vehicle interiors

Segment reporting[3]

31.12.2006	Hering	NEEF	Hamba	L&E	Alma	Steelt.	K+S	Bavar. Masch.	Elfotec	P&C
Income from turnover										
with external third parties	8,985	12,933	27,046	29,487	25,614	49,098	114,734	408		64,325
with Group companies		6								
Segment result	329	-461	1,713	654	-989	3,479	5,897	-554		-4,102
– depreciation included therein	92	114	297	381	663	631	5,267	19		1,799
Net worth										
(including portfolio investments)	2,488	3,669	17,063	20,954	12,209	15,761	116,411	16,266	5,997	15,879
Investments in long-term assets	103	26	72	62	172	201	3,137			
Debts	3,323	3,795	14,326	14,825	11,766	13,377	96,028	12,497	7,913	22,604

Segment reporting

31.12.2006	Others	Bavaria AG and Holdings	*Consolidation*	Group
Income from turnover				
with external third parties				**332,630**
with Group companies		2,199	*-2,205*	
Segment result		4,123	*21,434*	**31,523**
depreciation included therein		106	*4,733*	**14,102**
Net worth				
(including portfolio investments)		46,326	*-40,591*	**232,432**
Investments in long-term assets		2,252	*7,875*	**13,900**
Debts		72,569	*-111,031*	**161,992**

[3] Segment reporting has been drawn up in keeping with the DRS 3 principles:

31.12.2005	Hering	NEEF	Hamba	L&E	Alma	Steelt.	K+S	Bavar. Masch.	Elfotec	P&C
Income from turnover										
with external third parties	8,870	14,001	20,382	25,033	22,408					41,586
with Group companies										
Segment result	413	148	1,342	-10	-1,896					-13,344
depreciation included therein	85	140	430	369	708					1,696
Net worth										
(including portfolio investments)	2,831	5,133	17,158	15,776	12,273	15,732				25,126
Investments in long-term assets	167	20	12	102	27					
Debts	3,995	4,347	13,113	9,105	10,641	7,600				27,750

31.12.2005	Others	Bavaria AG and Holdings	*Consolidation*	Group
Income from turnover				
with external third parties	231			**132,511**
with Group companies		1,172	*-1,172*	
Segment result			*21,870*	**8,523**
depreciation included therein			*164*	**3,592**
Net worth				
(including portfolio investments)		16,226	*-10,252*	**100,003**
Investments in long-term assets	41	5,340	*-5,001*	**708**
Debts		10,833	*-12,606*	**74,778**

Other particulars

Executive Board and Supervisory Board

Executive Board	Reimar Scholz, Dipl. Kaufmann Waldpromenade 68a, 82131 Gauting Dept. Acquisitions (Chief Operations Officer) Jan C. Pyttel, Dipl. Kaufmann Maximilianstr. 48, 80538 Munich Dept. Investment Management Robin Laik, Dipl. Kaufmann Curiestr. 12, 80999 Munich Dept. Finances (Executive Board member since 01.07.2006)
Supervisory Board	Dr. Ulrich Wöhr, Corporate Consultant, Oberursel (Chairman) stepped down on 02.05.2006 Dr. Günter Hönig, Managing Director, Munich (Assistant Chairman) stepped down on 06.04.2006 Arndt Wolpers, Businessman, Ammerland stepped down on 05.09.2006 Dr. Matthias Heisse, Lawyer, Munich (Chairman) since 24.05.2006 Bernard Jan Wendeln, Businessman, Munich (Assistant Chairman) since 24.05.2006 Dr. Gernot Eisinger, Businessman, Munich since 05.09.2006

Total remuneration of the Supervisory and Executive Boards and former members of these bodies

In the period under review, the members of the Supervisory Board received remuneration totalling EUR 29,589.80. EUR 9,166.99 of this sum is for former Supervisory Board members.

A total of EUR 350,998.26 in remuneration was paid for consultancy services to Supervisory Board members in fiscal 2006.

The overall non-earnings-related and earnings-related remuneration of the Executive Board in keeping with § 285 No. 9 HGB was EUR 623,508.52 in the fiscal year.

In fiscal 2006 share options with a market value of EUR 251,351.00 were issued to the Executive Board.

No. of options handed out	Date of issue	Earliest exercising date	Exercising price
10,230	12.01.2006	12.01.2008	12.60
10,230	01.12.2006	01.12.2008	12.60
20,460			

Employees

Averaged out over the year, 2,946 employees (previous year: 1,480) worked in the companies included as of 31.12.2006 in the consolidated financial statements. Employee numbers in the BAVARIA Group developed as follows:

	2005	2006
Industrial workers	867	1,919
Salaried staff	604	918
Trainees and apprentices	9	109
	1,480	**2,946**

The employees of Paulmann & Crone GmbH, which was consolidated in a final form as of 31.12.2006, are included in the above numbers.

50% of the employees of the quota-consolidated companies have been included. 51 salaried staff and 10 industrial workers work for Elfotec AG and Elfotec Ltd.

Share ownership list

A complete listing of the share ownership in other companies in keeping with § 285 No. 11 HGB is saved in the Munich Commercial Register, HR B 8401.

Distributed profits/ Dividend proposal

BAVARIA Industriekapital AG paid out dividends of EUR 2,160,900 in 2006.

Executive and Supervisory Boards of BAVARIA Industriekapital AG will propose to the shareholders at the General Shareholders' Meeting for a dividend of EUR 3.00 per share (totalling EUR 6,615,000.00) to be paid out for fiscal 2006 from the retained earnings of BAVARIA Industriekapital AG amounting to EUR 13,816,741.16 and for the rest to be carried forward to a new account.

Munich, 2nd April 2007

The Executive Board

Reimar Scholz

Robin Laik

Auditor's statement

We have audited the consolidated financial statements – consisting of balance sheet, profit and loss account, notes, statement of cash flows and development of equity as well as segment reporting – prepared by BAVARIA Industriekapital AG, Munich and the management report for the fiscal year from 1 January to 31 December 2006. The Executive Board of the Company is responsible for preparing the consolidated financial statements and management report as based on German commercial standards and the supplementary rulings of the corporate articles. It is our responsibility on the basis of our audit to assess the consolidated financial statements and the management report.

We conducted our audit of the consolidated financial statements in keeping with § 317 of the HGB (German Commercial Code) and the generally accepted auditing standards issued by the German Auditors' Institute (IDW). Accordingly, the audit is to be planned and implemented so that there is a reasonable assurance for the detection of incorrect formulations and infringements which have a significant effect on the net worth, financial and earnings positions as established by the consolidated financial statements - to include the generally accepted accounting principles – and the management report. In determining the audit activities, information on the business activities and the economic and legal position of the Group as well as expectations on potential errors are taken into account. Under the audit, sampling is largely done to asses the effectiveness of the accounting-related internal control system and the supporting records in respect of particulars made in the consolidated financial statements and management report. The audit comprises an assessment of the year-end accounts of the companies included in the consolidated financial statements, the delimitation of the scope of consolidation, the applied accounting and consolidation principles and the significant estimates made by the Executive Board as well as an assessment of the overall adequacy of the presentation of information in the consolidated financial statements and management report. We consider that our audit gives reasonable grounds for our opinion.

Our audit did not give rise to any objections.

In our assessment based on the findings from the audit, the consolidated financial statements comply with the legal provisions and supplementary rulings of the corporate articles and present – to include proper accounting principles - a true and fair view of the net worth, financial and earnings position of the Group. The management report is compatible with the consolidated financial statements, presents a true and fair view of the situation of the Group as well as the chances and risks in future development.

Saarbrücken, 2nd April 2007

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Schommer) (pp. Keul)
Auditor Auditor

List of share ownership as of 31 December 2006

	Annotation	Proportion of capital in %		Equity capital	Full-year result
		(direct)	(indirect)	EUR ('000)	EUR ('000)
Group parent company:					
BAVARIA Industriekapital AG, Munich				28825	13817
Scope of consolidation					
Executive Consulting AG, Munich		100.00		121.00	55.00
Hering Wärmetauscher Holding AG, Munich		95.00		48.00	-4.00
Hering AG, Gunzenhausen			90.00	-834.00	329.00
Neef Services AG i. Ins., Karlsruhe – in insolvency	[2]	100.00		0.00	0.00
Neef IT Solutions AG, Karlsruhe		78.00		-125.00	-461.00
BAVARIA Maschinenbauholding AG, Munich		90.00		2,562.00	12,014.00
Hamba Filltec GmbH & Co. KG, Neunkirchen			90.00	2,737.00	1,713.00
BAVARIA Maschinenbau Holding II AG, Munich		92.75		56.00	1,176.00
Langbein & Engelbracht GmbH, Bochum			87.19	6,212.00	616.00
Langbein & Engelbracht Industrial Eng.&. Co., Shanghai/ China			87.19	-83.00	59.00
Alma Holding GmbH, Munich		88.00		8.00	176.00
Alma Küchen Alois Meyer GmbH & Co. KG, Ahaus			88.08	443.00	-989.00
Verwaltungsgesellschaft 0906 GmbH (formerly Beyss Holding GmbH), Munich		100.00		-2.00	-1.00
Bavariaring 0405 AG, Munich		100.00		47.00	0.00
Paulmann & Crone GmbH, Lüdenscheid			100.00	-6,725.00	-4,102.00
Steeltech S.A.R.L. France i. Ins., Creutzwald - in insolvency			90.00	2,384.00	3,479.00
Hamba Verwaltunsges. mbH, Neunkirchen			90.00	13.00	2.00
Paul Weinbrenner GmbH, Weil der Stadt - in insolvency	[2]		100.00	0.00	0.00
Hamba Filling Technology Services GmbH, Munich		100.00		65.00	41.00
Blitz 05-316 AG, Munich		100.00		97.00	3,748.00
R&E Automatisierungs GmbH, Fellbach-Schmiden	[2]	50.00		2.00	1.00
Kienle + Spiess GmbH, Sachsenheim		94.60		14,250.00	325.00
Kienle + Spiess Hungary Kft, Tokud/ Hungary			94.60	13,798.00	2.00
Wardstorm Ltd., Ellesmere Port/ UK			94.60	17,878.00	7,426.00
Sankey Laminations Ltd., Ellesmere Port/ UK			94.60	6,330.00	-2,364.00
Geo.L. Scott & Co. Ltd., Ellesmere Port/ UK			94.60	1,808.00	-8,903.00
Bavariaring 0906 GmbH, Munich		100.00		23.00	-2.00
Bavaria Maschinenfabrik GmbH, Winterthur/ Switzerland		100.00		3,769.00	-555.00
Force Ltd., Birmingham/ UK	[2]	75.00		0.00	0.00
Oldenburg Ltd., Birmingham/ UK	[2]	100.00		0.00	0.00
Bavaria Chemicals GmbH	[1]	50.00		25.00	0.00
Elfotec AG, Mönchaltdorf/ CH	[1]		50.00	4,804.00	1,210.00
Elfotec Ltd., Annacotty/ Ireland	[1]		50.00	-1,917.00	1,542.00

[1] proportionately consolidated as per § 310 HGB

[2] not consolidated as per § 296 HGB

Contact

Svea Tröster

Head of Finances
Tel.: +49 (0)89 - 729 8967 - 40
Fax: +49 (0)89 - 729 8967 - 10
E-Mail: svea.troester@baikap.de

BAVARIA Industriekapital AG

Bavariaring 18
80336 Munich

Tel.: +49 (0)89 - 729 8967 - 0
Fax: +49 (0)89 - 729 8967 - 10
E-Mail: info@baikap.de
Internet: www.baikap.de