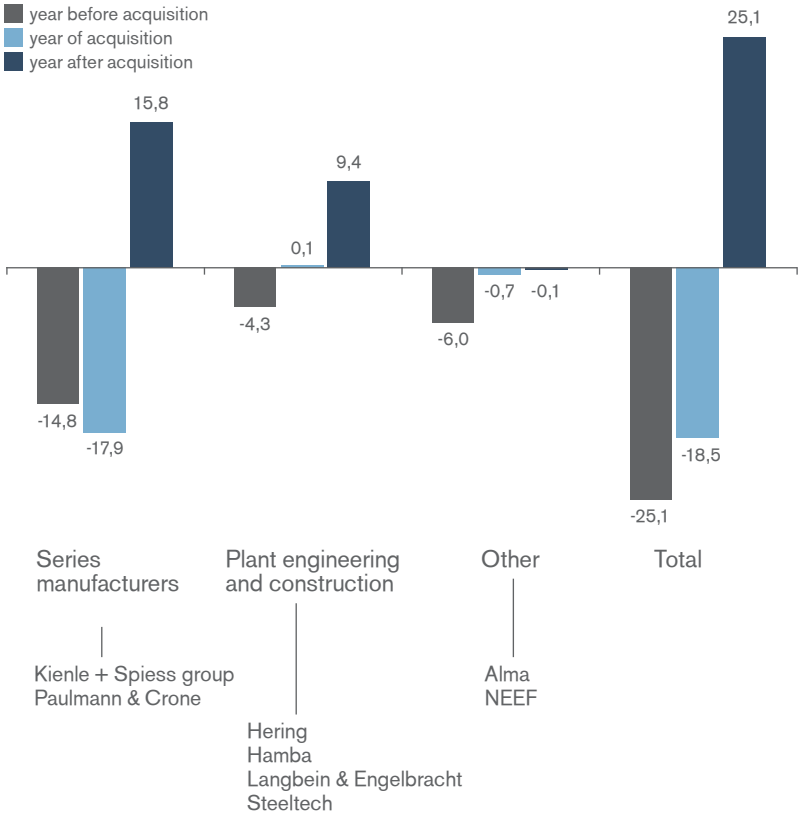
BAVARIA
Industriekapital AG

ANNUAL REPORT

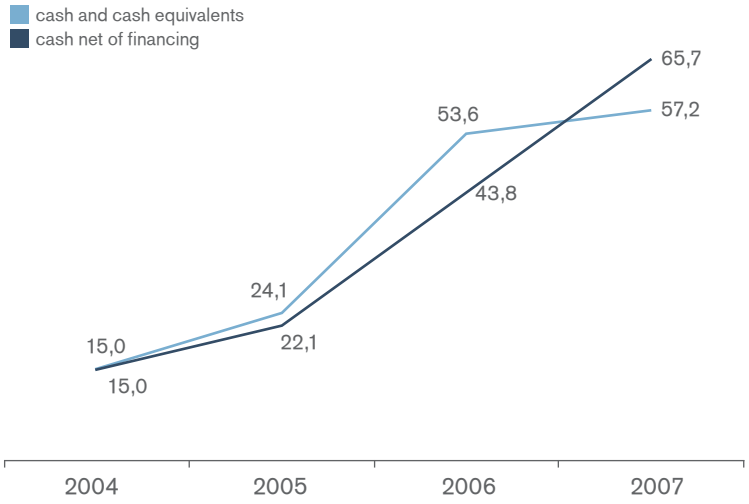
2007

EACH INDIVIDUAL COUNTS!

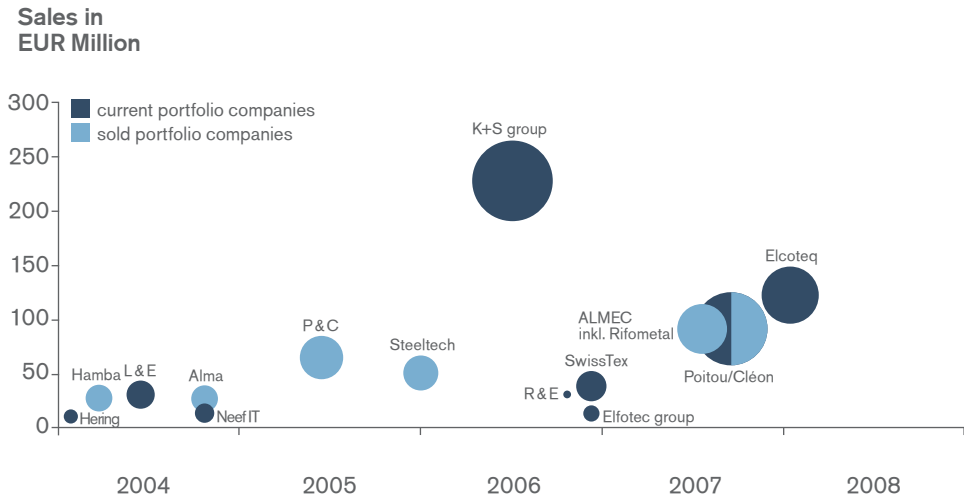
Development of EBITDA after acquisition



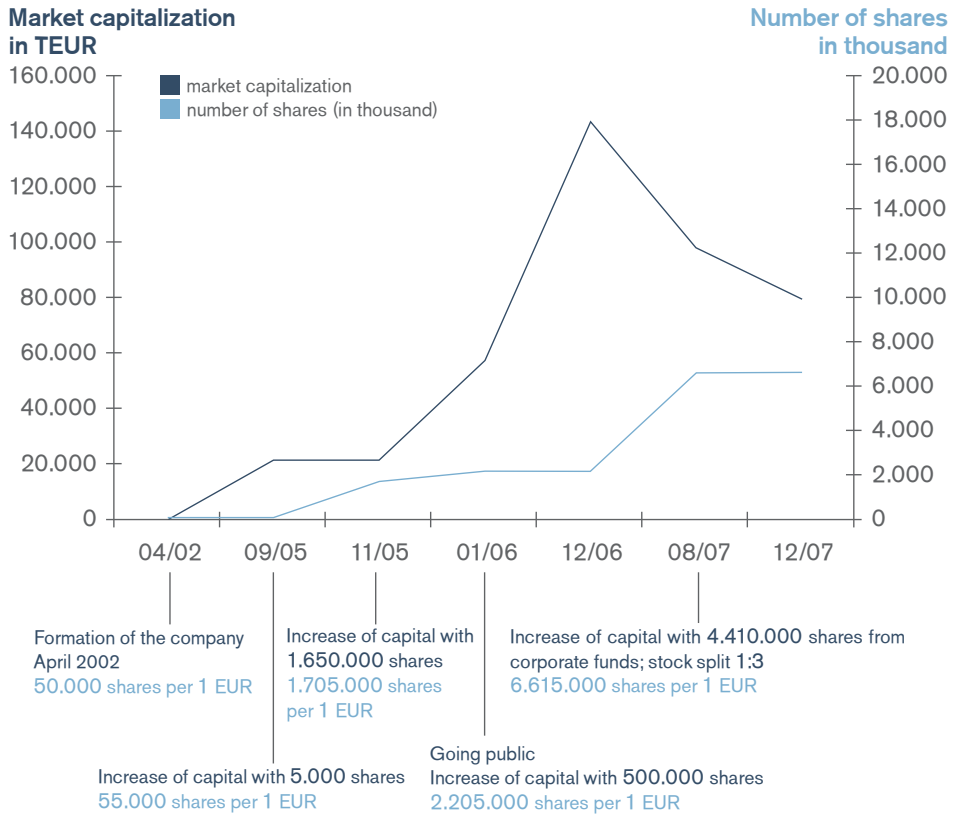
Net cash



Deal size



Market capitalization and number of shares



Group key figures

	2007	2006	2005
Earnings in EUR million			
Group turnover	409,7	332,6	132,5
EBITDA (before dissolution of negative goodwill)	29,1	32,1	13,1
Group net result	5,2	31,5	8,5
- thereof dissolution of negative goodwill	8,9	19,2	16,5
Balance sheet in EUR million			
Equity	58,6	61,2	18,1
Total assets	277,4	232,4	100,0
Fixed assets	82,2	56,1	21,6
Cash flow in EUR million			
Cash flow from current operations	−4,9	15,5	−1,6
Cash flow from capital expenditure activities	9,7	−0,7	2,0
Cash flow from financing	−9,4	9,7	0,7
Cash and cash equivalents as of 31 December	57,2	53,6	24,1

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Letter to the shareholders

Dear shareholders and business associates,

BAVARIA Industriekapital AG continued its dynamic growth in fiscal 2007. The net income for the year rose by 70% to EUR 23.2 million, allowing the Executive Board and Supervisory Board to propose a dividend payment in the amount of EUR 3.00 per share to the General Shareholders' Meeting. This corresponds to a tripling of the payout compared to the dividend of EUR 1.00 per share in the previous year. In the year before that, the dividend was EUR 0.33 per share. The high cash flow and a corporate financing that gets by without external funds and its related costs make the far above average dividend payments possible.
The reported net income at BAVARIA Industriekapital AG indicates how successful we have been in the past in terms of running our business. It is determined by dividends earned and proceeds from portfolio disposals. In fiscal 2007, the successful disposal of the Hamba group in particular made a positive contribution. The operating results of the individual participations are included in the consolidated financial statements and provide a picture of the future earnings of the industrial holding.

The turnover of the Group increased by roughly 23% to EUR 410 million. As in the year before, the main pillar was the Kienle + Spiess group again with a sales revenue of EUR 237 million. Net income of the Group in 2007 was EUR 5.2 million against EUR 31.5 million for the previous year. In addition to the operating losses of the newly acquired companies Elfotec and Almec, the valuation of these companies at liquidation values - made for reasons of prudence - lead to special charges in an amount of EUR 18.4 million. The discontinuation of the business activities of Elfotec and the sale of Almec in April 2008 will create positive effects on income in fiscal 2008 of at least the same amount. Additionally, the net income for the year includes releases of negative goodwill which do not have an impact on liquidity in the amount of EUR 8.9 million (previous year: EUR 19.2 million).

The EBITDA of the Group (profit/loss on ordinary activities before amortisation and depreciation) before the release of negative goodwill adding up to EUR 29.1 million, was slightly below the previous year's figure of EUR 32.1 million. The companies that were acquired in prior years were able to increase their operating performance considerably compared to the previous year, based on the restructuring measures that had been implemented. The companies that were bought only recently, which are still in the red, made a negative contribution to EBITDA of EUR -5.2 million. This is typical for the business model of BAVARIA, which acquires companies with a difficult earnings position in order to restructure them on and to create a long term sustainable business. Since there are no profit transfer agreements in the BAVARIA Group as a matter of principle, the losses of the Group's subsidiaries have no economic impact at the level of the industrial holding.

In the segment Series Manufacturing / Automotive, the net income for the year

Liberty at thinking. Liberty at act. Liberty to dream.

of the Kienle + Spiess group and Fonderies du Poitou came to EUR 8.1 million and the EBITDA amounted to EUR 20.4 million. Almec, sold in April 2008, contributed a loss of EUR -19.3 million and EBITDA of EUR -3.1 million for the year. In the segment Engineering and Equipment Manufacturing, the aggregate net income of Langbein & Engelbracht, Hering and SwissTex amounted to EUR 2.5 million, with an EBITDA of EUR 4.4 million. The companies Steeltech and Hamba added EUR -1.3 million to the net income and EUR -1.1 million to the EBITDA up to the time of their sale. The segment Business Services, comprised of NEEF IT, the Elfotec group and - until it was sold - Alma Küchen, recorded a net income for the year of EUR -3.5 million and EBITDA of EUR -2.4 million.

The liquid funds in the Group added up to EUR 50.4 million at the end of the fiscal year. They rose further to EUR 63.1 million by the end of the first quarter of 2008. In addition, since the disposal of the Italian participation Almec in April 2008, the BAVARIA Group no longer has any liabilities to banks.

The progress of restructuring at our principal portfolio holdings was extremely satisfactory in fiscal 2007. This was made possible by a strong management team in close cooperation with our very dedicated employees. Extensive investments in new technologies and improvements of the operational processes were funded from the cash flow. The positive operating performance and the disposals of companies during the fiscal year allow us to increase the dividend to a total of EUR 19.8 million. In addition, we bought back shares in the amount of EUR 2.8 million through the end of the first quarter of 2008. Our employees participate in the success of the Group via a bonus scheme. Our acquisitions and restructuring team has been enlarged once again, we are therefore very optimistic as far as the current fiscal year 2008 is concerned.

A very active Supervisory Board with experience in the portfolio management business closely collaborates with the Executive Board for the benefit of our Company. We would like to take this opportunity to expressly thank our Group employees – approximately 2,800 during the year 2007 – and our managing directors for their successful work. We thank our shareholders and business associates for the confidence they have extended to us. We continue to welcome any suggestions, improvement proposals and information on potential acquisitions that you might have.

Kind regards,

Reimar Scholz
Chief Executive Officer

Introduction of the organs

Executive Board

Herr Dipl.-Kfm. Reimar Scholz
MBA (INSEAD, Fontainebleau)

Spokesman for the Executive Board
Born in 1965, business graduate, MBA (INSEAD, Fontainebleau)
Reimar Scholz is Chief Executive Officer and founder of BAVARIA Industriekapital AG. The Diplom-Kaufmann has worked in various senior management positions at General Electric in the United States and England. After that, he was managing director of two IT companies. One of them, Articon Integralis AG, was floated on the stock market by Reimar Scholz and turned into the European market leader for IT services as a result of additional acquisitions.

Robin Laik (departed)
Member of the Executive Board, Chief Financial Officer (until 13.07.2007)
Born in 1972, business graduate
Robin Laik was member of the Executive Board of BAVARIA Industriekapital AG and Chief Financial Officer from July 2006 to July 2007.

Jan C. Pyttel (departed)
Member of the Executive Board, Portfolio Company Management (until 31.03.2007) Born in 1965, business graduate
Jan C. Pyttel was member of the Executive Board of BAVARIA Industriekapital AG until 31.03.2007.

Supervisory Board

Dr. Matthias Heisse, attorney, Munich
Chairman of the Supervisory Board
Co-founder and managing partner of the corporate law firm Heisse Kursawe Eversheds.

Bernard Jan Wendeln, businessman, Munich
Deputy Chairman of the Supervisory Board
Managing director of Vermögensverwaltung Wega Support GmbH and prior to that investment manager at the Munich office of APAX Partners.

Dr. Gernot Eisinger, businessman, Munich
Member of the Supervisory Board
Co-founder and managing partner of Afinum, a medium-sized holding company, and prior to that partner of Triumph-Adler AG as well as managing director of TA Spezialbauholding.

Report of the Supervisory Board
(on the fiscal year from 1 January to 31 December 2007)

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 six Supervisory Board meetings took place on 22.03.2007, 02.04.2007, 25.05.2007, 18.06.2007, 22.08.2007 and 05.12.2007. Outside of formal meetings, the Supervisory Board passed resolutions by phone or electronic communications, e.g. on 13.07.2007, 26.07.2007, 19.09.2007 and 21.12.2007. In addition, the Supervisory Board regularly exchanged information and opinions with the Executive Board members. The Chairman and the members of the Board also discussed issues and questions of material importance with the members of the Executive Board outside of normal meetings.

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. Together with the Executive Board, it prepared a report for the Supervisory Board focussing on the subjects of the funding of the Company, risk management and development of the portfolio companies and acquisition processes. Moreover, fundamental 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 in the market and competitive environment – were discussed together with business transactions of prime importance for the Company. Measures requiring the approval of the Supervisory Board were dealt with by this board as part of its control and advisory functions.

1. Focus of deliberations of the Supervisory Board

Focus of deliberations of the Supervisory Board

- Business developments of the Group and AG, budgets and the status of the acquired portfolio companies;
- Fundamental questions with respect to corporate policies, such as the introduction of an early risk detection system and the structuring of transaction processes, including formal issues such as the necessity of amendments to the articles of association and the drawing up of internal regulations;
- Important topical issues, especially concerning the strategic orientation of Bavaria Industriekapital AG, the business development and personnel matters, focussing particularly on the optimisation of the structure of the Company and the implementation of appropriate remuneration schemes.

2. Year-end and consolidated financial statements, audit, corporate governance

The accounting procedures, the year-end financial statements, the consolidated financial statements, 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 Codex. In each case, the auditor issued an unqualified audit certificate.

At its meeting on 08.05.2008, in which the auditor also participated, the Supervisory Board approved the audit findings after having reviewed 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 group management report and the proposal of the Executive Board on the appropriation of retained earnings.

Accordingly, on 08.05.2008 the Supervisory Board established the annual accounts of Bavaria Industriekapital AG for fiscal 2007 prepared by the Executive Board and approved the consolidated financial statements and endorsed the proposal of the Executive Board on the appropriation of profits.

The Supervisory Board has dealt with the further development of the corporate governance guidelines at the Company. The Company endeavours to implement all mandatory requirements of the codex (as amended) – even if on a voluntary basis only – unless there are grave objections in particular cases; this also applies to the own efficiency assessment carried out on the part of the Supervisory Board. In the past fiscal year 2007, there have been no conflicts of interest among the members of the Supervisory Board, whereas reference is made to the advisory activity of the Chairman which has been approved by the Supervisory Board; authorisation of the performance of services by his law firm for the Company has been granted by the Supervisory Board – with the Chairman abstaining from voting. All members of the Supervisory Board have attended the meetings of the Supervisory Board. In view of its small size, the Supervisory Board has not set up any committees.

3. Personnel matters

There have been no changes on the Supervisory Board of the Company during the fiscal year 2007.

Mr. Jan Pyttel and Mr. Robin Laik left the Executive Board during fiscal 2007.

4. General Shareholders' Meeting of Bavaria Industriekapital AG in fiscal 2007

The regular General Shareholders' Meeting of Bavaria Industriekapital AG took place on 25 May 2007. The resolutions passed included paying out a dividend of EUR 3.00 per share from retained earnings to the shareholders, authorising the Executive Board to acquire treasury stock through the

Company, and to carry out a stock split in order to increase the liquidity of the Company's shares.

The Supervisory Board wishes to thank the members of the Executive Board, all staff members of the Bavaria Industriekapital AG Group and workforce representatives for their commitment and work performed in fiscal 2007. The Board wishes you every success for the further development of the Company during the new fiscal year.

Munich, 8 May 2008

On behalf of the Supervisory Board

Dr. Matthias Heisse
– Chairman –

The Bavaria share

While investors, especially institutional investors, preferred investments with a large market capitalisation and above-average liquidity during the past year, causing the DAX index to rise by 22%, they reduced their investments in smaller-sized companies. This is demonstrated by the trend in small- and medium-caps: The SDAX finished the year with a loss of almost 8%, and the Entry Standard All Share Index, which represents mostly small public limited companies, dropped approximately 23% in 2007.

The development of the share price of Bavaria Industriekapital AG was unable to elude this unfavourable environment. Good corporate news and the very good results of fiscal 2006, as well as the pleasant development of a number of participations were reflected in the share price trend only for a short period of time. The shares finished the year 2007 at EUR 11.95.

Facts & figures on the share

Number of shares	6.615.000 Stück
Share type	Bearer share certificates
Share capital	EUR 6.615.000
Voting rights	Each share has a vote entitlement
WKN	260555
ISIN	DE0002605557
Stock exchange code	B8A
Stock exchange segment	Entry Standard
Fiscal year	Same as calendar year
Accounting	In acc. with HGB (Commercial Code)
Designated Sponsor	Equinet AG
Announcements	Electronic Bundesanzeiger (German Federal Gazette)
Top price (03.01.2007)	EUR 24,99
Lowest price (19.11.2007)	EUR 11,53
Closing price (31.12.2007)	EUR 11,95
Market capitalisation (31.12.2007)	EUR 79,0 Mio.
Earnings Holding per share	EUR 3,56 (fiscal year 2007)
Dividend per share	EUR 3,00 (fiscal year 2007)

Corporate Governance — Statement of compliance 2008

Bavaria Industriekapital AG puts a great emphasis on sound corporate governance rules. Although the company is not listed on the stock exchange and thus is not obliged to comply, the board of directors and the supervisory board of Bavaria Industriekapital AG have announced that they have always complied with and will always comply with the recommendations of the government commission „German Corporate Governance Codex“ published by the Federal Ministry of Justice in the official part of its electronic federal bulletin of June 2007 along with the following exceptions:

Board of Directors

Differing from cipher 4.2.1 of the codex the board of directors has not consisted of several persons during the year under report, due to personnel fluctuations. However, in future Bavaria Industriekapital AG would like to optimize its business on board level by involving several persons.

The individual disclosure of the board election as demanded by the Codex according to cipher 4.2.4 will not be implemented. Bavaria Industriekapital AG is convinced that such a disclosure would be contradictory to the protection of personal rights. Everyone has to respect the individual decision of every single board member.

Supervisory Board and Committees

Differing from cipher 5.1.2 of the Codex there won’t be any long-term planning regarding successors of the board to this moment, due to the age structure of the board. Therefore, they have renounced to set an age limit for the board members so far.

Differing from cipher 5.3.1, 5.3.2 and 5.3.3 of the Codex the supervisory board of the company does not form committees, since the size of the company and the size of the panel do not make it possible or a proper thing to do.

Financial Statement

Differing from the recommendation found under cipher 7.1.1 the company currently wants to stick with its financial statement according to the German commercial code and do not make its accounting meet the IFRS regulations, for such an adjustment would not be a benefit in the light of time and cost efforts involved at the moment.

So far, the company refrains from an explanation in its consolidated financial statement and possible relations to shareholders in terms of applicable financial statement regulations which foresee close persons to be outlined, as stated under cipher 7.1.5, because there is no legal obligation.

Munich, May 8th 2008

Board of Directors

Supervisory Board

Corporate Governance — Report

BAVARIA Industriekapital AG complies almost fully with the high German standards

Pursuant to item 3.10 of the current German Corporate Governance Codex, the Executive Board and Supervisory Board report on the corporate governance at BAVARIA Industriekapital AG as follows:

The "Regierungskommission Deutscher Corporate Governance Kodex" [Government Commission German Corporate Governance Codex] established by the Federal Ministry of Justice in September 2001 has adopted the German Corporate Governance Codex ("codex") on 26 February 2002 and passed various amendments to the codex, most recently on 14 June 2007. The codex makes recommendations and suggestions with respect to the management and control of publicly quoted German companies. It takes its cue from internationally and nationally recognised standards of good and responsible corporate management.

The Executive Board and Supervisory Board of BAVARIA Industriekapital AG herewith report voluntarily – since the terms of § 161 of the Stock Corporation Act [AktG] do not apply to BAVARIA Industriekapital AG, which is not a publicly quoted company, but listed in the Entry Standard – on the implementation of the corporate governance guidelines at BAVARIA Industriekapital AG as follows:

Statement of compliance 2007

BAVARIA Industriekapital AG has issued its statement of compliance in 2007 with only the following deviations from the German Corporate Governance Codex:

Compensation report for the Executive Board and Supervisory Board

As of the fiscal year 2007, it is planned to report annually on the compensation scheme of the Executive Board in the corporate governance report of the company. In this respect, the company deviates from item 4.2.5 of the codex for fiscal 2006. The company believes that the mandatory statements pursuant to § 285 of the German Commercial Code [HGB] are principally sufficient for this report. This also applies to the compensation scheme of the Supervisory Board. In this respect, the company deviates from item 5.4.7 of the codex for the fiscal year 2006.

Executive Board

Differing from item 5.1.2 of the codex, there is currently no long-term succession plan yet for the Executive Board, due to the age structure of the Executive Board. The recommendation is to be implemented in the near future.

Committees

Differing from items 5.3.1 and 5.3.2 of the codex, the Supervisory Board of the company does not form committees, since the size of the company and the size of the panel do not permit or make it practical to implement such a step at this time.

Rendering of accounts

Differing from item 7.1.1, the company currently wants to continue rendering its accounts in accordance with the German Commercial Code and to refrain from preparing the accounts in accordance with the IFRS regulations, since such an adjustment would not provide an added value at this time in light of the extra time and cost expenditure involved.

Differing from item 7.1.5, the company refrains from adding an explanation to its consolidated financial statement in respect of possible relations with shareholders that should be classified as related parties within the meaning of the applicable accounting rules since there is no legal obligation to do so.

Notifications pursuant to §§ 15a, 21 seq. of the Securities Trading Act [WpHG]

Differing from item 6.6 of the codex, the company wants to continue using the statutory regulations according to which these requirements only apply to publicly quoted companies.

Executive Board and Supervisory Board

The Executive Board manages the company on its own authority. It is solely bound by the interest of the company and takes its cue from the objective of a sustained increase of the enterprise value. The Executive Board of BAVARIA Industriekapital AG formally consists of one person at present. The internal regulations enacted by the Supervisory Board govern the distribution of responsibilities and the collaboration on the Executive Board. The Executive Board informs the Supervisory Board regularly, promptly and comprehensively about any issues concerning the planning, business development, risk situation and risk management that are relevant to the company.

The Supervisory Board advises and controls the Executive Board in the management of the company. In accordance with the articles of association, the Supervisory Board consists of three members. The Supervisory Board discusses the quarterly reports and reviews and approves the annual accounts and consolidated financial statements of BAVARIA Industriekapital AG. The details of the collaboration between the Executive Board and the Supervisory Board, as well as the approval reservations for the activity of the Executive Board, are governed by the internal regulations of the Executive Board and Supervisory Board; the internal regulations of the Supervisory Board furthermore govern the duties of the Supervisory Board. Elections for the Supervisory Board last took place at the General Shareholders' Meeting of 5 September 2006.

The Executive Board and Supervisory Board collaborate closely and trustingly for the benefit of the company. All important business transactions are jointly dealt with. The members of the Executive Board and Supervisory Board disclose any possible conflicts of interest to the Supervisory Board.

Shareholders and General Shareholders' Meeting

Our shareholders are regularly apprised of the business development and the total net worth, financial and earnings position in our quarterly and annual reports according to a financial calendar which is available on the

Internet from our website www.baikap.de.
In connection with our investor relations activities, we conduct regular meetings with analysts and shareholders.

The organisation and realisation of the annual General Shareholders' Meeting is carried out with the proviso that all shareholders are to be informed speedily, comprehensively and effectively before and during the meeting and that the exercise of their rights must be facilitated. This includes the provision of the usual services for granting a power of attorney and voting instructions in connection with the General Shareholders' Meeting. The General Shareholders' Meeting passes resolutions on all matters assigned to it. Shareholders may submit counterproposals to the resolutions proposed by the management; under certain circumstances, they also have the right to contest resolutions of the General Shareholders' Meeting. The last General Shareholders' Meeting of BAVARIA Industriekapital AG took place on 25 May 2007.

Compensation report
Clear compensation structures for the Supervisory Board

Pursuant to § 12 para. 2 of the articles of association of the company, the General Shareholders' Meeting decides about the amount of remuneration, if any, payable to the members of the Supervisory Board. Accordingly, the fixed payment currently amounts to EUR 10,000.00 p.a. plus VAT. The remuneration of the Chairman of the Supervisory Board is twice this amount.

The performance-based remuneration of the members of the Supervisory Board as provided for in item 5.4.7, paragraph 2, of the corporate governance codex is granted in the form of convertible debentures. In accordance with the resolution of the General Shareholders' Meeting of 5 September 2006, the Executive Board has been authorised to grant a total of 16,500 convertible debentures (after the share split: 49,500 units) to the Supervisory Board. The convertible debentures were allotted and taken up in full (in December 2006); each convertible debenture entitles the holder to subscribe to one BAVARIA share. The conversion price corresponds to a specific average price at the time of allotment. The conversion rights may be exercised no earlier than two years after the issuance of the convertible debenture ("minimum waiting period"). The minimum waiting period expires on conclusion of the first anniversary of the issue date. The conversion does not depend on the achievement of additional performance goals.

In aggregate, the Supervisory Board received a statutory remuneration of EUR 40,000.00 during the last fiscal year, allocated as follows:

Dr. Matthias Heisse (Chairman)	EUR 20.000,00
Bernard Jan Wendeln	EUR 10.000,00
Dr. Gernot Eisinger	EUR 10.000,00

In addition, the following other payments from consulting agreements were granted to the members of the Supervisory Board during the last fiscal year:

EUR 157,237.44 for legal advice to the law firm of Heisse Kursawe Eversheds, Munich.

Remuneration of the Executive Board

The remuneration of the members of the Executive Board includes both fixed and variable components. It amounted, in aggregate, to EUR 975,477.04 during the last fiscal year. Of this total, EUR 245,477.04 were fixed and EUR 300,000.00 were performance-based payments, and EUR 430,000.00 were accounted for by indemnities set aside in the fiscal year. The performance-based payments (31% of the total remuneration) essentially take their bearings from the number of corporate acquisitions and disposals successfully completed during the business year, an index that reflects the economic situation, the performance and the future perspectives of the Company as an enterprise that operates in the portfolio management business. Payments to individual members of the Executive Board are not disclosed. BAVARIA Industriekapital AG is of the opinion that such a disclosure would be contradictory to the protection of personal rights; the individual decision of every single member of the Executive Board must be respected here. In addition, there is a stock option programme in accordance with the recommendations of the codex which serves as a remuneration component with long-term incentive effect. Details of the programme are described below.

Information on stock option programmes

Information on our stock option programme are included in the appendix to the 2007 annual report. In addition, information on the current status of the stock option programme is available on our website (www.baikap.de).

Transparent communications

In order to ensure as much transparency as possible, we intend to provide the same information at the same time to all target groups. Both institutional and private investors can obtain timely information on recent developments at the Group via the Internet. All press releases as well as the articles of association of the Company are published on our website. Rendering of accounts and audit of the annual accounts

Rendering of accounts and audit of the annual accounts

PWC Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, was appointed as auditor of BAVARIA Industriekapital AG for the fiscal year 2007. It will promptly notify the Chairman of the Supervisory Board of any grounds for disqualification or bias that emerge during the audit. The auditor will also promptly report on any discoveries and events that are essential for the responsibilities of the Supervisory Board and turn up during the audit. In addition, the auditor will notify the Supervisory Board if it discovers any facts in the course of the audit that are not compatible with the compliance statement issued pursuant to § 161 of the Stock Corporation Act [AktG] by the Executive Board and Supervisory Board.

Introduction of BAVARIA Industriekapital AG

BAVARIA Industriekapital AG is an industrial holding company which considers itself above all to be a partner of industrial groups. Our business strategy is to take over those marginal activities that offer more development potential as autonomously managed entities. We focus on the acquisition of companies that are based in Western Europe, have a turnover of at least EUR 50m (provided that we do not have a stake in the industry yet) and offer the possibility for an increase in earnings.

Why do corporate groups sell to BAVARIA?

A sale has two simultaneous advantages for the previous owner. Firstly, the seller can focus on its actual core business to a greater degree again, and secondly, in BAVARIA Industriekapital AG the company has found a long-term investor who better unlocks the potentials of the company and who safeguards the jobs of the workforce. Thus, BAVARIA successfully acquires interests in difficult industries, such as the cyclical engineering and equipment manufacturing sector or automotive suppliers who suffer from higher prices for raw materials. Those industries are often avoided by other investors – such as financial investors – because the latter focus on a quick disposal.

Why does BAVARIA think it can improve the earnings situation?

Many companies can operate more successfully as autonomous entities. The reason for this is frequently that they were neglected as a non-core activity in a corporate group and did not get the necessary attention, but at the same time were burdened by all the disadvantages of corporate groups, such as slow decision-making processes and extensive reporting requirements. Even prior to closing a transaction, BAVARIA establishes a specific action plan which is then implemented jointly with the management team. The management team shares in the success; this strengthens the role of the senior executives as "entrepreneurs". Experts at BAVARIA support the management on site and help with the rapid implementation of the measures. It speaks for BAVARIA that even companies with several years of losses behind them have been returned to profitability within a short period of time.

What is the basic philosophy of BAVARIA?

BAVARIA believes in the potential and the initiative of every employee. All unnecessary ballast, such as a cumbersome reporting system or a bloated administration, must be eliminated. This is the only way to impart the feeling that everybody counts. Many companies that operate within a corporate group act more like dependent departments, with a loss of entrepreneurial decision-making. Instead of thinking about customer desires or improvements in the operating procedures, much effort is devoted to pondering how to enhance the tax structure of the group. Every successful company ultimately functions like a well-run household: One cannot spend more than what one earns. Every well-managed craftsman's establishment and self-employed contractor demonstrates that the customer is king and speed is the key. These are virtues that can easily get lost in the environment of a corporate group

with lots of committees. The works council has an important function as mouthpiece and representative body of the workforce.
However, allowing for all justified demands of the workforce for fairness and fair wages, one must not forget that it is the customer who has to purchase and finance the services of the company.

What is the most important benchmark of a successful restructuring for BAVARIA?

A successful restructuring can be measured primarily by the change of the net funds. The trend of the liquid funds after deduction of all financial liabilities is the objective indicator for the performance of the company. Corporate earnings are frequently determined by the subjective assessment of the value of the acquired assets and the amount of the necessary provisions for impending restructuring measures. Many a putatively successful restructuring specialist has enhanced his ongoing performance by making considerable value adjustments at the time of acquisition so as to be able to realise paper profits later on. However, as long as the loss of liquidity continues, no operational improvements have been brought about. The Enron debacle – elevated accounting profits with a continued loss of liquidity – should be a warning to every shareholder. Multiple changes in the investment portfolio and acquisitions with negative goodwill also open up dubious leeway. In contrast, since 2004 the financial resources (liquid funds including securities held for a short period) of BAVARIA Industriekapital AG rose from EUR 0.2 million to EUR 28.5 million as at 31.12.2007, in spite of all the additional purchases. Overall, the IPO only contributed a net amount of EUR 5.2 million to this, if one takes into account the funds returned to the shareholders as dividends and through share buybacks.

What is BAVARIA particularly proud of?

BAVARIA is proud that the employment trend at its portfolio companies is positive again after frequently unavoidable staff retrenchments for efficiency reasons: While there was often no alternative to the closing of unprofitable businesses prior to the takeover by BAVARIA, as a rule it was possible to increase the number of employees once the initially required adaptation of staffing levels had been made. For example, the head count at the engineering and equipment manufacturing firms increased from 319 to 337 employees since 2005. At the K+S group and the other companies, the number of employees dropped marginally from 2.083 to 2.019 since 2005. However, BAVARIA expects a significant jump in staff levels in the future.

Case study — Kienle+Spiess

Interview with Herr Dr.-Ing. Kristian Schleede

1. Please give us a brief overview of the business segment of the K+S group.

K+S operates throughout Europe in the production, development and sale of core components for electric drives and generators. We have four plants in three countries, employ a staff of 1500 people and generated a total turnover of approximately EUR 240m in 2007. This makes us one of the leading suppliers in this industry.

2. What are the strengths of the company?

With 70 years of experience, K+S is one of the market leaders in Europe. This track record can be attributed to a number of different factors and decisions, including the broadly positioned product range as well as the continuous further development of the K+S production system. In addition, we invest in technical know-how and innovative technologies on a regular basis. In this context, our strong cooperation with the development institute of Dr.-Ing. Ernst Braun GmbH is of particular importance. We are jointly setting new industry standards here over and over again.

3. What were the most important milestones for you in 2007?

Thanks to a good order situation, we succeeded in finally returning to profitability again after five successive years in the red. This earnings turn-around and important innovations such as "Glulock" and "Geodrall" also allowed us to reclaim the necessary confidence of our customers. Moreover, the performance improvement projects initiated in 2005 were implemented successfully and the tough restructuring measures were completed with the closing of the plant in Ellesmere Port.

4. What in fact is Glulock and what do you expect from it?

"Glulock" is a new assembly process developed at K+S which is integrated into the stamping process whereby the sheet metal plates are automatically bonded together. We want to offer an interesting approach here in order to be able to meet the permanently growing market requirements in the area of electric drives. For example, this process makes it possible to reduce the iron losses in the finished product by up to 9%. Along with this module for energyefficient drives, "Glulock" also gives our customers an unprecedented degree of freedom with respect to the product design.

5. Where do you see K+S in 5 years and what do you consider to be the major challenges to get there?

I see us as the number 1 in Europe with a solid lead against our competitors In order to get there, we have to grow increasingly both internally and externally. This involves, among other things, the creation of the first manufacturing location outside of Europe, for example in Asia. Over the short term, the major challenges are the generation of additional turnover by expanding our Eastern European distribution activities, the further development of the K+S production system to enhance our productivity, the introduction and successful implementation of a new ERP system throughout the group for more transparency, and the successful completion of the restructuring in the UK.

6. What role did the works council play in the successful restructuring?

Unfortunately, it was impossible to avoid manpower adjustments in the restructuring. We entered into two collective pay agreements for the restructuring in Germany and England, with the negotiations taking place in an objective and constructive atmosphere. The special challenges in Germany consisted of replacing already existing agreements. The plausible restructuring concept of the senior management convinced the works council and the trade union to go for a speedy solution.

7. Are "Lean Manufacturing" and "Toyota Manufacturing System" (TPS) for K+S only slogans or are the methods actually being used?

We take these methods very seriously. The goal is to further expand our strengths in manufacturing for the benefit of our customers. The tools and methods of these concepts from the Japanese automotive industry that are sensible for K+S are being paired with our long industry experience and thus result in the new and customised K+S production system.

8. What role is being played in the future strategy by the locations in Hungary and England, and do you think that the jobs in Sachsenheim are at risk?

Both locations primarily serve their respective local markets. The British factory depends on the demand in Northern Europe and America. We consider its future market position to be stable. Due to the general growth in Eastern Europe, we expect that the plant in Hungary will continue to grow significantly. With its automated series production business on the one hand and the time-critical project business on the other hand, Germany has two main pillars to serve its customers in Western Europe. If we succeed here in convincing our customers through service and quality, then both areas have solid potential for the future.

Case study — Langbein & Engelbracht

Interview with Herr Dr.-Ing. Peter Engelmann

1. What does your company do, by the way?

Langbein & Engelbracht was founded in 1934 as a manufacturer of industrial fans. In the meantime, we have advanced from a former craft shop to a globally successful engineering firm. Our main business segments include the engineering and design of complete systems and plants for various industry sectors. Our product range includes hoods, dryers, thermal reactors, steam and condensate systems for paper technology as well as heat recovery systems. We do not manufacture mass-produced articles, but offer standardised modular solutions which are tailor-made for our customers.

2. What were the major challenges in 2007?

After increasing the turnover and order intake by 30% from 2006 to 2007, it was very important to adapt the engineering and its execution to the heightened demands. Further challenges included the consolidation of international partnerships to ensure quality and deadlines, the buildup of an additional local manufacturing and assembly capacity in China and the conversion of new product developments into actual sales.

3. What makes you particularly proud?

First of all, the entire company and every single employee. In addition, it makes me proud to be a respected, reputable and reliable supplier for our customers, and to have created and safeguarded jobs through the forward-looking orientation of the company.

4. Where do you see the biggest opportunities for L&E in the future?

I think that we have not by far exhausted our potential yet. We view the Eastern countries, especially Poland and Russia, as principal future growth markets. But the Asian market is also increasingly interested in our products. What's more, the stricter legal framework for the protection of the environment will also be beneficial to us in the traditional markets in Europe, since there will be greater investments in heat recovery, waste disposal, exhaust air purification and efficiency improvement.

5. How important are the employees for your success?

Very important. It is impossible to be successful without skilled, reliable, and committed employees. As I mentioned, we do not offer mass-produced, off-the-shelf products. The joint accomplishments are influenced by the performance of each individual. As such, we attach great importance to the satisfaction of our employees and to measures for their promotion and advanced training.

6. How do you exploit market opportunities in Asia, and do you consider jobs in Germany to be potentially at risk as a result of this?

On the contrary. We thoroughly prepare for every market entry. We are aware of the fact that it is only possible to sell products with a local market presence. Knowledge of the mentality and the market is a further crucial requirement. In the case of a new market entry, for example in China, we try to expand our local presence step by step. While a local subsidiary eventually takes over the local sourcing at the end of such a process, the basic engineering, i.e. the construction management and the responsibility for the commissioning of the facilities, remains in Germany. Therefore the need for skilled manpower increases here, since the market simply becomes bigger.

7. What makes your new developments so successful?

In my opinion, the way you approach such a development is very important. For example, let's take one of our latest innovations – the residual material drying system for the paper industry. We have developed it together with our customers for the demand of the future. Only in this way could we make sure that our ideas are implemented in accordance with the needs of the market.

8. What actually is a residual material dryer?

This system is particularly interesting for paper factories. The waste paper recycled there contains up to 8% residual materials that cannot be salvaged and have to be separated and disposed of. Due to the high moisture content of the residual materials, problems during the incineration can occur. In addition, there are frequently higher transportation and disposal costs involved. With the residual material dryer, we have now developed a systems solution that reduces these residual materials to small pieces and dries them, utilising the existing process waste heat.

9. What is your view regarding the image of your company (or: how do you see yourself positioned)?

I regard us as a flexible, forward-looking and very customer-oriented company which stands, first and foremost, for quality, reliability, safety and trust. Furthermore, the issue of environmental protection is of crucial significance at our company. We want to live up to this responsibility by means of innovative technologies, procedures for heat recovery and the development of ecological, durable and cost-saving products.

Case study — SwissTex

Interview with Herr Dipl. El.-Ing. ETH Hans Peter Locher

1. Can you explain briefly what SwissTex does?

SwissTex operates worldwide and is one of the leading manufacturers of production machinery for filament yarns. Our customers need these yarns for the production of home textiles such as carpets and furniture, automotive parts such as safety-belts, but also for other technical applications such as conveyor belts and sports equipment. Our most important markets include Europe, including Eastern Europe and Russia, North America, the Middle East, Southeast Asia and China.

2. What were the specific challenges in taking over SwissTex?

First of all, it was very important to increase the high profile of the SwissTex brand. Thanks to the newly launched products, a largely remodelled distribution organisation and a service offensive, we succeeded in positioning SwissTex as an innovative, customer-oriented and successful company. This also made it possible to demarcate ourselves very clearly from our past under Rieter. Another challenge was to separate SwissTex as the former "FYT Department" from the Rieter organisation with its various central service functions such as IT, logistics and accounting, and to set it up autonomously. We gave ourselves one year to accomplish this and did so by the end of 2007.

3. How will the cooperation with the former shareholder Rieter proceed?

Rieter has remained one of our most important suppliers with the location in Winterthur and its subsidiaries in Germany and the Czech Republic. The entire infrastructure of SwissTex is a tenant at Rieter. Fortunately, the cooperation turns out to be very professional and collaborative. Furthermore, the good personal relationships help us in the day-to-day business.

4. Have there been any changes in the attitude of the employees?

We succeeded in a relatively short time to awaken the so-called "fighting spirit" among our employees which is crucial for a medium-sized enterprise like SwissTex. Our employees appreciate both the significant increase in responsibility and the greater opportunities for involvement for everyone.

5. What about the new "symTTex" system, how is the acceptance by the customers?

The market launch of the "symTTex" system with the commissioning of several units at three European industry leaders was a great success. We expect to receive the first follow-up order from one of these customers as early as this year. In addition, we already received our first order from China at the beginning of 2008. It is important to mention in this context that "symTTex" does not represent only a new system for us, but also a new technology platform for older system types and upgrades from existing units. This is particularly important for those customers who plan expansion and modernisation investments but do not yet want to invest in completely new systems. Such customers can be introduced step by step to the "symTTex" technology.

6. What are your goals for 2008?

We want to increase our market share and substantially improve the profitability of SwissTex.

GROUP MANAGEMENT REPORT

EACH INDIVIDUAL COUNTS!

I. General conditions and business

1. Overall economic conditions and market

The growth of the gross domestic product in the entire euro zone was 2.6% in 2007 as against 2.8% in 2006. In 2007, the German economy continued to be in good health and grew by 2.6%, following a GDP increase of 2.9% in 2006. However, the crisis that gripped the financial markets in the summer of 2007 led to a weakening of the global business environment that is so important to the traditionally heavily export-oriented German economy. Nevertheless, the German Council of Economic Experts expects an increase of the GDP by 1.9% in 2008 in connection with the positive parameters of the current year (source: Annual Report 2007/08 of the German Council of Economic Experts).

There is the worldwide threat of a reemergence of inflation, however, given that the rising domestic demand in China is leading to a global surge of commodity prices. As a consequence, wages will also increase in China and the yuan is expected to appreciate. The result of this is the disappearance of the global deflationary effect caused by the growth of Chinese exports. As a consequence, wages and salaries in Western Europe and particularly in Germany are likely to increase more strongly again. Rising factor costs and higher interest rates are going to mean that the period of continuously rising corporate profits should also come to an end in Europe. For our existing portfolio companies, this means growing cost and margin pressures; thus, we will endeavour to further improve the efficiency at our already restructured and profitable companies and to leverage additional synergy potentials, for example in the purchasing area.

In 2007, the competition for companies and capital as well as the number of firms operating in our market segment continued to intensify and grow further. Last year, we also noted a significantly keener, but in part rather critical perception of the portfolio investment business. The increased attention is nevertheless helpful for us: The acceptance which we gained among trade unions and works councils, especially as regards the difficult issues of staff reductions, is a factor – besides the stock exchange listing – contributing to our ability to successfully close transactions.

By virtue of our track record in the restructuring and rehabilitation of companies, new acquisitions should continue to be an important source of BAVARIA's growth, despite the increasing competition in the German-speaking area. After having made a portfolio adjustment with five disposals last year, we expect to carry out additional purchases again in the future. Apart from our traditional business of acquiring companies with improvement potential (EBIT margin under 3%), we also consider to grow more and more through "add-on" acquisitions at existing affiliated companies.

We are convinced that BAVARIA will continue its successful track record in 2008, too. The preconditions for this exist. Western Europe and the German-speaking area in particular remain an important and interesting growth market for BAVARIA.

2. 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 the 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.

II. Development of the Company

BAVARIA Industriekapital AG is the parent company of the BAVARIA Group: it is directly or indirectly involved in all of the BAVARIA Group activities. As in the year before, BAVARIA Industriekapital AG was almost exclusively financed from equity in fiscal 2007. In the year under review, the shareholders' equity of the Company rose from EUR 28.8m to EUR 45.4m as of 31.12.2007, despite a distribution to the shareholders in the amount EUR 6.6m.

To measure the success of our activities, we use the change in the net cash position of BAVARIA Industriekapital AG as benchmark. This gives the following picture:

Change in net cash position 2007 (in EUR million)	
Operative cash flow	
Net income	23,2
Increase in accruals	1,6
Other non-cash expenses	4,7
Income from the disposal of fixed assets	–18,0
Change in receivables and other assets	–6,7
Change in liabilities and other liabilities and equity	–1,2
	3,6
Cash flow from investment activities	
Deposits from the sale of consolidated companies and other business units	+12,8
Disbursements from the acquisition of consolidated companies and other business units	–0,1
Disbursements for investments in financial assets	–0,4
	12,3
Cash flow from financing activities	
Payments for dividends to shareholders	–6,6
	–6,6
Cash-settled changes of the cash & cash equivalents	9,3
Cash & cash equivalents at the beginning of the period	19,2
Cash & cash equivalents at the end of the period (liquid funds including securities)	**28,5**

After the deduction of the financing activities (dividend distribution), the net cash position of BAVARIA Industriekapital AG improved by EUR 15.9m. In relation to the number of shares on the balance sheet date (6,615,000 shares), this is equivalent to an improvement of EUR 2.40 per share (previous year: EUR 2.70 per share).

Development of the investment portfolio

Five successful disposals of companies or groups of companies in 2007 allowed a definite adjustment of the portfolio. Additional purchases were primarily made in our core industries, namely plant engineering and construction and the automotive/series business.

The following companies left the investment portfolio during the year under review: Alma Küchen, Steeltech, Paulmann & Crone, Hamba Gruppe, as well as Rifometal, a company that had only been acquired in 2007 as part of a conglomerate.

The following companies were acquired during the reporting year: Fonderie du Poitou Aluminium S.A.S. and Fonderie Alulinium de Cléon S.A.S. in France, and Almec S.p.A. and Rifometal S.p.A. in Italy.

Details about the individual companies are included in section "III. Investment portfolio".

Capital increase and stock split of BAVARIA Industriekapital AG

The General Shareholders' Meeting of 25 May 2007 passed a resolution on the increase of the subscribed capital from company funds by EUR 4,410,000.00. The entry in the Register of Companies took place on 26 July 2007, the capital increase is therefore regarded as implemented.

Likewise, a stock split in connection with the capital increase was adopted by a resolution of the General Shareholders' Meeting on 25 May 2007. The official listing for the shares of BAVARIA was converted from the previous unit at the rate of 1 : 3 as of Thursday, 30 August 2007, i. e. one old no-par share is now equivalent to three new no-par shares.

Dividends and share buybacks of BAVARIA Industriekapital AG

On account of the resolution passed at the General Shareholders' Meeting of 25 May 2007, a dividend in the amount of EUR 3.00 per share for the fiscal year 2006 has been paid. Following the stock split, this corresponds to a dividend per share of EUR 1.00. For the fiscal year 2007, the Executive Board wishes to propose a dividend of EUR 3.00 per share to the General Shareholders' Meeting. This will increase the amount to be distributed from EUR 6.6m to EUR 19.8m. In addition, 142,368 shares were repurchased for a total outlay of EUR 1.9m during the past fiscal year until 31.12.2007.

III. Investment portfolio
1. Series manufacturers / automotive

1.a Kienle+Spiess Gruppe

Acquired in Juni 2006
Senior management Dr. Kristian Schleede
Based in Sachsenheim, Bilston/UK, Tokod/Hungary

[EUR Mio.]	2005	2006	(of which consolidated in 2006)	2007
Turnover	204,9	226,7	(114,7)	237,3
EBITDA	-1,8	3,8	(13,4)	17,6
Employees	1.589	1.526	(1.526)	1.398

The Kienle+Spiess group is Europe's leading supplier of stamp and diecast components for constructing electrical machinery and generators. The development of business in 2007 was very positive for the group. The turnover rose by approximately 5%, with a significantly improved earnings situation compared to the previous year due to an enhanced product mix, among other things. In connection with the successful restructuring, the most important senior management positions were filled with new executives, the overhead costs were drastically reduced and the manufacturing locations were concentrated in the course of an extensive capital expenditure programme.

In the future, major growth impulses will be triggered by the introduction of the Toyota Manufacturing System and the newly developed patent "Glulock" which drastically improves the electrical properties of the motors and permits important efficiency advantages in manufacturing. For 2008, the group expects a roughly steady turnover with a further improvement of the earnings position.

1.b Fonderies du Poitou Aluminium SAS

Fonderie du Poitou Aluminium

Acquired in	October 2007
Senior management	Yannick Chouffot
Based in	Ingrandes sur Vienne / France

[EUR Mio.]	2005	2006	2007	(of which consolidated in 2007)
Turnover	106,4	101,6	103,7	(26,3)
EBITDA	–5,3	0,1	2,1	(2,8)
Employees	611	590	581	(581)

Fonderies du Poitou Aluminum specialises in the construction, development and production, as well as the distribution of aluminium cylinder heads and safety components. The lowpressure process ensures the adherence to the mechanical properties required for cylinder heads that are subject to high stress. The factory was extensively restructured in connection with the introduction of an operational performance measurement system. In connection with the newly initiated capital expenditure programme, we expect considerable further earnings increases in the future, with slightly lower sales revenues.

The other two plants of the French Teksid factories that were taken over in October 2007 have been sold in the meantime: Métaltemple in December 2007 to the Italian B4 Italia group and Fonderie Aluminium de Cléon in March 2008 to a subsidiary of Renault, its most important customer.

1.c Almec S.p.A.

Acquired in	August 2007
Sold in	April 2008
Senior management	Alessandro Orsi
Based in	Nusco / Italy

[EUR Mio.]	2005	2006	2007	(of which consolidated in 2007)
Turnover	80,3	87,0	45,6	(15,4)
EBITDA	4,1	0,2	–7,2	(–3,0)
Employees	283	284	267	(267)

Almec S.p.A., based in Nusco (Italy) is a producer of aluminium diecast parts such as clutch casings and gearbox housings for the automotive industry. The company supplies leading manufacturers such as General Motors, Getrag, Fiat and Piaggio. After the acquisition, the Rifometal subsidiary was successfully sold to Auto Piu3 S.r.l. in November 2007. With the help of the new management team, a dramatic efficiency increase was documented in the manufacturing area within the context of a pilot cell. If this proves itself in the permanent operation, a roll-out to the remaining 35 casting machines will be the next step. New orders have been placed since the takeover by important customers such as GM and Fiat. Also, a new certification pursuant to ISO 2000 was achieved.

The future development of Almec depends heavily on the future sales trend. Since this cannot be forecast with sufficient certainty, the accounts presentation for the preparation of the consolidated financial statements of BAVARIA was made, as a precaution, on the basis of break-up values as at the balance sheet date due to the uncertain situation. The consolidated operative EBITDA in the amount of EUR -3.0m does not include extraordinary expenditure in the amount of EUR 15.1m resulting from the inclusion of break-up values.

ALMEC was sold on 28 April 2008 (see “Events after the balance sheet date”).

2. Plant engineering and construction

2.a Langbein & Engelbracht

Acquired in Mai 2004
Senior management Dr. Peter Engelmann
Based in Bochum

[EUR Mio.]	2004	2005	2006	2007
Turnover	21,8	25,0	29,5	38,3
EBITDA	1,0	0,4	1,2	1,5
Employees	136	131	126	123

Langbein & Engelbracht GmbH with branches in Bochum and Shanghai/China is a company operating worldwide in plant engineering and construction with a focus on paper, surface and process technology. This firm with a rich tradition develops, manufactures and installs customised systems for well-known manufacturers in the automotive, chemicals, paper, plastics, packaging, wood processing and waste incineration industries. The completed reorientation towards the area of environmental and energy technology, the newly taken up production in Shanghai and a new, patented process for residual material drying will deliver important earnings impulses in the future. The development expenditure for the residual material dryer and for a patented procedure for solvent recovery have weighed upon the performance in 2007.

We expect rising sales in 2008 and a once again improved earnings position due to a change of the product mix.

2.b SwissTex

Acquired in	Dezember 2006
Senior management	Hans Peter Locher
Based in	Winterthur / Switzerland

[EUR Mio.]	2006 (consolidated))	2007
Turnover	0,4	36,9
EBITDA	-0,5	0,5
Employees	90	86

SwissTex AG, based in Winterthur/Switzerland, is active in the development, production and distribution of textile machinery for technical textiles and bulk continuous filaments (BCF). At the end of 2006, BAVARIA acquired the business with machines and systems for the production of synthetic continuous yarns, together with all employees, from Rieter AG as part of an asset deal. Since the company emerged from an asset deal, only the values from the initial consolidation (as of 1 December 2006) are available for 2006, and no comparison data are available for prior years.

As a result of the rapid implementation of radical restructuring measures, the company was able to report a positive EBITDA already in 2007, even though – especially in the first half of the year – special expenditures caused by the separation from the Rieter group were incurred. Thanks to the good order intake and a slim cost structure, we expect a significantly improved earnings position with constant sales revenue in 2008.

2.c Hamba Gruppe

Acquired in	April 2004
Sold in	October 2007
Senior management	Axel Geuer
Based in	Neunkirchen / Wellesweiler

[EUR Mio.]	2004	2005	2006	2007 (consolidated)
Turnover	11,8	20,4	27,0	(8,4)
EBITDA	–5,0	1,7	1,9	(–1,3)
Employees	123	120	122	(127)

On 15 October 2007, following a successful restructuring, the engine builder Hamba Filltec GmbH & Co. KG, Hamba Filling Technology Services GmbH, Bavaria Maschinenbauholding AG and Hamba Verwaltungsgesellschaft mbH were sold to a company of the Oystar group, the former packaging division of IWKA.

The Saarland-based company Hamba had been acquired for a symbolic purchase price in April 2004, having accumulated losses of almost EUR 50m during the previous three years. After the acquisition by BAVARIA, Hamba was strategically repositioned with a new generation of machines under the new management. As accompanying measures, the development area was strengthened and sales and customer service functions were expanded internationally. Because of the implementation of this radical restructuring programme and the introduction of a new bottling plant in modular design, the company is again operating very profitably with increased sales.

2.d Hering

Acquired in January 2004
Senior management Stefan Schröder
Based in Gunzenhausen

[EUR Mio.]	2004	2005	2006	2007
Turnover	7,4	8,9	9,0	10,0
EBITDA	0,3	0,7	0,6	2,4
Employees	64	68	85	93

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 well-known manufacturers from the chemicals, food technology and environmental/cooling technology industries.

In 2007, sales rose by approximately 10%. The earnings situation was materially characterised by the sale of a plot of land that contributed about EUR 2.2m to income. The production processes are being improved further at this time and the product portfolio is undergoing a simplification. We are therefore optimistic to register increasing sales revenues and a significantly improved earnings position for 2008.

2.e Steeltech s.a.r.l.

Acquired in	January 2006
Sold in	August 2007
Senior management	Guy Zins
Based in	Creutzwald / France

[EUR Mio.]	2005	2006	2007 (consolidated)
Turnover	44,4	49,1	(7,7)
EBITDA	3,8	6,6	(0,2)
Employees	187	170	(–)

Steeltech s.a.r.l. was sold in a management buy-out in August 2007 to the managing director and the staff. Steeltech s.a.r.l. had filed for insolvency in the spring of 2007, which continued through the time of the sale in September. BAVARIA has almost doubled the amount of capital invested since the acquisition of the company in January 2006.

3. Business Services

3.a Neef IT Solutions

Acquired in	September 2004
Senior management	Bernd Laule, Stefan Humbert
Based in	Karlsruhe

[EUR Mio.]	2005	2006	2007
Turnover	14,0	12,9	12,2
EBITDA	0,3	–0,3	0,2
Employees	89	91	56

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. The restructuring made further progress in 2007. A loss-making branch office in Hannover was shut down. The number of employees was reduced to 56 in the meantime and thus corresponds to the industry norm.

For 2008, we expect a decline in turnover due to an adjustment of the service range, yet anticipate an improvement of the earnings situation on account of the already realigned cost structure.

3.b Elfotec Gruppe

Elfotec GROUP

Acquired in	December 2006 / April 2007
Senior management	Larry Haleski, Franziska Schedlbauer
Based in	Annacotty / Ireland, Mönchaltdorf / Switzerland

[EUR Mio.]	2005	2006	2007
Turnover	12,9	11,7	9,5
EBITDA	–0,4	–1,3	–2,2
Employees	69	56	44

The Elfotec group is one of the largest independent toner manufacturers in Europe. Due to the unsatisfactory earnings situation of the Elfotec group, the termination of the business operations in Switzerland and the transfer of the activities to Ireland was decided in 2007 and carried out to a large extent. However, the restructuring measures failed to create a sufficient turnaround, since the company also suffered significant production shortfalls during the first few months of 2008. In April 2008, the business operations were also discontinued in Ireland and insolvency proceedings concerning the Irish company were opened. It is likely that the now inactive companies in Switzerland and Ireland will be liquidated in the coming months.

The EBITDA in the amount of EUR -2.2m before extraordinary earnings does not include extraordinary expenditure of EUR 11.3m resulting from the shutdown of the production in Switzerland and the inclusion of the liquidation values as a consequence of the insolvency proceedings.

3.c Alma Küchen

alma KÜCHEN

Acquired in	April 2004
Sold in	June 2007
Senior management	Ralf Hocke
Based in	Ahaus

[EUR Mio.]	2005	2006	2007 (consolidated)
Turnover	22,4	25,6	(7,5)
EBITDA	-1,2	-0,3	(-0,4)
Employees	215	213	(-)

On 13 June 2007, the entire stake in Alma Holding GmbH was sold to the managing director, Mr. Ralf Hocke. With the company, the managing director acquired more than 99% of the limited partner's shares in alma Küchen GmbH & Co. KG, based in Ahaus. A loss of EUR 4.8m resulted from the final consolidation of the company.

IV. Total net worth, financial and earnings position

The turnover of the BAVARIA Group rose to EUR 409.7m in the fiscal year 2007 after EUR 332.6m in the previous year. This was mainly due to the change in the group companies being consolidated. The Kienle + Spiess group – which was only consolidated for 6 months in 2006 with EUR 114.7m – accounted for most of the sales in 2007 with EUR 237.3m.

The BAVARIA Group has a sound financial structure as reflected in liquid funds (including short-term securities) in the amount of EUR 57.2m (previous year: EUR 53.6m) and liabilities to banks in the amount of EUR 17.1m (previous year: EUR 1.7m). The net cash assets of the BAVARIA Group fell by EUR 11.8m from EUR 51.9m in 2006 to EUR 40.1m in the fiscal year 2007. However, the reduction of the net financial resources was materially affected by changes in the scope of consolidation (EUR -9.2m) and payments to shareholders as a result of dividends and share buybacks (EUR -8.7m).

Earnings before extraordinary expenditure, depreciation, net financial income and taxes (EBITDA) were EUR 51.3m in the fiscal year 2006; they declined to EUR 38.0m in fiscal 2007. Consolidated net income in the Group was EUR 5.2m in 2007 compared to EUR 31.5m in the previous year. The net income for the year 2007 was materially effected (in the amount of EUR -18.4m) by the inclusion of liquidation values for three group companies where no assumption regarding a continuation of the business operations could be made with adequate confidence at the time of preparation of the consolidated financial statements.

In both periods under review, the consolidated net income was affected by the following material consolidation effects:

	2006	2007
Negative differences from the consolidation of capital	19,2	8,9
Final consolidation gains	3,7	3,4
Final consolidation losses	0,0	–6,1
Deferred taxes at the group level	2,2	2,6
Amortisation of goodwill	–5,3	–1,3
Income from debt consolidation	6,2	1,8
	26,0	9,3

Including the effect of EUR -18.4m from the inclusion of liquidation values, there is a negative special effect of EUR -9.1m for 2007.

We refer to the Appendix as regards the overall development of the asset-side and liabilitiesside balancing items from the consolidation of capital.

Balance sheet ratios

The balance sheet total in the Group rose from EUR 232.4m in the previous period to EUR 277.4m in the current business year.

Assets side

The fixed assets were 29.6% of the balance sheet total (previous year: 24.1%), this is equivalent to EUR 82.2m (previous year: EUR 56.1m). Fixed assets mainly consist of plant premises (EUR 28.0m, previous year: EUR 24.6m) and equipment and machinery (EUR 39.5m, previous year: EUR 20.4m).

The assets side shows liquid funds and short-term securities in the amount of EUR 57.2m (previous year: EUR 53.6m). Thus, approximately 20.6% of the total assets of the BAVARIA Group consist of financial resources.

Liabilities side

The shareholders' equity, including the balancing item from the consolidation of capital, rose from EUR 70.4m to EUR 91.0m in the Group. In particular, the negative difference from the capital consolidation increased significantly (by an amount of EUR 23.1m).

The pension provisions amounted to EUR 46.0m as at 31.12.2007 (previous year: EUR 51.8m).

The financial liabilities are EUR 17.1m (previous year: EUR 1.7m). The significant increase can be attributed to the first-time inclusion of Almec S.p.A., which accounts for almost all of the financial liabilities.

The appendix to the Group's year-end financial statements includes details of the flow-of-funds analysis and of the head count of the BAVARIA Group.

V. Events occurring after the balance sheet date

On 14 January 2008, BAVARIA completed the acquisition of Elcoteq Communications Technology GmbH, having obtained the consent of the Federal Cartel Office. The company is based in Offenburg, Germany, and generated a turnover of approximately EUR 120m in 2007 with the production of communications technology systems for customers such as Motorola and Ericsson. The seller is the Finnish Elcoteq group, the largest European manufacturer of electronic products. An agreement to ensure the continued supply of the Elcoteq group with key components was entered into with the Elcoteq group. In March 2008, the company changed its name to "Xenterio GmbH".

Following the approval by the works council, the production and other assets of Fonderie Aluminium de Cléon (FAC) were sold to a subsidiary of Renault as of 31 March 2008. FAC delivers cylinder heads and gearbox housings to Renault, PSA and Getrag Ford. BAVARIA had acquired the company at the end of 2007 from Teksid in Luxembourg together with two other French companies. FAC had been established in 1964 by Renault at the location of its foundry in Cléon. In 1999, Renault sold its foundries to Teksid, a subsidiary of FIAT, in which Renault also acquired an equity interest. All of the former foundries of Renault were global leaders in the melting technology. Renault intends to safeguard both the jobs of the FAC employees in Cléon as well as those at other locations of the Renault group, particularly in Normandy.

Due to the poor financial, assets and earnings situation, the business operations of the Elfotec group were suspended in April 2008 and insolvency proceedings concerning the Irish company were opened. In the present consolidated financial statements, the assets and debts of the two companies of the Elfotec group are therefore valued at liquidation values as at 31 December 2007. The liquidation of both companies is expected to occur in the next few months. Since there are no profit transfer agreements in the Group and no guarantees or collateral were provided, the total net worth, financial and earnings position of BAVARIA Industriekapital AG is not materially affected by this.

The share buyback programme of BAVARIA was completed in March 2008. In aggregate, the maximum permitted number of shares (220,500) was acquired. On the basis of resolutions passed by the Executive and Supervisory Boards in April 2008, the acquired shares were retired. The authorised capital was thus reduced by EUR 220,500.00 and now amounts to EUR 6,394,500.00 following the reduction, divided into 6,394,500 shares with a notional face value of EUR 1.00 per share.

On 28 April 2008, **ALMEC** S.p.A., Nusco/Italy, was sold. TECNOCONTROL Srl, an Italian subcontractor for the automotive industry, took over ALMEC SpA through its wholly-owned subsidiary Industrie Meccaniche Caponi (IMC) Srl. IMC plans to continue the process and quality improvements initiated by the Bavaria Group.

Chances and risks of future developments

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. Since we never enter into profit transfer agreements or provide guarantees for subsidiaries as a matter of principle, losses or write-offs at particular subsidiaries generally do not result in adverse financial consequences on the holding level. A survey and assessment of the key operating figures of the BAVARIA portfolio companies are done monthly so as to detect any crises.

Chances and risks of acquiring companies

The specialised acquisition team of BAVARIA, with its many years of experience and extensive networks in the acquisition of companies undergoing radical changes, generates excellent entrepreneurial opportunities for BAVARIA. The attractiveness of the market segment "Companies faced with upheavals" is leading to increased competition. The BAVARIA Group banks on its credibility as an experienced and successful restructuring expert in the competition with economically and legally often inexperienced rivals.

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. As a result of our many years of experience and the established network of BAVARIA, we have excellent chances to successfully press ahead with the process of disposal.

Chances and risks of restructuring companies

Once in a while, BAVARIA might acquire portfolio companies whose restructuring is more difficult than anticipated. That is why, in individual instances, insolvency cannot be ruled out given a difficult starting position and a purchasing decision that has to be taken quickly. In the event of a failure of the restructuring, there is a risk of losing the invested funds and contributions, i.e. in particular the purchase price that was paid and residual claims that may exist.

Volume and price fluctuations on the capital and commodity markets may have a negative impact on the total net worth, financial and earnings position of the companies belonging to the BAVARIA Group. We address these risks on an individual company basis by continuously monitoring indicators so as to counter such risks at an early stage. The Executive Board of BAVARIA is in close contact with the senior management of the individual portfolio companies, receives monthly reports and is also represented on the Supervisory Board or Advisory Council at many companies. Nevertheless, the risk exists that the management information system fails to deliver necessary information or provides it too late or incorrectly, thus causing wrong decisions to be taken.

Even though the portfolio companies of the BAVARIA Group operate in a variety of business sectors, resulting in a diversification of risk, an economic slowdown in a given market may nonetheless be detrimental to the total net worth, financial and earnings position of the BAVARIA Group.

Default risk at the level of BAVARIA Industriekapital AG

It is a firm element of BAVARIA's investment strategy to contractually limit the exposure to loss as much as possible. For example, no profit transfer agreements are made in the Group as a matter of principle. Only in exceptional circumstances and to a very limited degree will the Executive Board of BAVARIA Industriekapital AG enter into guarantees and other commitments vis-à-vis the portfolio companies. BAVARIA's principal exposure lies in quantifying the individual restructuring outlay of a company and a possible insolvency of a portfolio company. This risk is monitored continuously.

Personnel risk

The acquisition, restructuring and sale of companies require 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.

By virtue of our proven restructuring track record, we receive a large number of highly qualified applications for job vacancies. We are an attractive employer thanks to our concept of diligent staff selection and recruitment, far-reaching independence of the restructuring managers, and performance-oriented compensation scheme. Using competent managers generates excellent opportunities within the scope of the BAVARIA business model.

There are also risks relating to the reliance on particular senior executives at the level of BAVARIA Industriekapital AG. We are constantly enlarging our management team in order to counter such risks. The Executive Board of BAVARIA is to be augmented by the departments "Operations" and "Finance" in the future.

Financial, interest rate and currency risks

The management is of the opinion that the development of the BAVARIA Group depends very much 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.

The portfolio companies of the BAVARIA group are to a large extent funded by equity capital. Only in rare cases will we take recourse to external financing. The risk of possible interest rate increases is therefore relatively limited in terms of its impact, particularly in comparison with classic private equity funds where external financing is an integral part of the business model. Since the BAVARIA Group operates primarily in the euro zone, the currency risk is also considered to be comparatively minor.

Tax risks

The business model of BAVARIA gives rise to tax risks which are monitored permanently. Due to the fundamental exemption of income from trade investments, BAVARIA has a low taxation ratio. In this respect, we make the assumption that § 8b of the corporation tax law [KStG] applies to BAVARIA.

Risk management system

The Executive Board of BAVARIA has installed an early risk detection system in order to facilitate the discovery of developments that might imperil the continued existence of the Company. The risk report is updated semi-annually. Subsidiaries are not included in the formal risk management.

VI. Outlook

BAVARIA Industriekapital AG and its investment portfolio have had a successful start to the year 2008. We will continuously investigate potential new acquisition targets, but we do not intend to raise our pace of acquisition. As far as new acquisitions are concerned, we will orientate ourselves upwards in terms of quality and size. This means that we will continue to aim for three to four new acquisitions per year in 2008 and beyond, provided that the company valuations fall within a realistic range.

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. On the basis of the present portfolio and the successful beginning of the 2008 fiscal year, the Executive Board's assumption is that BAVARIA Industriekapital AG will develop positively in the years ahead.

Munich, 30 April 2008

Reimar Scholz
The Executive Board

CONSOLIDATED FINANCIAL STATEMENTS

EACH INDIVIDUAL COUNTS!

Consolidated profit and loss account 1 January to 31 December 2007

	31 December 2007		31 December 2006	
	EUR	EUR	EUR	EUR
1. Sales	409.736.612,52		332.629.733,82	
2. Increase or reduction of inventories in finished and non-finished products	3.502.001,99		3.581.733,56	
3. Other own work capitalised	835.768,16		295.400,25	
		414.074.382,67		336.506.867,63
4. Other operating income		45.736.989,75		47.414.555,40
5. Cost of materials				
a) Raw materials, supplies and merchandise for resale	–221.222.855,37		–154.420.014,44	
b) Purchased services	–29.599.455,59		–44.682.271,09	
		–250.822.310,96		–199.102.285,53
6. Personnel costs				
a) Wages and salaries	–82.893.349,28		–72.113.194,18	
b) Social insurance and other social charges and benefits Pensions TEUR 4.473 (previous year: TEUR 1.234)	–21.401.824,86		–16.453.497,03	
		–104.295.174,14		–88.566.691,21
7. Depreciation on intangible assets of the fixed assets and property, plant & equipment		–13.715.950,59		–14.101.762,70
8. Other operating expenses		–66.713.547,19		–44.832.230,20
9. Other interest and similar income		1.873.299,76		800.254,39
10. Interest and similar expenses		–1.024.492,78		–715.168,03
11. Depreciation on financial assets and on marketable securities of the current assets		–194.037,82		–52.999,00
12. Profit/loss on ordinary operations		**24.919.158,70**		**37.350.540,75**
13. Extraordinary income	447.153,00		0,00	
14. Extraordinary expenses	–17.350.763,34		–2.780.220,04	
15. Extraordinary result		–16.903.610,34		–2.780.220,04
16. Tax on income and earnings		–2.103.334,74		–2.277.218,34
17. Other taxes		–678.045,24		–769.899,64
18. Net income		**5.234.168,38**		**31.523.202,73**
19. Net profit carried forward from previous year		41.040.857,68		14.164.480,99
20. Dividends		–6.615.000,00		–2.160.900,00
21. Adjustment in reserves		–1.701.297,60		0,00
22. Profit relating to other shareholders		1.868.958,49		–2.485.926,04
23. Consolidated profit		**39.827.686,95**		**41.040.857,68**

Consolidated balance sheet as of 31 December 2007

Assets	31 December 2007		31 December 2006	
	EUR	EUR	EUR	EUR
A. Fixed assets				
I. Intangible assets				
1. Patents, trademarks, licenses and similar rights	306.051,41		324.329,33	
2. Goodwill	6.852.177,60		6.695.663,75	
3. Prepayments on account	39.000,00			
		7.197.229,01		7.019.993,08
Property, plant & equipment				
1. Land, leasehold rights and buildings incl., buildings on leased land	28.017.793,21		24.639.192,64	
2. Machinery and equipment	39.544.133,98		20.434.420,34	
3. Other equipment, plant and office equipment	2.341.932,49		2.954.246,28	
4. Advance payments and construction-in-progress	5.032.018,19		986.515,86	
		74.935.877,87		49.014.375,12
III. Financial assets				
1. Shareholdings in affiliated companies	76.558,65		1.254,15	
2. Investments	9.491,00		21.949,00	
3. Other loans	1,00		2.340,00	
		86.050,65		25.543,15
		82.219.157,53		56.059.911,35
B. Current assets				
I. Inventories				
1. Raw materials and supplies	28.641.274,05		25.787.582,95	
2. Work-in-progress	16.351.356,60		17.520.124,74	
3. Finished products and merchandise	15.314.506,53		16.690.300,07	
4. Advanced payments	581.466,95		270.421,78	
		60.888.604,13		60.268.429,54
II. Account receivables and other assets				
1. Receivables from trade	53.455.021,72		47.512.393,29	
2. Receivables from group companies	325.395,70		185.751,70	
3. Other assets	22.805.660,02		14.450.406,57	
		76.586.077,44		62.148.551,56
III. Marketable securities				
1. Shares in group companies	1,00		0,00	
2. Treasury stock	1.701.297,60		0,00	
3. Other marketable securities	5.071.581,09		0,00	
		6.772.879,69		0,00
IV. Cash and cash equivalent		50.424.197,39		53.587.517,59
		194.671.758,65		176.004.498,69
C. Prepaid expenses		500.887,27		367.293,29
Total assets		277.391.803,45		232.431.703,33

Equity and Liabilities	31 December 2007		31 December 2006	
	EUR	EUR	EUR	EUR
A. Equity				
I. Subscribed capital Contingent capital: 561.000,00 Euro		6.615.000,00		2.205.000,00
II. Capital reserve		8.385.000,00		12.795.000,00
III. Revenue reserve		1.706.797,60		5.500,00
1. Restricted reserve	5.500,00		5.500,00	
2. Reserve for treasury stock	1.701.297,60			
IV. Difference from currency translation		268.661,81		1.412.963,06
V. Offsetting item for holdings of other shareholders		1.814.781,39		3.747.496,41
VI. Consolidated profit		39.827.686,95		41.040.857,68
		58.617.927,75		61.206.817,15
B. Difference from consolidation of capital		32.338.695,98		9.232.747,10
C. Accruals				
1. Accruals for pensions and similar commitments	46.033.153,94		51.817.293,77	
2. Tax reserves	4.068.692,94		5.388.615,53	
3. Other accruals	45.454.580,14		29.644.322,91	
		95.556.427,02		86.850.232,21
D. Liabilities				
1. Debt due to banks	17.083.500,96		1.699.596,35	
2. Advanced payments received on orders	7.761.371,20		12.444.056,02	
3. Trade payables	50.402.913,14		45.517.342,66	
4. Payables to group companies	188.181,04		0,00	
5. Payables to affiliated companies	36.000,00		0,00	
6. Notes payables	0,00		166.215,50	
7. Other liabilities	12.330.169,35		10.956.420,89	
		87.802.135,69		70.783.631,42
E. Deferred income		3.076.617,01		4.358.275,45
Total assets		277.391.803,45		232.431.703,33

Consolidated statement of changes in equity

EUR ('000)	Share numbers in circulation	Subscribed capital	Capital reserve	Earned surplus	Difference from currency translation	Offsetting item for holdings of other shareholders	Consolidated profit	Group equity
1 January 2006	**1.705.000**	**1.705**	**295**	**6**	**−66**	**2.012**	**14.163**	**18.115**
Net income 31.12.2006							31.523	31.523
Dividend payouts							−2.161	−2.161
Capital increase	500.000	500	12.500					13.000
Appropriation to the earned surplus								0
Foreign currency differences					1.479			1.479
Shares of other partners						1.736	−2.485	−749
31 December 2006	**2.205.000**	**2.205**	**12.795**	**6**	**1.413**	**3.748**	**41.040**	**61.207**
Net income 31.12.2007							5.234	5.234
Dividend payouts							−6.615	−6.615
Capital increase	4.410.000	4.410	−4.410					0
Appropriation to the earned surplus				1.701			−1.701	0
Foreign currency differences					−1.144			−1.144
Shares of other partners						−1.933	1.869	−64
31 December 2007	**6.615.000**	**6.615**	**8.385**	**1.707**	**269**	**1.815**	**39.827**	**58.618**

Consolidated statement of cash flows

The consolidated statement of cash flows was made on basis of the principles of DRS 2.

EUR ('000)	2007	2006
Consolidated net income ahead of extraordinary item	22.138	34.304
Earnings proportions of minority shareholders without payment-effective holdings	−132	−1.342
Depreciation on fixed asset items	13.716	14.102
Gains on sales of assets	−22.265	−60
Changes in accruals	−3.424	−9.434
Dissolution of differences from the capital consolidation	−8.906	−19.219
Dissolution of differences from the final consolidation	−2.519	−3.789
Other payment-ineffective changes	−1.144	−2.780
Gross cash flow	**−2.536**	**11.782**
Change in inventories	−10.030	4.777
Change in receivables, other assets and rest of the assets	18.033	10.476
Change in liabilities and rest of total equities & liabilities	−10.396	−11.528
Payment from/of extraordinary items	0	0
Cash flow from current operations	**−4.929**	**15.507**
Change in the fixed assets	−13.257	−3.248
Currency differences in fixed assets	1.012	0
Payments from disposals of items of intangible fixed assets	9.124	6.582
Payments from disposal of items of the financial assets	12.830	0
Payments for capital expenditure into the financial assets	0	−4.000
Cash flow from capital expenditure activities	**9.709**	**−666**
Payments as part of the capital increase	0	13.000
Payouts to shareholders	−6.615	−2.161
Payouts to minority shareholders	−663	−1.144
Payments from repayments of financial liabilities	−2.120	−33
Cash flow from financing activities	**−9.398**	**9.662**
Payment-effective change of the cash and cash equivalents	−4.618	24.503
Net funds addition from change in scope of consolidation	8.346	4.851
Currency differences	−119	12
Cash and cash equivalents at start of the period	53.438	24.072
Cash and cash equivalents as of 31 December	**57.047**	**53.438**

Cash and cash equivalent consists of cash-in-hand, balances with banks and short-term marketable securities.It does not include cash at bank as deposit (TEUR 150).

EUR ('000)	2007	2006
Cash-in-hand, balances with banks	50.424	53.588
less cash at bank as deposit	−150	−150
short-term marketable securities	6.773	0
	57.047	53.438

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

EACH INDIVIDUAL COUNTS!

I. 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 marginal activities of corporate groups and develops them with its own management team. Thus, BAVARIA – unlike other classic holding companies– does not limit itself to merely holding and managing participations in companies.

II. Scope of consolidation

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

The companies included in the scope of consolidation of BAVARIA Industriekapital AG are separately shown in the annex - 'Schedule of shareholdings'. Due to their minor relevance, seven companies have not been included in the consolidation. They mainly involve shell companies without an operating business. Pursuant to § 296 para. 1 no. 3 of the Commercial Code [HGB], Fonderie Aluminium de Cléon, Cléon/France, was not included in the consolidated financial statements because the intention to dispose of the company already existed at the time of its acquisition. The disposal took place in March 2008. In accordance with § 296 para. 1 no. 1 of the Commercial Code, Teksid Deutschland GmbH was not included in the consolidated financial statements since the company is currently in liquidation.

The scope of consolidation changed as follows compared to the last consolidated financial statements as at 31 December 2006:

- Steeltech s.a.r.l., Creutzwald/France was consolidated for the last time as at 01 April 2007.
- Alma Holding GmbH, Munich, and alma Küchen GmbH & Co. KG, Ahaus, were sold on 13 June 2007 and consolidated for the last time as at 31 May 2007.
- Bavariaring 0405 AG, Munich, was sold on 14 June 2007 and consolidated for the last time as at 31 May 2007.
- In April 2007, an additional stake of 25% in Bavaria Chemicals GmbH, and thus in the companies Elfotec AG and Elfotec Ltd., was acquired. In the present annual accounts, a change from the proportional consolidation to the full consolidation method was made for this reason.
- ALMEC S.p.A. was acquired on 31 July 2007 and consolidated for the first time as at 1 August 2007.
- Three companies of the Teksid group,
  - Fonderies du Poitou Aluminium SAS, Ingrandes sur Vienne / France,
  - TK Aluminum-France SAS, Paris / France,
  - Teksid France SAS, Paris / France,

  were acquired on 4 October 2007 and consolidated for the first time as at 1 October 2007.
- The companies of the Hamba group,
  - Hamba Filltec GmbH & Co. KG, Neunkirchen,
  - Hamba Filling Technology Services GmbH, Munich,
  - Hamba Verwaltungsgesellschaft mbH, Neunkirchen
  - Bavaria Maschinenbauholding AG, Munich,

  were sold on 15 October 2007 and consolidated for the last time as at 1 October 2007.

The turnover, the income before extraordinary items and the net income for the year of acquisition during the reporting period amount to:

	2007			2006 [1]		
EUR ('000)	Turnover	Net income	Extraord. items	Turnover	Net income	Extraord. items
ALMEC S.p.A.	15.419 [2]	−19.265 [2]	−14.649 [2]	86.985	−3.468	0
Fonderies du Poitou Aluminium SAS	26.260 [2]	747 [2]	0 [2]	101.596	−12.683	0
Fonderies Aluminium de France SAS	240 [2]	−135 [2]	0 [2]	0	−137.997	−130.358
Teksid France SAS	472 [2]	51 [2]	0 [2]	3.634	109	1

[1] the stated figures refer to the full year according to local accounting principles

[2] the stated figures refer only to consolidated values as of the date of first-time consolidation

In order to ensure the comparability of successive consolidated financial statements due to material changes of the scope of consolidation pursuant to § 294 para. 2 of the Commercial Code, the major items of the balance sheet and statement of income of the significant companies subject to final (for fiscal 2006) and first-time (for fiscal 2007) consolidation are shown below.

EUR ('000)	Hamba	Steeltech	Alma	Almec	Fonderies du Poitou
BALANCE SHEET	**31.12.2006**	**31.12.2006**	**31.12.2006**	**31.12.2007**	**31.12.2007**
ASSETS					
A. Fixed assets					
I. Intangible assets	44	0	21	0	52
II. Tangible assets	600	2.313	5.457	11.228	25.082
III. Financial assets	0	2	0	0	0
B. Current assets					
I. Inventories	2.942	6.415	3.861	3.654	11.578
II. Receivables and other assets	9.322	4.460	1.215	14.923	13.654
III. Securities	0	0	0	0	0
IV. Cash on hand, balances with banks	4.081	2.546	1.599	99	6.772
C. Prepaid expenses	**74**	**25**	**56**	**0**	**307**
	17.063	15.761	12.209	29.904	57.445
LIABILITIES					
A. Shareholders' equity					
I. Subscribed capital	1.700	1.453	1.278	12.189	31.794
II. Capital reserve	−2.018	306	2.300	0	0
III. Retained earnings	0	145	0	−11.891	365
IV. Balance sheet profit	3.055	480	−3.135	−19.265	747
B. Provisions	**7.494**	**3.342**	**2.322**	**14.201**	**8.505**
C. Liabilities	**6.832**	**10.035**	**9.444**	**33.437**	**15.357**
D. Deferred income	**0**	**0**	**0**	**1.233**	**677**
	17.063	15.761	12.209	29.904	57.445

	Hamba	Steeltech	Alma	Almec	Fonderies du Poitou
Profit and loss account	**2006**	**2006**	**2006**	**2007**	**2007**
1. Sales	27.046	49.098	25.614	15.419	26.260
2. Operating income	601	335	302	811	653
3. Operating expenses	−26.012	−43.491	−26.912	−20.352	−25.563
4. Financial results	122	48	7	−494	−40
5. Extraordinary results	0	0	0	−14.649	0
6. Taxes	−44	−2.511	0	0	−563
7. Net income/loss for the year	1.713	3.479	-989	−19.265	747

1) Values of the statement of income for the consolidated period 01.01. – 31.12.2006
2) Values of the statement of income for the consolidated period 01.08. – 31.12.2007
3) Values of the statement of income for the consolidated period 01.10. – 31.12.2007

III. Consolidated financial statements closing date

The consolidated financial statements are prepared as at the closing date of the parent company BAVARIA Industriekapital AG (31 December 2007).

The fiscal years of the major operating companies concur with the fiscal year of the parent company. As far as any facts to be recognised under the value clarification principle (prudence concept) occurred at the subsidiaries up to the date of preparation of the consolidated financial statements, they have been taken into account herein.

IV. Principles of consolidation

1. Accounting principles

The year-end financial statements of BAVARIA Industriekapital AG as at 31.12.2007 were drawn up in line with the provisions of the German Commercial Code [HGB] and Stock Corporation Act. The year-end accounts of the individual companies were drawn up as per the principles of §§ 238 ff. HGB, in particular as per the regulations for corporations in keeping with §§ 264 ff. HGB and the provisions of the German Stock Corporation Act.

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

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

The consolidated statement of income is drawn up based on the total expenditure format.

2. Consolidation methods

Method of capital consolidation

Commensurate with the statutory option of § 301 para. 1 sentence 2 no. 1 of the Commercial Code, the consolidation of capital in the consolidated financial statements (§ 301 para. 2 HGB) was made according to the book value method on the basis of valuations of the shareholdings in the companies included in the consolidated financial statements either at the time of acquisition or at the time when the company became a subsidiary.

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

Allowing for their character, the liabilities-side balancing items from the consolidation of capital are shown separately in the consolidated balance sheet between equity and outside capital.

Other consolidation procedures

Accounts receivable, accounts payable, sales proceeds, other expenditure and other income, interest earned and the corresponding expenditure, and intragroup profits between the companies included in the consolidation were eliminated.

Tax deferments are made with respect to the major consolidation procedures recognised in the profit and loss account to the extent that the deviating tax charge is likely to balance itself in subsequent fiscal years.

V. Accounting and valuation methods

The annual accounts of the companies included in the consolidated financial statements of BAVARIA Industriekapital AG were prepared largely in accordance with the following uniform accounting and valuation methods.

In principle, the valuation is based on the assumption of a continuation of the company as a going concern (going concern value) pursuant to § 252 para. 1 no. 2 of the Commercial Code. For reasons of prudence – due to significant doubts about the applicability of the going concern assumption – a different method was used in the case of three group companies. The relevant assets and debts were valued at break-up or liquidation values.

Intangible assets acquired for good and valuable consideration are valued at the cost of acquisition net of regular straight-line amortisation. As a rule, the useful life is 3 to 5 years; the useful life of goodwill is 10 years.

Tangible assets are capitalised at the cost of acquisition and depreciated on a straight line basis in accordance with the useful life. Low-value assets are fully expensed in the year of acquisition.

Financial assets are valued at the purchase price or the fair value on the balance sheet date, whichever is lower.

Inventories are valued at the cost of acquisition/production or the fair value, whichever is lower, allowing for reasonable costs of general administration.

Accounts receivable and other assets were valued at the nominal value less a lump-sum charge for general credit risks. Individual write-offs were made in case of doubtful accounts receivable.

Securities are valued at the purchase price or market value, whichever is lower.

Liquid funds are valued at the nominal value. Foreign currency holdings are valued at the exchange rate on the balance sheet date unless unrealised gains accrue.

Pension provisions were made on the basis of contractual pension claims. The current charts of Prof. Dr. Klaus Heubeck were used with a calculatory interest rate of 6%.

Tax and other provisions were set up on the basis of sound business judgement and allow for all discernible risks and undetermined commitments. The determination of the tax provisions was made under the assumption of the applicability of § 8b of the Corporation Tax Law [KStG] to BAVARIA Industriekapital AG.

Liabilities are stated on the liabilities side with their repayable amount. Liabilities denominated in foreign currency are shown at the lower selling rate as at the balance sheet date.

Currency translation

The operating currency of the parent company BAVARIA Industriekapital AG is the Euro.

The translation of the individual accounts prepared in foreign currency is made according to the method of the operating currency.

In doing so, all balance sheet items of the foreign group companies included in the consolidated financial statements, with the exception of shareholders' equity (subscribed capital, reserves, profit/loss carried forward) which was converted at historical rates, have been translated into Euro at the respective mean rate of exchange as at the balance sheet date. The differences resulting from the translation of the shareholders' equity due to the changes of exchange rates compared to the previous year were transferred to the equity difference from currency translation with no effect on profits.

Expenditure and income were translated at annual average exchange rates. The profit/loss for the year of the translated statement of income was booked in the balance sheet and the difference was transferred to the equity difference from currency translation with no effect on profits. In 2007, currency translation differences in the amount of EUR 1,144,000 were entered in shareholders' equity with no effect on profits.

VI. Notes to the balance sheet

Fixed assets

The development of fixed assets is shown below

		Acquisition and production costs						
EUR ('000)		01.01.2007	Additions	Disposals	Reversals/ reclass.	Currency changes	Changes scope of consol.	31.12.2007
I.	**Intangible assets**							
1.	Patents, trademarks, licenses and similar rights, as well as licenses to such rights and assets	1.946	161	8	86	−1	−792	1.392
2.	Goodwill	12.372	1.434	26	0	0	0	13.780
3.	Advance payments made	0	39	0	0	0	0	39
		14.318	**1.634**	**34**	**86**	**−1**	**−792**	**15.211**
II.	**Tangible assets**							
1.	Land and buildings	39.228	98	2.876	745	−517	1.025	37.703
2.	Technical systems and machinery	36.104	1.660	2.588	5.382	−612	11.126	51.072
3.	Other equipment, plant and office equipment	10.721	888	609	69	−28	−4.135	6.906
4.	Advance payments and construction in progress	986	10.351	291	-6.282	−8	276	5.032
		87.039	**12.997**	**6.364**	**-86**	**−1.165**	**8.292**	**100.713**
III.	**Financial assets**							
1.	Shareholdings in affiliated companies	108	75	106	0	0	0	77
2.	Investments	22	9	781	0	0	759	9
3.	Other lendings	3	0	0	0	0	−3	0
		133	**84**	**887**	**0**	**0**	**756**	**86**
		101.490	**14.715**	**7.285**	**0**	**−1.166**	**8.256**	**116.010**

		Depreciation and amortisation						Book values	
EUR ('000)		01.01.2007	Additions	Disposals	Currency changes	Changes scope of consol.	31.12.2007	31.12.2007	31.12.2006
I.	**Intangible assets**								
1.	Patents, trademarks, licenses and similar rights, as well as licenses to such rights and assets	1.622	411	9	−1	−937	1.086	306	324
2.	Goodwill	5.676	1.262	10	0	0	6.928	6.852	6.696
3.	Advance payments made	0	0	0	0	0	0	39	0
		7.298	**1.673**	**19**	**−1**	**−937**	**8.014**	**7.197**	**7.020**
II.	**Tangible assets**								
1.	Land and buildings	14.588	2.081	194	−17	−6.773	9.685	28.018	24.640
2.	Technical systems and machinery	15.670	8.610	1.448	−128	−11.176	11.528	39.544	20.434
3.	Other equipment, plant and office equipment	7.767	1.356	496	−9	−4.054	4.564	2.342	2.954
4.	Advance payments and construction in progress	0	0	0	0	0	0	5.032	986
		38.025	**12.047**	**2.138**	**−154**	**−22.003**	**25.777**	**74.936**	**49.014**
III.	**Financial assets**								
1.	Shareholdings in affiliated companies	107	0	107	0	0	0	77	1
2.	Investments	0	0	0	0	0	0	9	22
3.	Other lendings	0	0	0	0	0	0	0	3
		107	**0**	**107**	**0**	**0**	**0**	**86**	**26**
		45.430	**13.720**	**2.264**	**−155**	**−22.940**	**33.791**	**82.219**	**56.060**

Intangible assets

Goodwill has developed as follows in the fiscal year:

2007				2006			
Addition	Disposal	Amortisation	Book value	Addition	Disposal	Amortisation	Book value
1.433	15	1.262	6.852	10.651	0	5.336	6.696

The goodwill as at 31.12.2007 is primarily made up of a company of the Kienle + Spiess group (TEUR 4,893), of Hering AG (TEUR 899) and of a company of the newly acquired Teksid group (TEUR 899). The remaining average amortisation period for the goodwill is about 8 years.

The useful life of the goodwill is uniformly 10 years, the useful life of rights and licenses 3 to 5 years. The determination of the length of the useful life is based on the probable actual use. All intangible assets are amortised on a straight line basis.

Tangible assets

The useful life for furniture and office equipment is 3 to 10 years, for technical systems and machinery 8 to 20 years, depending on their economic utilisation. Buildings are depreciated in accordance with the tax regulations.

Financial assets

The shareholdings in affiliated companies include the non-consolidated investments at acquisition cost less requisite depreciation on the lower fair value.

Current assets

(excluding securities and cash on hand, balances with banks)

EUR ('000)	2007	2006
Raw materials and supplies	28.641	25.788
Work in progress	16.351	17.520
Finished goods and merchandise	15.315	16.690
Advance payments made	582	270
Trade receivables	53.455	47.512
Due from affiliated companies	325	186
Other assets	22.806	14.450
	137.475	122.416

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

The other assets include claims on the tax authorities in the amount of TEUR 10,551.

The trade receivables include accounts receivable with a time to maturity of more than one year in the amount of TEUR 271. The other assets include those with a time to maturity of more than one year in the amount of TEUR 883.

Shareholders' equity

The shareholders' equity declined by TEUR 2,589 to TEUR 58,618 in the year under review.

EUR ('000)	2007	2006
Subscribed capital	6.615	2.205
Capital reserve	8.385	12.795
Earned surplus	1.707	6
Currency differences from consolidation	269	1.413
Offsetting item for holdings of other shareholders (minority interests)	1.815	3.747
Consolidated retained earnings	39.828	41.041
Shareholders' equity	58.618	61.207

Consolidated retained earnings of TEUR 39,828 includes a profit brought forward from the previous year in the amount TEUR 41,041.

Subscribed capital

On 25 May 2007, the General Shareholders' Meeting passed a resolution to raise the subscribed capital from corporate funds by EUR 4,410,000. The entry in the Register of Companies took place on 26 July 2007, the capital increase is therefore regarded as implemented.

Likewise, a stock split in connection with the capital increase was adopted by a resolution of the General Shareholders' Meeting on 25 May 2007. The official listing for the shares of BAVARIA was converted from the previous unit at the rate of 1 : 3 as of Thursday, 30 August 2007.

As at 31 December 2007, the nominal capital amounts to EUR 6,615,000.

Capital reserve

On 25 May 2007, the General Shareholders' Meeting passed a resolution, as proposed by the Executive Board and Supervisory Board, to increase the nominal capital pursuant to § 207 of the Stock Corporation Act from corporate funds by by EUR 4,410,000 by means of a capitalisation of reserves. The residual capital reserve amounts to EUR 8,385,000 as of the closing date.

Authorised capital

Based on the proposal of the Executive and Supervisory Boards, the General Shareholders' Meeting of 10 November 2005 passed a resolution to empower the Executive Board, with the approval of the Supervisory Board, to raise the Company's nominal capital by up to EUR 1,102,500 though one or several offerings of new bearer share certificates against cash or contributions in kind by 9 November 2010.

Contingent capital

Employee stock options

On 20 December 2005, the General Shareholders' Meeting passed a resolution, based on the proposal of the Executive Board and Supervisory Board, to increase the nominal capital of the Company by up to EUR 170,500 through the issuance of 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 the option holders exercise their option rights by 31 December 2009.

As a result of the capital increase and the associated stock split, the contingent capital I has changed to EUR 511,500 (up to 511,500 bearer shares).
The contingent capital increase involves an employee participation programme; the statutory subscription right of the shareholders is ruled out. The articles of association have been amended in § 4 by adding a new paragraph.

Convertible debentures for the members of the Supervisory Board

On 5 September 2006, the General Shareholders' Meeting passed a resolution, based on the proposal of the Executive Board and Supervisory Board, to increase the nominal capital of the Company by up to EUR 16,500 through the issuance of up to 16,500 bearer share certificates as part of a contingent capital increase (contingent capital II). The contingent capital increase will only be carried out to the extent that convertible debentures are issued and that the attendant conversion rights into shares are exercised.

As a result of the capital increase and the associated stock split, the contingent capital II has changed to EUR 49,500 (up to 49,500 bearer shares).

As at 31 December 2007, all convertible debentures have been issued and subscribed. However, an exercise is only possible after a minimum waiting period of two years which has not expired yet. Thus, no conversion rights from the convertible debentures have been exercised yet.

Share option rights

Beneficiaries

Up to 31 December 2009, the Company may issue equity warrants for up to 170,500 shares once or several times: to members of the Executive Board up to 42,650 shares, to members of the senior management of affiliated companies up to 42,650 shares, to senior executives of the Company and affiliated companies up to 42,600 shares, and to other employees of the Company and affiliated companies up to 42,600 shares.

The contingent capital I, previously amounting to EUR 170,500 as a result of the issuance of up to 170,500 bearer share certificates (employee participation programme), has increased to EUR 511,500 (up to 511,500 bearer shares) as a result of the capital increase and the associated stock split.

Period of issuance

The option rights may be issued to the beneficiaries once or several times during a period of 10 trading days, commencing either 12 trading days after the General Shareholders' Meeting or after the publication of an annual and quarterly report.

The term of the option rights is 4 years, starting with the end of the respective issuing period.

Exercise rights

Subject to the option conditions to be established by the Executive Board with the approval of the Supervisory Board, or by the Supervisory Board to the extent that Executive Board members are beneficiaries, each option right entitles the holder to subscribe to one bearer share.

A minimum of 50 units is required for the exercise of subscription rights.

In addition, there are various option programmes for the managing directors with respect to participations or sub-participations in the individual companies at different levels.

Current status

Maximum issuance	**511.500**	**units**
Issued	**180.750**	**units**
Average issuing price	**7,14**	**EUR**
Of which exercised	**0**	**units**
Average issuing price	**0,00**	**EUR**
Of which no longer exercisable	**61.380**	**units**
Average issuing price	**4,20**	**EUR**
Of which still exercisable	**119.370**	**units**
Average issuing price	**8,64**	**EUR**

Reserve for treasury stock

A resolution passed at the General Shareholders' Meeting on 25 May 2007 authorised the Company, pursuant to § 71 para. 1 no. 8 of the Stock Corporation Act, to purchase its own shares up to 24 November 2008 in an amount not exceeding 10% of the nominal capital existing at the time of the General Shareholders' Meeting. The authorisation may be exercised in full or in part, in the latter case also in multiple instalments.

- The authorisation may not be used by the Company to trade in its own shares.
- The Executive Board was authorised to use, with the approval of the Supervisory Board, shares of the Company purchased on the basis of this authorisation for the purpose of introducing the shares of the Company at foreign stock exchanges where such shares are not yet admitted for trading.
- The Executive Board was authorised to offer, with the approval of the Supervisory Board, shares of the Company purchased on the basis of this authorisation to third parties in connection with business combinations or the acquisition of companies and interests in companys.
- The Executive Board was authorised to retire, with the approval of the Supervisory Board, shares of the Company purchased on the basis of this authorisation. No further resolution by the General Shareholders' Meeting is required for carrying out the retire ment. The retirement may be limited to a portion of the purchased shares. The authorisation to retire shares may be exercised several times.

As at 31 December 2007, the Company has purchased a total of 142,368 own shares on the basis of the authorisation granted by the General Shareholders' Meeting of 25 May 2007. Such shares account for EUR 142,368 (2.15%) of the nominal capital.

Date	Repurchased shares (units)	Share in the nominal capital (in %)	Average price	Total market value EUR ('000)	Cumul. number of shares	Cumul. share in the nominal capital (in %)
Aug 07	17.628	0,27%	14,24	251.013,46	17.628	0,27%
Sep 07	27.072	0,41%	12,86	348.103,34	44.700	0,68%
Oct 07	17.016	0,26%	13,48	229.348,93	61.716	0,93%
Nov 07	54.474	0,82%	12,78	696.234,88	116.190	1,76%
Dec 07	26.178	0,40%	12,43	325.495,54	142.368	2,15%

A reserve for treasury stock pursuant to § 272 para. 4 of the Commercial Code was set up.

Difference from the consolidation of capital

The negative difference from the consolidation of capital as at the balance sheet date will be dissolved and recognised in the profit and loss account in the following years in keeping with its cause.

This item developed as follows in the fiscal years 2006 and 2007:

2007				2006			
Addition	Dissolution	Final consolidation	Book value	Addition	Dissolution	Final consolidation	Book value
34.531	-8.906	−2.519	32.339	25.131	−19.219	−3.789	9.233

Negative differences occur in acquisitions where the purchase price is lower than the book value of the balance sheet equity of the acquired company. The liabilities-side balancing items are dissolved and recognised in the consolidated profit and loss account according to the restructuring progress of the participations, provided that future expenditures or losses are expected.

As far as the negative difference is not created by expected future expenditures or losses, it will be dissolved and recognised in the consolidated profit and loss account in the following way:

a) The portion not exceeding the market values of the non-monetary assets acquired will be recognised regularly over the weighted average residual useful life of the depreciable assets acquired.

b) The portion exceeding the market values of the non-monetary assets acquired will be recognised as income at the time of first inclusion.

The liabilities-side balancing item from the first consolidation of Fonderies du Poitou in the amount of EUR 32.2m will be depreciated pursuant to a) over the residual useful life of the depreciable fixed assets which is approximately 12 years.

The dissolution of the liabilities-side balancing item is included under other operating income in the consolidated statement of income.

The reduction from final consolidation in the amount of TEUR 2,519 results from the final consolidation of Steeltech s.a.r.l. The additions to liabilities-side balancing items essentially result from the first-time consolidation of Fonderies du Poitou.

Provisions

EUR ('000)	2007	2006
Pension provisions	46.033	51.817
Tax provisions	4.069	5.389
Other provisions	45.454	29.644
	95.556	86.850

To adapt the tax charge from the individual accounts to the consolidated net income, a deferred tax assets item in the amount of TEUR 587 (previous year: TEUR 1,775) was reported, which was combined with the capitalised deferred taxes from the individual balance sheets.

The other provisions essentially include commitments in the human resources area (TEUR 14,638), from restructuring measures (TEUR 10,883), from warranty commitments (TEUR 2,510), from sales deductions (TEUR 1,940) and from unpaid invoices (TEUR 1,762).

Due to the use of the option to show existing commitments on the liabilities side pursuant to article 28 of the Introductory Act to the German Commercial Code [EGHGB], there is a gap 77 between assets and liabilities for pension provisions and similar commitments in the amount of TEUR 479 as at 31 December 2007 (previous year TEUR 1,491).

Liabilities

EUR ('000)	2007	2006
Liabilities to banks	17.084	1.700
Advance payments received on orders	7.761	12.444
Trade payables	50.403	45.517
Liabilities to affiliated companies	188	0
Liabilities to companies with a participatory relationship	36	0
Notes payable	0	166
Other liabilities	12.330	10.956
	87.802	70.783

The liabilities to banks increased substantially in fiscal 2007. This is attributable to Almec S.p.A. which was acquired during the year under review.

The maturity patterns of the liabilities can be summarised as follows:

2007 EUR ('000)	< 1 years	1-5 years	> 5 years	Total
Liabilities to banks	10.413	6.670	0	17.084
Advance payments received on orders	7.622	139	0	7.761
Trade payables	50.403	0	0	50.403
Liabilities to affiliated companies	188	0	0	188
Liabilities to companies with a participatory relationship	36	0	0	36
Notes payable	0	0	0	0
Other liabilities	10.468	735	1.128	12.330
	79.130	7.544	1.128	87.802

Of the liabilities to banks, TEUR 17,028 are secured by real estate liens. In addition, TEUR 5,338 of the liabilities to banks are collateralised by technical systems and machinery.

2006 EUR ('000)	< 1 years	1-5 years	> 5 years	Total
Liabilities to banks	472	1.000	228	1.700
Advance payments received on orders	12.444	0	0	12.444
Trade payables	45.517	0	0	45.517
Liabilities to affiliated companies	0	0	0	0
Liabilities to companies with a participatory relationship	0	0	0	0
Notes payable	166	0	0	166
Other liabilities	10.956	0	0	10.956
	69.555	1.000	228	70.783

Contingencies and commitments

Guarantee in favour of SIG Plastics

Bavaria Industriekapital AG has furnished a directly enforceable guarantee in favour of SIG Plastics for the commitment of Bavaria Maschinenbauholding AG to SIG Plastics.

The guarantee is limited to the amount of EUR 650,000. Furthermore, the guarantee is limited in time to all claims – rent payment claims as well as any claims for damages – limited to those rent payments that become due until the end of the fixed term of the lease agreement on 28 February 2007 and are asserted in writing by 31 December 2010.

In keeping with the agreement dated 6/13 February 2006, Baikap committed itself in favour of SIG Plastics Holding GmbH, Waldshut-Tiengen, to furnish a directly enforceable guarantee in favour of SIG Plastics for the guarantee commitment of Bavaria Maschinenbauholding AG to SIG Plastics Holding GmbH, Waldshut-Tiengen, with respect to any rent payments and any claims for damages to which SIG Plastics Holding GmbH, Waldshut-Tiengen, is entitled to in the future vis-à-vis Hamba Filltec GmbH & Co. KG, Neunkirchen, in connection with the lease agreement on account of a return of the leased property that is at variance with the agreement .

Assignment as security in favour of Zürich Versicherung

To secure all existing and future claims, including contingent and term claims, that Zürich Versicherung may have on Hering AG, Bavaria Industriekapital AG assigns its claims to the credit balance of an account to Zürich Versicherung. The bank account currently has a credit balance of about TEUR 150.

Sale of the Hamba group

The following contingencies and commitments result from the contract of sale of the Hamba group:

- In the event of breaches of duty by the seller BAVARIA Industriekapital AG, there may be claims for damages of the purchaser. In addition, a liability for third-party claims asserted against the sold group after the sale was assumed. The maximum liability limit for these circumstances is EUR 2.8m.
- The former shareholder of Steeltech s.a.r.l., Creutzwald/France, is included in the sold companies. In the event that any claims should arise in connection with the sale of Steeltech, which was insolvent at the time of the sale and was sold prior to the sale of the Hamba group, then the seller will also be liable for such claims.
- To secure the aforementioned claims up to an amount of EUR 5.0m, compensating balances in the same amount were deposited at Dresdner Bank, Munich, and pledged until 30 June 2008.

The aggregate liability of BAVARIA Industriekapital AG from the individual circumstances mentioned above is limited to EUR 14.2m.

In connection with the sale of the Hamba group, a guarantee was furnished in respect of the maintenance of a tenancy. In the event of a termination of the tenancy by the landlord or an increase of the existing rent, the seller shall assume extra costs of up to EUR 0.7m that might arise on account of a relocation or a higher rent. Starting at a specific rent amount, additional claims in excess of EUR 0.7m might arise which come to 50% of the amount that exceeds a specific rent.

Financial obligations

There are aggregate financial obligations of TEUR 18,436 (previous year: TEUR 39,650) resulting from purchase commitments and for the fixed basic terms of long-term tenancy and lease agreements. The financial obligations are broken down by maturities as follows:

	2007	2006
Term	**EUR ('000)**	**EUR ('000)**
< 1 year	12.910	29.694
1 - 5 years	2.424	8.096
> 5 years	3.102	1.860
Total	**18.436**	**39.650**

There are financial obligations in the amount of TEUR 11,519 (previous year: TEUR 25,167) from purchase commitments in connection with orders in the order backlog of the companies.

Other guarantees

Guarantees and advance payment guarantees in a total amount of TEUR 3,817 have been provided.

Notes to the profit and loss account

Sales revenue

The sales revenues of the companies consolidated for the first and last time, respectively, are included only pro rata from or to the time of the first or last consolidation, as applicable.

The turnover of the BAVARIA group is broken down by sales areas as follows:

EUR ('000)]	2007	2006
Germany	215.010	230.316
European Union	146.565	69.403
Other Europe	7.689	4.730
Americas	15.044	13.968
Asia	5.603	10.311
Africa	2.876	800
Others	16.950	3.102
	409.737	332.630

Other operating income

The other operating income is composed as follows:

EUR ('000)	2007	2006
Income from the disposal of fixed assets	22.444	285
Income from the dissolution of differences (negative goodwill)	8.906	19.219
Income from the final consolidation of interests in affiliated companies	3.359	3.670
Income from exchange rate gains	2.980	2.750
Income from debt consolidation	1.808	6.262
Income from the release of provisions	979	7.663
Income from the change of value adjustments	955	686
Income from the remission of liabilities	0	2.500
Others	4.306	4.380
	45.737	47.415

The **income from the disposal of fixed assets** essentially includes the income from the sale of the Hamba group and income from the sale of plots of land.

The **income from debt consolidation** mainly comes from Bavaria Chemicals (holding company of Elfotec AG and Elfotec Ltd.) in 2007. It is the result of the assumption of existing shareholder loans in connection with the acquisition and the netting of these debts with the higher nominal loan liabilities of the relevant consolidated company.

Cost of materials

The cost of materials was TEUR 250,822 in fiscal 2007 (previous year: TEUR 199,102).

Personnel costs

The personnel expenses rose significantly in comparison with the previous year. The increase can be attributed in particular to the newly acquired companies Almec (268 employees, personnel expenses of TEUR 3,313) and the Teksid group (581 employees, personnel expenses of TEUR 6,702).

EUR ('000)	2007	2006
Wages and salaries	82.893	72.113
Social security contributions and expenditure for retirement benefits and aid	21.402	16.454
	104.295	88.567

Amortisation on intangible assets

The goodwill of Elfotec Ltd. received in the fiscal year as a result of the transitional consolidation from proportional consolidation to full consolidation was exceptionally written down completely in an amount of TEUR 431 in the year under review, since a significant permanent diminution in value is expected on the basis of the current planning.

Depreciation

The depreciations of the fiscal year include extraordinary depreciations on tangible fixed assets in the amount of TEUR 1,016. They are the result of the inclusion of break-up values for three companies included in the consolidation which was chosen for reasons of prudence.

Other operating expenses

EUR ('000)	2007	2006
Repairs and maintenance	8.224	16.083
Packaging and freight	6.921	6.109
Losses from final consolidation	6.093	0
Administrative expenses	5.485	3.735
External services, insurance and contributions	5.253	1.041
Rent and leasing	5.160	6.985
Travel & entertainment	3.786	911
Addition of value adjustments	3.392	598
Exchange losses	3.049	1.936
Bad debt losses	2.145	167
Commissions	1.840	4.439
Others	15.366	2.828
	66.714	44.832

The other operating expenses in the amount of TEUR 15,366 include operating expenditure incurred at the level of the individual companies. They pertain to costs for end-of-year accounting work and audits, notary, court and lawyer fees, personnel recruitment costs, continuing education costs, remuneration of supervisory boards and advisory councils, etc.

Net interest income/loss

EUR ('000)	2007	2006
Interest received and similar income	1.873	800
Interest paid and similar charges	−1.024	−715
	849	85

The interest charges in 2007 essentially relate to financing costs from factoring by Almec S.p.A. and Fonderies du Poitou Aluminium SAS.

Extraordinary profit/loss

The extraordinary profit/loss essentially results from the inclusion of liquidation values for three companies included in the consolidation which was chosen for reasons of prudence. They pertain to the devaluation of assets to their realisable value in the event of a break-up and the creation of additional provisions for closing costs.

In addition, the extraordinary profit/loss includes costs incurred in connection with the shutdown of the operations at the location Switzerland of the Elfotec group.

Taxes on income and earnings

The charges for taxes on income include both the taxes on income and earnings to be paid directly as well as the deferred taxes.

Deferred taxes are created for the tax consequences of temporary differences of the results between the balance sheet for tax purposes and the commercial balance sheet, where the effect of differences that are unlikely to balance each other out in the foreseeable future remains unaccounted for. Deferred taxes by reason of temporary differences can occur both in the individual accounts of the companies liable to tax and in the group accounts in connection with valuation and consolidation measures.

VII. Segment reporting

In the annual report 2006, we have used a form of segment reporting that saw every single subsidiary as a segment. In keeping with the internal management reporting procedure and due to the abundance of included companies, we consider it advisable to use a segment reporting by industry instead.

The segment "Series/Automotive" encompasses companies which manufacture parts in series and operate, amongst others, in the automotive supplier segment. These are the companies Kienle + Spiess group, Almec, Fonderies du Poitou and Paulmann & Crone. The segment "Engineering and Equipment Manufacturing" encompasses all companies operating in the plant construction and mechanical engineering industry. They are Hering, Hamba, Langbein & Engelbracht, Steeltech and SwissTex. The segment "Business Services" includes all operating companies in other industries. They are NEEF IT, Alma Küchen and the Elfotec group. The segment "Others" essentially contains the non-operating holdings and intermediate holdings of the BAVARIA Group.

The after-tax net income for the year is shown as "segment result". Sales transactions between the segments are made at prices that correspond to the arm's length principle.

The segments of the previous year were appropriately adapted in order to ensure the comparability of the presentation.

The segment reporting was drawn up on the basis of the principles of DRS 3:

31.12.2007 EUR ('000)						
Sales	**Serie/ Automotive**	**Engineering**	**Business Services**	**Others**	**Consolidation**	**Group**
with external third parties	279.202	101.260	29.037	116	0	409.615
with group companies	121	33	128	2.998	−3.158	122
Segment net income	−11.144	1.203	−3.496	7.808	10.863	5.234
depreciation included therein	10.185	1.033	1.835	5.004	−4.147	13.910
interest income included therein	38	144	0	667	0	849
tax charges included therein	−3.662	−1.164	−9	−548	2.602	−2.781
other non-cash items	−13.975	181	858	−4.282	7.292	−9.926
income/loss from holdings in consolidated companies	0	0	0	11.210	−11.210	0
Segment assets and debts						
Assets (including portfolio investments)	199.208	57.833	4.552	47.266	−31.467	277.392
Investments in long-term assets	12.210	595	387	96	1.427	14.715
Debt	159.792	47.291	13.517	2.020	−36.185	186.435

31.12.2006 EUR ('000)	Serie/ Automotive	Engineering	Business Services	Others	Consolidation	Group
Sales						
with external third parties	179.059	115.024	38.547	0	0	332.630
with group companies	0	0	6	2.199	−2.205	0
Segment net income	1.795	5.621	−1.450	4.123	21.434	31.523
depreciation included therein	7.066	1.420	777	106	4.733	14.102
interest income included therein						
tax charges included therein	−356	46	7	388	0	85
other non-cash items	387	−2.808	0	−2.852	2.226	−3.047
income/loss from holdings in consolidated companies	8.703	482	768	4.764	26.613	41.330
depreciation included therein	0	0	0	13.706	−13.706	0
Segment assets and debts						
Assets (including portfolio investments)	132.290	72.532	21.875	46.326	−40.591	232.432
Investments in long-term assets	3.137	438	198	2.252	7.875	13.900
Debt	118.632	58.348	23.474	72.569	−111.031	161.992

Transitions to the Group column

Segment result 2007

The consolidation column 2007 essentially includes the final consolidation profits and losses (EUR -2.7m), the elimination of value adjustments created and of distributions made between segments (EUR 1.3m), the dissolution of liabilities-side balancing items (EUR 8.9m), deferred taxes (EUR 2.6m), income from debt consolidation (EUR 1.5m) and the amortisation of goodwill, unless it is allocated to the segments (EUR -0.7m).

Depreciation/amortisation 2007

The consolidation column 2007 includes the elimination of write-downs on financial assets created on the level of individual accounts between segments (EUR -4.8m) and the amortisation of goodwill, unless it is allocated to the segments (EUR 0.7m).

Other non-cash items 2007

The consolidation column 2007 predominantly includes the dissolution of liabilities-side balancing items (EUR 8.9m), the final consolidation profits and losses (EUR -2.7m), income from deferred taxes (EUR 2.6m), the eliminations of loan waivers between segments (EUR -3.0m) and income from debt consolidation (EUR 1.5m). The segments "Automotive/Series" and "Business Services" predominantly contain the extraordinary profit/loss in the amount of EUR -16.9m resulting from the inclusion of liquidation values for three group companies which was made for reasons of prudence. These expenditures essentially arose from the more cautious valuation of assets and from the inclusion of additional provisions and liabilities for the event of liquidation.

Segment assets and segment debts 2007

The consolidation columns 2007 predominantly include the elimination of receivables and payables between the segments.

Segment result 2006

The consolidation column 2006 essentially includes the dissolution of liabilities-side balancing items (EUR 19.2m), final consolidation profits (EUR 3.7m), income from debt consolidation (EUR 1.5m) unless allocated to the segments, deferred taxes (EUR 2.2m), as well as amortisation of goodwill, unless it is allocated to the segments (EUR -4.8m).

Depreciation/amortisation 2006

The consolidation column 2006 essentially includes amortisation of goodwill, unless it is allocated to the segments (EUR 4.8m).

Other non-cash items 2006

The consolidation column 2006 predominantly includes the dissolution of liabilities-side balancing items in the amount of EUR 19.2m, income from debt consolidation in the amount of EUR 1.5m, final consolidation profits in the amount of EUR 3.7m, as well as deferred taxes in the amount of EUR 2.2m.

Segment assets and segment debts 2006

The consolidation columns 2006 predominantly include the elimination of receivables and payables between the segments.

VIII. Other information

Executive Board and Supervisory Board

Executive Board

Reimar Scholz, Dipl. Kaufmann, Gauting
(Chief Executive Officer)

Jan C. Pyttel, Dipl. Kaufmann, Munich
Portfolio: Portfolio Company Management
(departed on 31.03.2007)

Robin Laik, Dipl. Kaufmann, Munich
Portfolio: Finance
(departed on 13.07.2007)

Supervisory Board

Dr. Matthias Heisse, attorney, Munich
(Chairman)

Bernard Jan Wendeln, businessman, Munich
(Deputy Chairman)

Dr. Gernot Eisinger, businessman, Munich

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

Included are remuneration packages to Supervisory Board members in the amount of EUR 40,000.00 (previous year: EUR 29,589.80), of which EUR 0.00 (previous year: EUR 9,166.99) was paid to former members of the Supervisory Board.

The following fees were paid by the BAVARIA Group during the reporting period in connection with separate consulting agreements (according to § 114 of the Stock Corporation Act) to the law firm of Heisse Kursawe Eversheds, in which Dr. Heisse is a partner:

	EUR
BAVARIA Industriekapital AG	157.237,44
Affiliated companies	9.913,82
	167.151,26

The not performance-related and performance-related total remuneration of the Executive Board within the meaning of § 285 no. 9 of the Commercial Code amounted to EUR 545,427.04 during the fiscal year. A severance payment in the amount of EUR 430,000.00 paid in January 2008 is added to this. A provision was set up for this as at the balance sheet date.

During fiscal 2007, no stock options were issued to the Executive Board (previous year: with a market value of EUR 251,351.00).

Employees

The companies included in the consolidated financial statements as at 31.12.2007 had an average workforce during the year of 2,778 employees (previous year: 2,946 employees). The head count of the BAVARIA Group developed as follows:

	2007	2006
Industrial employees	2.044	1.919
Salaried staff	661	918
Trainees and apprentices	73	109
	2.778	2.946

Schedule of shareholdings

Schedule of the shareholdings as at 31.12.2007			Share of equity in % direct	Share of equity in % indirect	Equity	Profit/ loss for the year
Group parent company					EUR ('000)	EUR ('000)
BAVARIA Industriekapital AG, Munich					45.388	23.178
Companies included in the consolidation						
Executive Consulting AG, Munich			100,00		57	−23
Hering Wärmetauscher Holding AG, Munich			95,00		48	−2
Hering AG, Gunzenhausen				90,00	1.323	2.157
Neef IT Solutions AG, Karlsruhe			78,00		5	131
BAVARIA Maschinenbau Holding II AG, Munich			88,75		33	801
Langbein & Engelbracht GmbH, Bochum				83,43	5.906	694
Langbein & Engelbracht Industrial Eng.&. Co., Shanghai / China				83,43	46	33
Verwaltungsgesellschaft 0906 GmbH, Munich			100,00		4	6
Blitz 05-316 GmbH & Co. KG, Munich			100,00		55	9.425
R&E Automationstechnik GmbH, Fellbach-Schmiden	(1)		50,00		38	36
Kienle+Spiess GmbH, Sachsenheim				94,90	25.129	20.879
Kienle + Spiess Hungary Kft, Tokod / Hungary				94,90	11.197	2.634
Wardstorm Ltd., Ellesmere Port / UK				94,90	10.553	48
Sankey Laminations Ltd., Ellesmere Port / UK				94,90	7.275	1.508
G.L. Scott & Co. Ltd., Ellesmere Port / UK				94,90	3.650	−5.299
Bavariaring 0906 GmbH, Munich			100,00		12	−11
SwissTex Winterthur AG, Winterthur / Switzerland			100,00		3.320	−336
Force Ltd., Birmingham / UK	(1)		75,00		0	0
Oldenburg Ltd., Birmingham / UK	(1)		100,00		0	0
Bavaria Chemicals GmbH, Munich			75,00		23	-2
Bavaria Maschinenbau Ltd., Sliema / Malta	(1)		100,00		1	0
Elfotec AG, Mönchaltdorf / Switzerland				75,00	3	−4.657
Elfotec Ltd., Annacotty / Ireland				75,00	0	1.917
baikap Holding 010607 GmbH, Munich			100,00		25	0
baikap Holding 020607 GmbH, Munich	(1)		100,00		25	0
ALMEC S.p.A., Nusco / Italy		(2)		100,00	−18.966	−19.265
baikap Holding 030807 GmbH, Munich	(1)		100,00		25	0
baikap Holding 040807 GmbH, Munich	(1)		100,00		25	0
Fonderies Aluminium de France SAS (formerly TK Aluminum-France SAS), Paris / France		(2)		100,00	657	−135
Fonderie Aluminium de Cléon SAS, Cléon / France	(1)	(3)		100,00	8.888	−19.337
Fonderie du Poitou Aluminium SAS, Ingrandes sur Vienne / France		(2)		100,00	32.906	747
Teksid France SAS, Paris / France		(2)		100,00	925	51
Teksid Deutschland GmbH, Heilbronn (in liquidation)	(1)	(4)		100,00	65	28

(1) not consolidated pursuant to § 296 HGB
(2) consolidated values only (from the time of first consolidation)
(3) profit/loss for the year 2007 or shareholders' equity as at 31.12.2007 according to local accounting principles
(4) profit/loss for the year 2006 or shareholders' equity as at 31.12.2006 according to local accounting principles

The profit/loss for the year was determined in accordance with the accounting principles of the Group. Unless otherwise indicated, the data on shareholders' equity and net income for the year relate to the parameters shareholders' equity and net income for the year incorporated in the group accounts. Thus, there may be deviations from the individual accounts which were prepared according to local accounting principles.

Distribution of profits / dividend proposal

In 2007, BAVARIA Industriekapital AG distributed dividends in the amount of EUR 6,615,000.

The Executive Board and the Supervisory Board of BAVARIA Industriekapital AG will propose to the shareholders at the General Shareholders' Meeting of the Company that a dividend of EUR 3.00 per share for the fiscal year 2007 be paid out of the retained earnings of BAVARIA Industriekapital AG in the amount of EUR 28,681,301 and that the remaining amount be carried forward to new account.

Munich, 30 April 2008

Reimar Scholz
The Executive Board

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 2007. 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 German Commercial Code (HGB) 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, in compliance with the principles of proper accounting, 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, 30. April 2008
PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Michael Schommer)
Auditor

(ppa. Rudolf Keul)
Auditor

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The Report is available on the Internet in German and English.

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