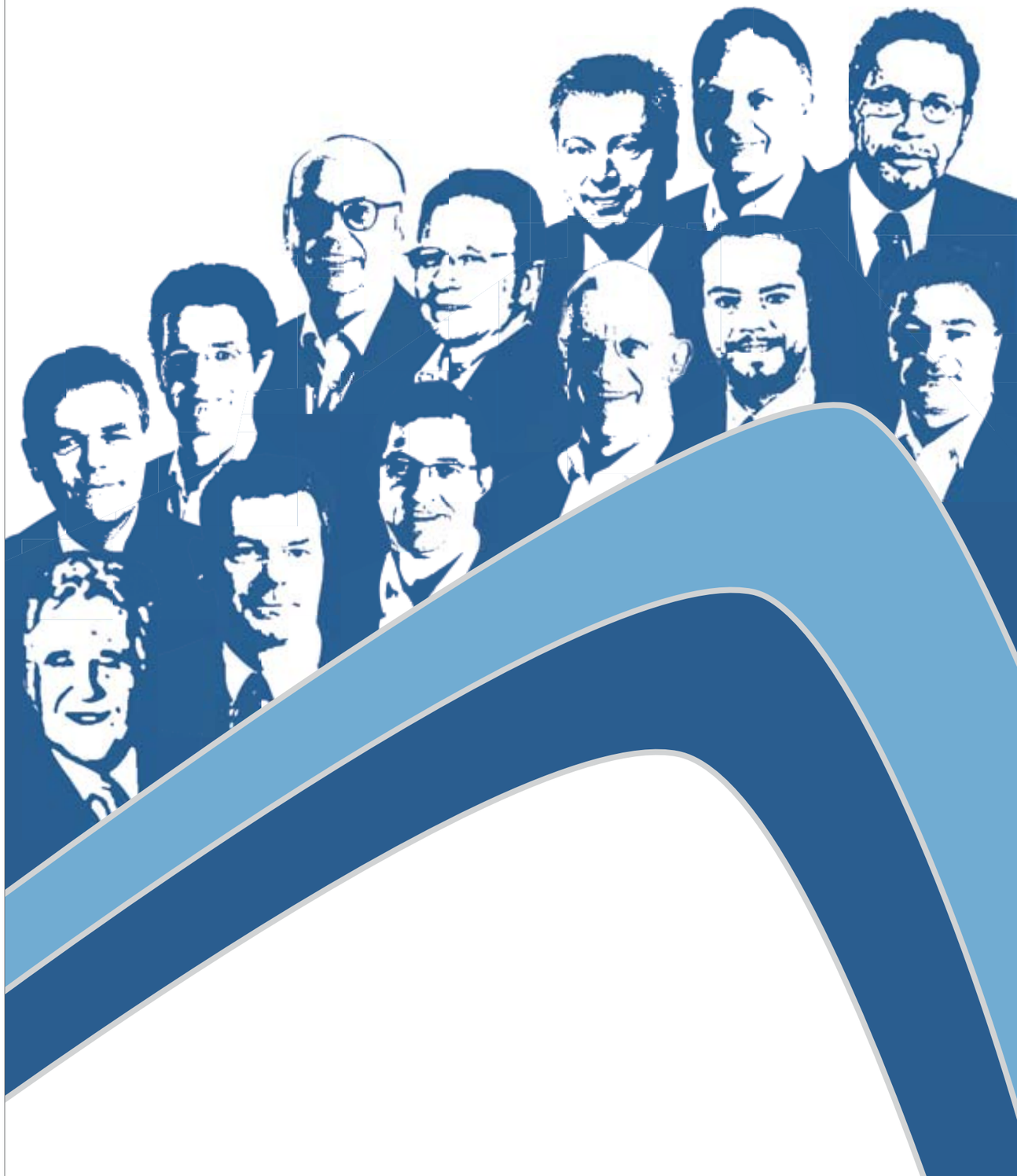
BAVARIA
Industriekapital AG

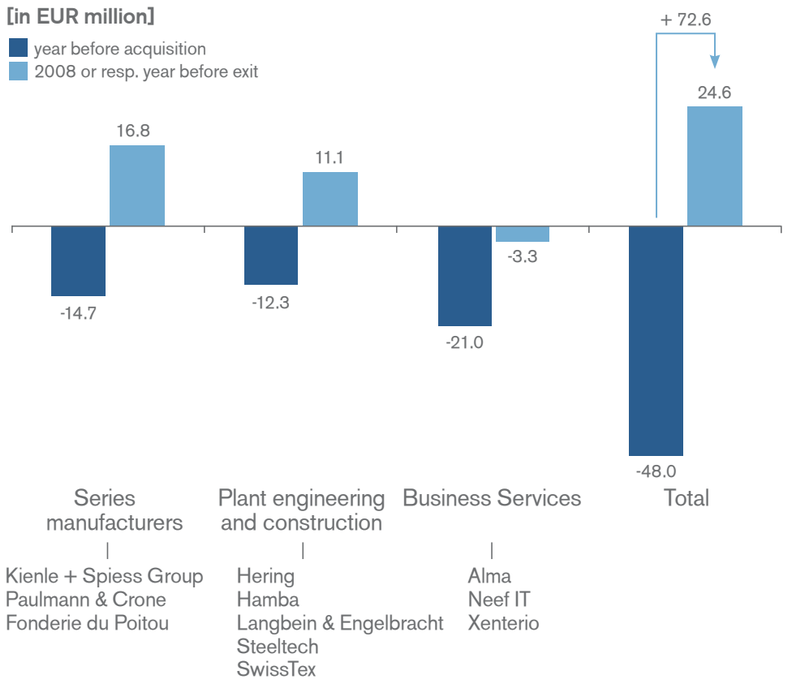
Dare to think.
Dare to act.
Dare to dream.

ANNUAL REPORT 2008

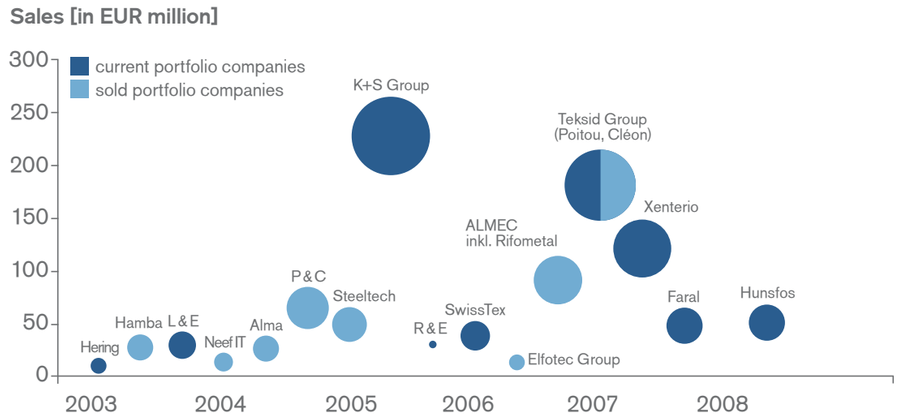
EACH INDIVIDUAL COUNTS!



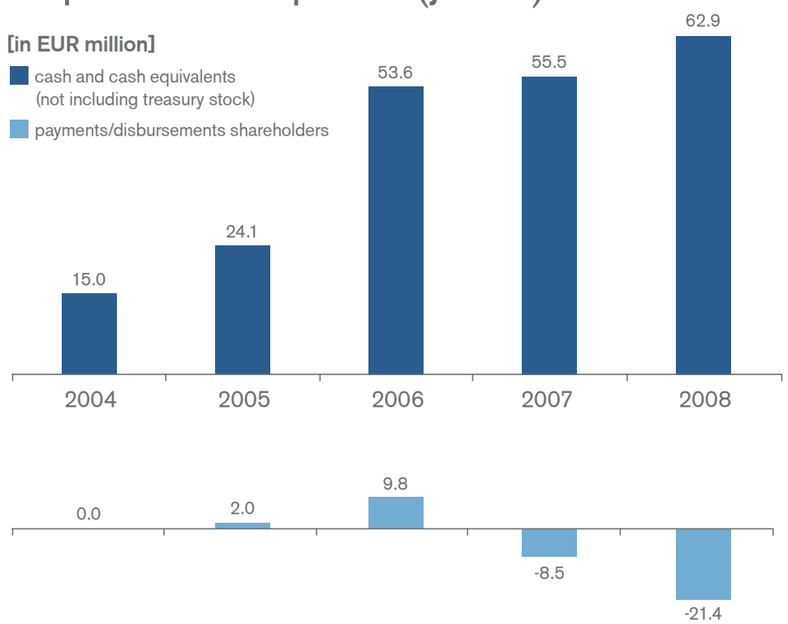
Development of EBITDA after acquisition



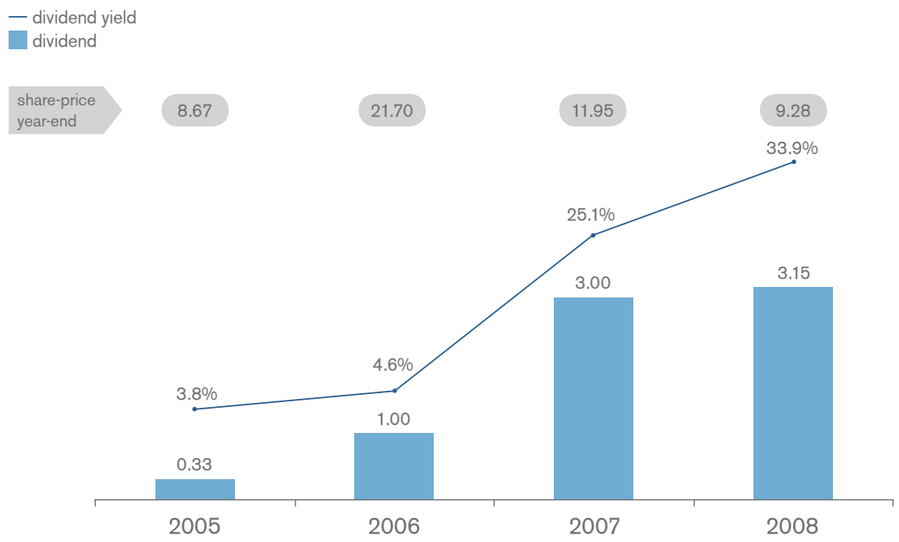
Deal size



Group cash and cash equivalents (year-end)



Dividend yield



Group key figures

	2008	2007	2006
Earnings in EUR million			
Group turnover	485.4	409.7	332.6
EBITDA (before dissolution of negative goodwill)	37.3	29.1	32.1
Group net result	23.2	5.2	31.5
- thereof dissolution of negative goodwill	13.1	8.9	19.2
Balance sheet in EUR million			
Equity	58.5	58.6	61.2
Total assets	321.7	277.4	232.4
Fixed assets	104.5	82.2	56.1
Cash flow in EUR million			
Cash flow from current operations	38.2	-4.8	15.5
Cash flow from capital expenditure	-13.2	9.7	-0.7
Cash flow from financing	-20.3	-11.2	9.7
Cash and cash equivalents (without treasury stock)	62.9	55.5	53.6

Content

Letter from the Executive Board

Dear shareholders, dear business associates,

during the financial year 2008, BAVARIA Industriekapital AG was able to achieve an impressive improvement of its performance. Compared to the previous year, the group turnover rose by 18% to EUR 485.4 million, and the net income for the year amounted to EUR 23.2 million. The operating earnings before income, taxes, depreciation and amortisation (EBITDA) in the group increased by 28% to EUR 37.3 million. The EBITDA in the Series Manufacturing / Automotive segment amounted to EUR 18.4 million, while the operating income in the Plant Engineering segment of EUR 2.6 million was offset by the losses of EUR 2.9 million in the Business Services area. Nevertheless, the rapid restructuring success at the newly acquired companies is particularly pleasing: After operating losses at Xenterio GmbH (Business Services) and Faral S.p.A. (Series Manufacturing) in an amount of EUR 8.7 million during the first half of the year, the result in the second half was already positive with EUR 1.1 million. The performance trend at Fonderie du Poitou (Automotive) was less satisfactory. Following several years of losses prior to our takeover, we were able to raise the earnings in the first half of 2008 to EUR 4.1 million which corresponds to an EBITDA margin of approximately 8%. Unfortunately, the sales crisis hit us very hard here: The turnover in the second half of the year dropped roughly by one half and the operating loss came to EUR 2.6 million.

The positive trend does not only show up in the accounting results, but especially in the strong cash flow of the BAVARIA group. In 2008, a total of EUR 17.3 million was invested in tangible assets and the disbursements to shareholders added up to EUR 21.4 million, while the borrowed funds declined by EUR 8.3 million to a total of EUR 8.8 million in the group. In addition, the liquid funds increased by EUR 6.6 million to EUR 57.0 million. In view of this, we propose to the General Shareholders' Meeting to increase the dividend by 5% to EUR 3.15 per share. With the dividend payment of EUR 19.7 million in May 2009 and the stock buybacks in the amount of EUR 2.2 million in 2008 and 2009, an aggregate amount of EUR 51.8 million will have accrued to our shareholders since the initial public offering. In contrast, the proceeds from the IPO at the beginning of 2006 only amounted to EUR 12 million net.

In view of the general economic turmoil, the question how BAVARIA will fare commercially and financially is of particular interest. In several respects, BAVARIA Industriekapital AG is well positioned:

Sound financial basis
Compared to many of our competitors, we have the advantage of being only slightly indebted and holding substantial cash balances. For reasons of precaution, we have secured additional factoring and bank credit lines in order to be better prepared for this crisis. None of our investee companies had to take out loans to finance the acquisition. On the contrary, we strive to reduce existing liabilities to banks as quickly as possible after the takeover. Thus, in the case of Faral S.p.A. for example, which we acquired in June, we were able to transform the liabilities to banks in the amount of EUR 2.6 million that existed at the time of the acquisition into a positive balance of EUR 1.4 million at the end of the year by means of better working capital management, and we accomplished this despite the fact that we also had to finance a social compensation plan at a cost of EUR 1.5 million following the takeover.

Increased efforts in sales and marketing
At all of our affiliated companies, we have strengthened the sales department in order to exploit the financial weaknesses of our competitors and to gain market share. Especially during a crisis, it is crucial to the customers that their suppliers have a sound financial basis and are not adversely affected by a high interest and repayment load.

Extensive investments in new technologies
Our rate of investment last year stood at approximately 3.6% of sales and our companies have used the last few years to further expand their technological leadership. Thus, we have created additional production capacity in Hungary at the Kienle + Spiess group (K+S) in order to benefit from the lower labour costs and to handle the catch-up demand in Eastern Europe. Investments were made in new technologies such as "Glu-lock" and in a standardised SAP enterprise resource planning system. At the headquarters in Sachsenheim, a new production hall with flexible manufacturing cells was built in order to strengthen the project business. With K+S, we supply rotors to the major wind power systems manufacturers and key components for the hybrid engines of well-known German automakers. We also benefit from the trend to higher energy efficiency at our other investee companies: Langbein & Engelbracht with a new process for residual material drying and Hering with heat exchangers that are used in many industrial processes for energy recovery. Aluminium radiators made by Faral require lower flow temperatures to generate heat in living quarters and thus support power saving. At Xenterio, we stand to gain from the planned capital expenditures for new broadband technologies in the telecommunications sector. SwissTex has developed innovative solutions for the textile industry and beefed up its service operations in order to reduce the dependence on the project business.

BAVARIA virtues are in demand
Particularly at times like these, the most important BAVARIA virtues initiative, thriftiness and responsibility are sought after. Only a managing director who perceives himself as an entrepreneur reacts in time to a slowdown in incoming orders by adjusting his costs through measures such as reduced working hours or reduction of the temporary staff. He does not wait for the placet of the top management of a group. The consistent quest to work as efficiently as possible has the effect that our managing directors, together with the workforce, are continuously working on increasing the inventory turnover, reducing the working capital and optimising the flow of production to lower the costs. In the team meetings of our managing directors, the numbers speak: Our BAVARIA Operating System focuses the attention on the essential key parameters in the individual divisions and the most important measures to improve the efficiency.

The majority of the share capital of BAVARIA Industriekapital AG is family-owned, and the company therefore places emphasis on a long-term time horizon in its investment decisions. Our belief in the future earning power of BAVARIA is expressed in the extensive share purchases by the Executive Board that were made in 2008 and in the repeated buybacks of its own stock by the company.

Our social commitment is shown in our high proportion of apprentices of 6.2 % in Germany and as well in a charitable contribution of a five-figure amount to Ashoka. The association supports social entrepreneurship worldwide and currently assists the initiative of Professor Meinrad Armbruster who is fighting one of the major injustices in Germany through the Eltern-AG: that children from poor, educationally deprived social strata have worse educational and career opportunities than children of affluent parentage.

We assure our shareholders and business associates that we feel very confident with respect to the further development of BAVARIA Industriekapital AG, despite the difficult economic environment. Particularly the opportunity to acquire new participations on attractive terms and conditions makes us optimistic.

We thank our shareholders and business associates for the confidence they have extended to us. We welcome any suggestions, improvement proposals and information on potential acquisitions.

Reimar Scholz
Spokesman of the Executive Board

Harald Ender
Member of the Executive Board, Operations

Introduction of the organs

Executive Board

Mr. Dipl.-Kfm. Reimar Scholz (CEO)

MBA (INSEAD, Fontainebleau)

Reimar Scholz is Chief Executive Officer and founder of BAVARIA Industriekapital AG. The Diplom-Kaufmann, born in 1965, 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.

Mr. Dipl.-Ing., Dipl.-Kfm. Harald Ender (COO)

entry date September 1, 2008

Harald Ender, born in 1952, is Chief Operating Officer of BAVARIA Industriekapital AG. Following his studies at RWTH Aachen, Mr. Ender has almost exclusively worked at automotive suppliers throughout his career since 1978, serving as managing director, COO, vice president and president during the last 15 years. He executed numerous corporate restructurings during this time, primarily with the help of lean management methods. His last project for BAVARIA was the restructuring of Paulmann & Crone GmbH.

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 2008

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 five Supervisory Board meetings took place on 12.02.2008, 10.03.2008, 08.05.2008, 19.09.2008 and 24.11.2008. Outside of formal meetings, the Supervisory Board passed resolutions by phone or electronic communications. 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. The Executive Board informed the Supervisory Board written and monthly via a detailed report focussing on the subjects of the funding of the Company and risk management about the 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 and resolutions were passed where required.

1. Focus of deliberations of the Supervisory Board

During the fiscal year 2008, the deliberations of the Supervisory Board focussed on:

- Business developments of the Group and AG, budgets and the status of the acquired portfolio companies with special consideration of the Deal Flow;
- Fundamental questions with respect to corporate policies, such as the implementation of an early risk detection system and the structuring of transaction processes, including formal issues such as the drawing up of the Executive Board's rules of procedures;
- Important topical issues, especially concerning the strategic orientation of Bavaria Industriekapital AG, the business development and personnel matters, focussing particularly on the optimisation and administration 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, the management report and the group management report were audited by RP Richter GmbH Wirtschaftsprüfungsgesellschaft, Munich, which was chosen as auditor by the General Shareholders' Meeting. The Supervisory Board has on hand a statement of independence 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 27.03.2009, 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 management report, the group management report and the proposal of the Executive Board on the appropriation of retained earnings.

Accordingly, on 27.03.2009 the Supervisory Board established the annual accounts of Bavaria Industriekapital AG for fiscal 2008 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 external auditors audited the dependent company report of the Executive Board and issued the following unqualified audit opinion: "Based on the results of our statutory audit and our judgment we confirm that 1. the actual information in the report is correct; 2. the Company's compensation with respect to the legal transactions listed in the report was not inappropriately high." Based on the final result of the Supervisory Board's own review of the dependent company report, the Supervisory Board agrees to the audit report of the external auditors and there are no objections to the Executive Board's declaration at the end of the dependent company report.

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 2008, 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 2008.

Harald Ender joined the Executive Board in the fiscal year 2008.

4. General Shareholders' Meeting of Bavaria Industriekapital AG in fiscal 2008

The regular General Shareholders' Meeting of Bavaria Industriekapital AG took place on 20.06.2008. 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 borrow new authorised capital.

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 2008. The Board wishes them every success for the further development of the Company during the new fiscal year.

Munich, 27 March 2009

On behalf of the Supervisory Board

Dr. Matthias Heisse
- Chairman -

The BAVARIA share

In the first six months of 2008, inflationary fears weighed heavily on the stock markets, driven by surging energy and commodity prices. The second half of the year was dominated by the US mortgage debacle, which developed into a worldwide financial crisis. In the wake of a rapidly worsening economic outlook and collapsing commodity prices, the mood of market participants began to nosedive. Massive intervention by central banks and governments was unable to restore investor confidence in the financial markets.

Unfortunately, the shares of BAVARIA Industriekapital AG were unable to escape the overall bearishness on the financial markets. However, the company has taken advantage of the current market situation by repurchasing more of its shares. While 220,500 shares had been repurchased up until the annual shareholder meeting on June 2008, a further 139,458 shares were reacquired in the second half of the year.

From the initial public offer in January 2006 to the end of March 2009, a total of EUR 4.2 million was spent on share repurchases. During the same period, EUR 51.8 million flowed back to the shareholders (including the EUR 19.7 million dividend planned for 2008), while net proceeds amounted to EUR 12.0 million, based on an issuing price of EUR 8.67 per share (after the stock split).

The shares closed the year 2008 at a quoted price of EUR 9.28 per share, which translates into a market capitalisation of about EUR 59 million.

Facts & figures on the share

Number of shares	6,394,500
Share type	Bearer share certificates
Share capital	EUR 6,394,500.00
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	Elektronischer Bundesanzeiger (German Federal Gazette)
Top price in 2008 (05.05.2008)	EUR 16.50
Lowest price in 2008 (21.11.2008)	EUR 7.40
Closing price (31.12.2008)	EUR 9.28
Market capitalisation (31.12.2008)	EUR 59.34 Mio.
Earnings Holding per share	EUR 2.17 (fiscal year 2008)
Dividend per share	EUR 3.15 (fiscal year 2008)

Corporate Governance – Statement of compliance 2009

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 Executive Board and the Supervisory Board of BAVARIA Industriekapital AG have announced that they have complied with and will 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 6, 2008 along with the following exceptions:

Executive Board

Differing from cipher 4.2.1 of the codex the Executive Board has not consisted of several persons during the year under report. However, since September 1, 2008 BAVARIA Industriekapital involves two persons in the Executive Board again.

The individual disclosure of the board members' compensation 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 will not 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 does not convert its accounting to meet the IFRS regulations, for such an adjustment is not considered to be a benefit in the light of time and cost efforts involved.

Munich, March 27, 2009

Reimar Scholz
Executive Board

Harald Ender

Dr. Matthias Heisse
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. The reporting is 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 2008 (issued as of 8 May 2008)

BAVARIA Industriekapital AG has issued its statement of compliance in 2008 with only the following deviations from the German Corporate Governance Codex:

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.

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 aspires a sustained increase of the enterprise value. The Executive Board of BAVARIA Industriekapital AG formally consists of two persons 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.

The organisation and realisation of the annual General Shareholders' Meeting is carried out with the aim 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 20 June 2008.

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 during the last fiscal year, allocated as follows:

Dr. Matthias Heisse (Chairman)	EUR 20,000
Bernard Jan Wendeln	EUR 10,000
Dr. Gernot Eisinger	EUR 10,000

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

EUR 88,312.52 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 639,333.32 during the last fiscal year. Of this total, EUR 449,333.32 were fixed and EUR 190,000.00 were performance-based payments. The performance-based payments (ca. 30% of the total remuneration) essentially take their bearings from individual- and company-related objectives. Furthermore each board member can earn a share-based variable bonus through a virtual company model. 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 program in accordance with the recommendations of the codex which serves as a remuneration component with long-term incentive effect. Details of the program are described below.

Information on stock option programs

information on our stock option program are included in the appendix to the 2008 annual report. In addition, information on the current status of the stock option program is available on our website (www.baikap.de).

Share property of Executive Board and Supervisory Board at the BAVARIA Industriekapital AG

The ownership of company shares by members of the board and/or the Supervisory Board are to be disclosed individually, if these amount to more than 1% – held directly or indirectly – of the company's issued shares.

Members of the board of BAVARIA Industriekapital AG own – directly or indirectly – the following shares at 31 December 2008 and at 31 December 2007:

Member of the board	31.12.2008 shares	31.12.2007 shares
Reimar Scholz	**4,239,485**	**2,458,485**
Harald Ender	**92,500**	**33,941**

The total shareholdings of all members of the Supervisory Board regarding the issued capital of the company amounted to 15,000 shares at 31 December 2008 (in the previous year 15,000 shares).

Insurances for the members of the Supervisory Board and the Executive Board

The BAVARIA Industriekapital AG has consequential loss insurances (D&O-insurances) for the members of the Supervisory Board and the Executive Board of the company with an appropriate own-risk clause.

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

The BAVARIA Industriekapital AG with its chance and risk management is able to systematically identify chances and risks, estimate them and take corresponding measures. The system is continuously evolved further by the company.

RP Richter GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed as auditor of BAVARIA Industriekapital AG for the fiscal year 2008. 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.

Prevention of conflicts of interests

Business dealings or secondary employments of members of the Executive Board are to be disclosed in due course to the Supervisory Board and they are to be duly authorised by it before admission. The Supervisory Board reports to the General Shareholders' Meeting about any conflicts of interests and consequences. In the year under review, conflicts of interests did occur neither with members of the Executive Board nor with members of the Supervisory Board.

Presentation of BAVARIA Industriekapital AG

Formed in 2003, BAVARIA Industriekapital AG is an industrial holding company with the objective of serving as a strong partner to small and medium sized enterprises with weak earnings by providing comprehensive and sustained revitalization approaches. Our business strategy is based on the fundamental idea of acquiring non-core activities that offer increased development potential and improved earnings as autonomously managed entities. Our focus is not limited to earnings enhancement, competitiveness and cash-management alone, but also notably comprises the aspect of stimulating the employee's initiative. In the course of restructuring, we deploy our own team of specialists to actively support the investee company's management team.

For many companies, the alternative to acquisition by BAVARIA would have been going out of business. This would obviously have eliminated every single job. Under BAVARIA's ownership, companies have instead been able to expand their workforce over the long term, once the initially required personnel cuts had been made. We rely strongly on the capabilities and initiatives of the employees as they are the key factors for a success in the long run.

None of our affiliated companies has had to take out loans because of us. We earn money when the company generates positive results, implements necessary investments and is then able to distribute a dividend to the shareholder, or, alternatively, when the company is sold at a profit.

Our acquisition criteria are as follows:

Target industries: manufacturing or industrial services
Minimum Turnover: EUR 50 million or more
Mode of investment: acquisition of a majority stake, if possible 100%
The company must have discernible improvement potential

We continually evaluate prospective acquisition candidates whilst maintaining a steady acquisition rate. By fostering consistent performance enhancement and growth, we ensure a solid financial foundation for our investee companies.

Our philosophy
We act as a strong partner and mentor to our investee companies. We provide effective, long-term support while safeguarding jobs to the maximum possible extent. Integrity, trust and responsibility are our guiding principles.

Responsibility
We are always conscious of the huge responsibility we assume when we take over a distressed company. Thus, we make decisions in the interests of all stakeholders and stand ready to bear the consequences of such decisions. In this spirit, the Executive Board of BAVARIA has created a proprietary risk-management system that helps us promptly identify any developments that imperil the survival of an investee company.

Integrity
To us, integrity means dedication, transparency, fair dealing and a reliable modus operandi. We not only deliver these attributes ourselves, but we also expect them from our partners. Working on the basis of mutual trust and close collaboration with the investee company, we strive to restore economic efficiency and long-term profitability.

Willingness to perform
Only by setting ambitious targets can we challenge ourselves to achieve our full potential. After all, a willingness to perform is the foundation of all successful, results-oriented work. Thus, we challenge our investee companies to achieve the objectives mutually agreed upon.

Teamwork
We put a strong emphasis on teamwork. This facilitates innovation and creativity. In addition, an entrepreneurial management style inspires the investee company's workforce to greater achievement, ultimately enhancing their chances for professional advancement.

Restructuring Approach

BAVARIA Industriekapital AG acquires companies with clear improvement potential and then works to boost their earnings by means of active management. Even before a transaction is completed, a best-practice team is set up to devise a concrete action plan. This is then implemented in collaboration with the investee company's management. Moreover, management participates in success through a profit-sharing scheme, thus reinforcing the role of the senior executives as "entrepreneurs". The best-practice team supports management on site and assists in the rapid implementation of the restructuring plan.

Our track record speaks for itself: even companies that were losing money for years have been brought back into the black within a short period. For the previous owners, the disposal of unattractive marginal activities allows them to once again focus on their core business. In addition, jobs are safeguarded and the company can rely on BAVARIA Industriekapital AG's support as a long-term investor. BAVARIA's successful shareholdings also extend to sectors such as plant engineering, as well as cyclical sectors likely to be shunned by traditional financial investors.

Since its founding in 2003, BAVARIA Industriekapital AG has experienced vigorous growth. Our investment portfolio currently comprises eight going concerns. The Group's total workforce consists of more than 3,000 employees.

Pro Bono

EXIT Germany
In November 2008, BAVARIA Industriekapital AG supported the non-profit organisation EXIT (www.exit-deutschland.de) with a contribution in the amount of EUR 50,000. With this contribution, BAVARIA provided important assistance to dropouts from the extreme right-wing milieu, enabling them to start a new, self-determined life. Both BAVARIA and the EXIT organisation consider it essential to improve the perspectives for the future and to be a competent contact person at all times. This common ground and the desire for social commitment are the reason why BAVARIA is sticking up as a mentor for EXIT.

Until EXIT receives a financial aid commitment from the government, the continuation of its non-profit activities depends on the financial support from generous proponents of its concept.

ASHOKA – Innovators for the public
We are proud to support Ashoka, an association that sponsors social entrepreneurs in Germany and around the world. Many problems can be solved with more private initiative instead of government regulations or subsidies.

Interview – Xenterio GmbH

Mr. Dr. Gerhard Kleineidam
Managing Director

1. Please give our readers a brief overview of the business segment of Xenterio GmbH!

Xenterio operates in the sector of Electronic Manufacturing Services (EMS) and has specialised mainly on the production of communications technology equipment and systems, in addition to the business segments control engineering and safety engineering. Our range of services extends from the manufacturing of prototypes to mass production to after sales services. In 2008, we generated a total turnover of approximately EUR 80 million with about 350 employees at our Offenburg location. This makes us one of the top ten EMS providers in Germany.

2. What were the particular challenges in the takeover of Xenterio?

As a result of drastic changes in trading with major customers, Xenterio had already gotten into a very precarious situation in 2007 (under its former owner) by reason of excessive price concessions and extremely high inventories, resulting in double-digit negative results. Additional losses in sales necessitated a cost adjustment throughout the entire company. Thus, we had to adjust the head count to the changed general conditions as quickly as possible and regain the confidence of our customers at the same time. It was the task of the new management to commit the remaining team to the new direction and to provide for stability and calm at the company again.

3. What determines the future of Xenterio?

In order to reduce the dependence on individual customers, we need to increase the number of customers substantially. Furthermore, our business model has to be put on a significantly broader basis. Besides the core area of communications engineering, we are expanding the segments industrial electronics and medical technology. We want to systematically ensure continuous cost reduction and process improvement through the comprehensive use of Six Sigma. For a robust development of the company, we have to increase the sales volume considerably in the next few years. To further improve our competitive situation, we additionally want to establish a low-wage location.

4. Has anything changed in terms of attitude among the employees?

The considerable scepticism at the beginning among the staff and works council with respect to the new owner BAVARIA was soon transformed into a positive and forward-looking attitude. The elimination of the hitherto existing dependencies on corporate group structures helped to uncover new strengths and made the opportunities resulting from the newly-won autonomy visible.

5. What are your major goals for 2009?

After significant losses in the first half of 2008, we have already been able to generate a positive operating performance in the second half of the year. Despite the negative impact of the financial and economic crisis, it is our goal for the year 2009 to replicate these positive trends. In order to do so, we intend to further expand our customer portfolio and to reinforce the stability in our relationships with existing customers.

6. What were the fundamental changes that made Xenterio more profitable again?

Xenterio has significantly increased the productivity in the second half of the year 2008. A redundancy payments scheme that provided compensation to laid-off employees for the loss of their jobs contributed to this. Furthermore, the transition to flexible working hours led to lower costs while simultaneously resulting in improved service performance. These activities were accompanied by the introduction of a KAN-BAN system which made it possible to meet customer deadlines in spite of reduced stock levels, or to be able to respond flexibly to their modifications. In a separate project, the company's fixed costs were analysed. By replacing service providers and thereby forgoing services that did not add value, we managed to eventually save sizeable overhead expenses.

7. What did you do to ensure that the customers remained loyal to the company despite all these changes?

To deepen or to stabilise the customer relationships is only feasible by means of close customer liaison and support and by being responsive to the individual requests of customers. The focussing of all employees on customer concerns is the prerequisite for a successful and long-lasting customer loyalty. We have trained and committed our supervisors and employees intensively to this end. The positive reactions of our customers confirm this path.

8. How do or did you see your company in the ranking compared to your competitors, before the takeover by BAVARIA and now?

With the successful restructuring of Xenterio after only one year, supported by experienced turnaround managers from BAVARIA Industriekapital AG, the cost structure of Xenterio did not only improve significantly, but was even lowered to the level of the successful competitors.

Interview – Hunsfos Fabrikker AS

Mr. Mark Gooseman
Managing Director

Mr. Jan-Tore Vale
Managing Director

1. Can you explain what Hunsfos does?

Founded in Vennesla on the small Hunsoya Island, Hunsfos Fabrikker AS manufactures so-called "High Grade Specialty Papers" with 120 employees. This requires environmentally friendly pulp of the highest quality, which we source primarily from Scandinavia. We have an annual capacity of 58,000 metric tons and an annual turnover of approximately EUR 50 million. Our core business is focused on the following markets: Uncoated specialty papers, solid fibre-board lamination and so-called "transfer paper". Uncoated specialty papers: Half of our sales go to tobacco companies like British American Tobacco, Japan Tobacco International and Phillip Morris International which we provide with uncoated specialty papers. The inner lining of two third of all packs of cigarettes sold in Europe is produced by Hunsfos. Solid fibre-board lamination: While the market continues to be dominated by grey, recyclable paper, we provide the two biggest consumers of solid fibre board in Northern Europe with "high white" paper. Thanks to the features and quality of our merchandise, we have become leading suppliers in a market where the outer appearance and printing quality of the product are key. Transfer paper: Our product range is rounded out by so-called "transfer paper" which is used by the textile industry for on-textile printing. Our sales markets include Europe, North America and Asia. In fact, we are the global market leader in the transfer paper segment.

2. What are the specific challenges for the future?

Our main challenge will be to ensure continuity with our strategic customers and suppliers. We will need to further develop our sales network to follow our customers to move conversion from traditional Central European countries to Eastern Europe and in some cases overseas. We will also continue to work on product development and cost reduction.

3. What are the strengths of the company?

Hunsfos is a long established brand and is synonymous with consistent and high performance. The sourcing of high quality pulp and the know how in our refining and paper making processes help us produce papers with unequalled strength, stiffness, bulk that are odor and taint free – qualities that are essential for the tobacco and food industries. The paper making process is as much an art as a science and we are proud that these skills have been passed on through generations of specialist paper makers in Vennesla.

4. How did your employees react to the acquisition?

We have seen a very positive response by the employees at all levels to the acquisition of Hunsfos by BAVARIA Industriekapital. The renewed independence was met with enthusiasm and we see already reduced rates of absenteeism and zero resignations. We can actually sense that our employees are ready to take responsibility for their future. Indeed some former employees are looking to rejoin the mill.

5. How will being independent of Cham Paper Group affect your business and the attitude of the customers?

This will allow us the independence to develop new products and look at market and product areas that may have otherwise been restricted due to internal conflicts. Whilst we will no longer be able to use group production to offer a complete product portfolio to some markets, the market knowledge and know how remains with Hunsfos. This is recognized by the key players and we remain confident that our new structure will allow us to open previously closed doors through customer and product development. Now our task will be to justify that trust.

6. 2011 sees the 125 year anniversary of Hunsfos Fabbrikker AS. How do you see the positioning of Hunsfos at that time?

Within these twenty-four months we will look at possible investments for the surface treatment of our papers, adding functionality and value to our customers and allowing for the expansion of our current markets and the development of new ones. We are committed to providing levels of excellence in quality and service and shall celebrate our anniversary as a highly regarded specialist in our chosen fields of competence. Through this approach and an open dialogue with our market, we will aim to secure a mutually successful business partnership with our customers both direct and indirect.

Interview – Faral S.p.A.

Mr. Giovanni Fregnan
Managing Director

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

Faral was founded in 1966 in Italy and is a pioneer in the heating sector. The company introduced with "Tropical" the first aluminium radiator. Aluminium offers a higher versatility, lower energy consumption, longer durability and a greater ease to recycle compared to the traditional cast iron or steel radiators. The creation of this "eco-friendly" product has allowed Faral considerable European growth. The company develops, produces and sells a complete range of radiators with more than 20 models to meet the specific needs of national and international installations.

2. What makes you particularly proud?

The motivation, skill and loyalty of our employees. They have great experiences in the optimisation of the product, process, service and quality and readily accept new challenges. In addition, I am proud of the solidity of the supplier and customer base contributing to the global leadership of our brand "Faral".

3. Where do you see the biggest opportunities for Faral in the future?

We have the potential to grow internationally by introducing the aluminium radiator to new markets and to offer a full range of services. Especially Eastern European customers are appreciating our products and we are in a very good position to increase our presence there. The trend towards energy conservation requires more efficient heating systems like the aluminium radiator. Thus, we see excellent prospects for our aluminium heating units.

4. How important are the employees for your success?

People empowerment and team building are fundamental pillars of our quality systems and competitiveness. We are striving for excellence and this can be achieved by involving our employees in "continuous improvement" tools where customer satisfaction and performance measures play the fundamental role.

5. What is your view regarding the image of your company?

We see ourselves as a high quality and reliable player in the market. Manufacturing energy saving products with an environmental friendly production system is more than ever a must today and has always been our most important feature since the very beginning of our activities and will continue to be our core value in the future.

6. What impact is the global financial crisis having on your company?

We are currently in the midst of a worldwide crisis with serious and far-reaching implications for the entire global economy. Our products are aimed at the construction industry. This is a sector that was already experiencing sharp drops in turnover a year ago, much earlier than other industries.

Given this situation, many analysts believe that construction will, in turn, recover earlier than other sectors – perhaps as soon as the 2nd quarter of 2009. Be that as it may, we believe that we remain on a solid footing: thanks to our strong market position, our outstanding reputation and our striving for continuous improvement, we have been able to gain additional market share, while maintaining a profitable bottom line.

How do our other affiliates see the current financial situation?

Langbein & Engelbracht GmbH, Bochum, Germany

As makers of industrial equipment, we have not been immune to the global crisis. Currently, a general postponement of orders is hitting us especially hard. But even despite a possible decline in turnover in 2009, we expect to be able to maintain our profit margins, thanks to the cost savings already achieved. The simplified rules for temporary work in the federal government's economic stimulus package will help us to make short-term personnel adjustments in response to fluctuating sales. In addition, we are making maximum use of flexi-time accounts. We are also taking advantage of every opportunity to reduce fixed costs and increase flexibility. We are firmly convinced that we will emerge from the crisis even stronger than before.

Kienle + Spiess Group / Sachsenheim, Germany / Bilston, UK / Tokod, Hungary

Compared to last year, the 1st quarter of 2009 was marked by a significant reduction in order volume. This was primarily due to the flagging German export industry. Even increased domestic orders were unable to offset this loss. Some of our customers in the consumer goods sector have been postponing their projects or cutting back their capacity by reducing working hours. Even the renewable energies sector expects to see slower growth in 2009. All in all, it is clear that our customers are facing great uncertainty and are thus drawing down their leftover stocks. Fortunately, we have a large client base in sectors that tend to exhibit a delayed reaction to market cycles (industrial equipment/machinery), that are less sensitive to export fluctuations (e.g. the energy sector) or that enjoy vigorous rates of growth (e.g. hybrid engines, rapid prototype development/ spare parts).

We have ramped up our sales & marketing department. In the 1st quarter of this year, we set up an additional incentive programme for our sales force, to allow us to acquire an even greater market share. A number of cutting-edge product innovations, such as intelligent laser cells, will further enhance our ability to compete on the market.

Fonderie du Poitou Aluminium S.A.S./ Ingrandes sur Vienne, France

Once the crisis hit us (in August 2008), we had to make drastic cutbacks in capacity. In the summer, we did not renew any of our temporary employment contracts and have been operating on a reduced schedule since then. Compared to last year, we have suffered a 45% drop in turnover. In order to master the challenges facing us, we plan to adjust our capacity to the current scenario. In addition, we intend to cover our fixed costs by concluding additional agreements with our main customers. Luckily, we no longer have any outstanding bank loans. This gives us an advantage over our competitors, many of whom have taken on major external debt.

EACH INDIVIDUAL COUNTS!

GROUP MANAGEMENT REPORT

I. General environment and operations

1. Overall economic environment and market

The German economy is presently mired in a severe recession. According to interim data from the Federal Statistics Agency, GDP for the 4th quarter of 2008 declined by 2.1 % (after adjusting for price/seasonal/calendar factors). This represents the 3rd consecutive quarter of economic contraction, and the most severe since German reunification. In the Eurozone as a whole, industrial orders alone declined by 5.2% vis-à-vis the prior month (according to Eurostat, the EU's statistical bureau). As the world's leading exporting nation, Germany has been particularly hard hit by slumping demand in the automotive and machine construction sectors.

For the investee firms currently in our portfolio, this will mean continuing cost and margin pressure due to the expected reduction in orders. Thus, the focus of our sales and marketing efforts will be on winning new market share. In this context, we should be able to benefit from the fact that the entire BAVARIA Group has almost no bank debt, and is thus on a far more solid financial footing than most of its competitors. We will continue to strive for even better efficiency and cost-savings (e.g. in purchasing) at the companies that we have already restructured and restored to profitability. On the other hand, we will be extremely cautious in our capital investment activity, approving new outlays only insofar as justified by the future trend of demand.

Over the past year, the merger and acquisition sector has come in for a great deal of public criticism. One often hears the (essentially justified) accusation that excessive use of external financing in leveraged buyouts has saddled investee companies with huge levels of debt. However, this increased public scrutiny is not without benefit for us, when one considers that our acquisitions have been exclusively self-financed (i.e. without the use of external debt).

At the same time, our successful restructuring measures have enabled us to significantly reduce the liabilities of our newly acquired companies. The most recent example is Faral S.p.A. in Italy: while the firm had EUR 2.6 million in bank debt at the time of acquisition, we were able to convert this to a positive cash balance of EUR 1.4 million by year's end. Moreover, we have almost always been able to reach consensus with trade unions and works councils, even with regard to intractable issues such as personnel cutbacks. This successful approach, along with the currently attractive valuation of equities, will enable us to take advantage of the many buying opportunities that are sure to arise in the near future.

Thanks to its proven track record in the field of restructuring, BAVARIA will probably continue to derive much of its growth from new acquisitions, especially in German-speaking regions, despite increasingly tough competition. We therefore expect to increase our acquisition activity in the future. In the process, we will not only stick to our traditional core business of taking over distressed companies with improvement potential (EBIT margin under 3%), but will also make more "add-on" acquisitions to ramp up our existing shareholdings.

We are convinced that BAVARIA will be able to continue its successful track record in 2009, since all the fundamental preconditions are in place. Thus, Western Europe remains an important and attractive growth market for BAVARIA.

2. The BAVARIA business model

BAVARIA's business model encompasses the acquisition, restructuring, rehabilitation and eventual re-sale of investee companies. In the course of our restructuring measures, we deploy our own team of specialists to actively support the investee company's management team.

Our acquisition criteria, which are reviewed on an ongoing basis, are currently as follows:

- Target industries: manufacturing or industrial services.
- Turnover: at least EUR 50 million.
- Mode of investment: acquisition of a majority stake, preferably 100%.
- The target company must have discernable improvement potential.

II. Performance of the Company

BAVARIA Industriekapital AG is the parent company of the BAVARIA Group, and is directly or indirectly involved in all of the Group's business activities. In fiscal year 2008, BAVARIA Industriekapital AG derived its financing almost entirely from its own equity capital (as in the prior year). As of December 31, 2008, the Company's equity capital had fallen to EUR 37.5 million (PY: EUR 45.4 million), primarily due to a dividend distribution of EUR 19.2 million.

One of the benchmarks we use to measure our performance is the net change in BAVARIA Industriekapital AG's financial resources fund:

2008 net change in the Group's financial resources fund (EUR million)		
Cashflow from Group operations	**2008**	**2007**
Annual surplus	13.9	23.2
Increase in provisions	-0.1	1.6
Other non-cash expenses	0.0	4.9
Gains from the disposal of financial assets	0.0	-18.0
Change in receivables and other assets	-0.1	-6.7
Change in payables and other liabilities	0.0	-1.2
	13.7	3.8
Cashflow from Group investment activities		
Follow-up inflows from receivables associated with the re-sale of consolidated companies	5.5	0.0
Inflows from the sale of consolidated companies and other business units	0.0	12.8
Outflows from the acquisition of consolidated companies and other business units	-0.1	- 0.1
Outflows for investments in financial assets	-0.3	-0.4
	5.1	12.3
Cashflow from Group financing activities		
Outflows for shareholder distributions	-19.2	-6.6
Outflows for the repurchase of own shares	-2.2	-1.9
	-21.4	-8.5
Changes in the cash balance of the financial resource fund	-2.6	7.6
Financial resource fund at the start of the period	26.8	19.2
Financial resource fund at the end of the period [1)]	24.2	26.8

[1)] The financial resource fund consists of cash and cash equivalents as well as short-term securities included in working capital, with the exception of own shares. The prior year's values were adjusted accordingly.

After deduction of the dividend distribution and outlays for the repurchase of own shares, the financial resource fund of BAVARIA Industriekapital AG increased by EUR 17.1 million in 2008 (PY: EUR 16.1 million). Based on total outstanding shares of 6,394,500 as of the reporting date, this corresponds to an improvement of EUR 2.68 per share (PY: EUR 2.43 per share).

Performance of the shareholding portfolio

In 2008, the portfolio was enhanced with three successful new acquisitions of companies and/or company groups. The bulk of these acquisitions involved one of our core business segments: Serial Production/Automotive.

During the reporting year, the Italian company ALMEC S.p.A. was sold off from the portfolio. Also sold off (in the context of an asset deal) were the key assets and liabilities of NEEF IT Solutions AG.

The major acquisitions during the reporting year were as follows: Xenterio GmbH, Faral S.p.A. (Italy) and Hunsfos Fabrikker AS (Norway). In addition, Faral S.p.A. made two add-on acquisitions in its own industry towards the end of the year.

For details on the individual companies, please see Section III ("Shareholding Portfolio").

Retirement of own shares and associated capital reduction

In April 2008, a general meeting of BAVARIA Industriekapital AG shareholders authorised the Executive Board (subject to Supervisory Board approval) to retire a total of 220,500 shares acquired as part of a repurchase programme. These shares had been purchased during the period August 2007 to March 2008, by virtue of the authorisation granted by the general shareholders' meeting of 25 May 2007.

Pursuant to this resolution, 220,500 no-par, bearer shares with a calculated nominal value of EUR 1.00 were retired. Once this had been officially entered into the trade register on 30 July 2008, the number of issued shares declined from 6,615,000 to 6,394,500 shares. Equity capital declined accordingly, to EUR 6,394,500. The calculated nominal value of outstanding shares remained unchanged at EUR 1.00 per share.

Dividend payouts and share repurchasing by BAVARIA Industriekapital AG

By resolution of the general shareholders' meeting of 20 June 2008, a dividend of EUR 3.00 per share was paid out for fiscal year 2007. For fiscal year 2008, the Executive Board shall propose a dividend of EUR 3.15 per share to the general shareholders' meeting, for a total payout of EUR 20.1 million (PY: EUR 19.2 million).

The following share volumes were repurchased during fiscal year 2008: 78,132 shares at a cost of EUR 0.9 million (pursuant to the authorisation granted by the general shareholders' meeting of 25 May 2007) and 139,458 shares at a cost of EUR 1.3 million (pursuant to the authorisation granted by the general shareholders' meeting of 20 June 2008).

Authorised capital I/2008

The general shareholders' meeting of 20 June 2008 approved the creation of additional authorised capital, authorising the Executive Board to increase equity capital by up to EUR 2,094,750 (subject to Supervisory Board approval) via one or more issues of shares in return for cash or inkind contributions at any time until 19 June 2013 (authorised capital 2008/I). For additional details on authorised capital, please see the Notes.

III. Shareholding portfolio

1. Serial Production/Automotive segment

1.a Kienle+Spiess Group

Date of acquisition June 2006
Managing Director Dr. Kristian Schleede
Legal domicile Sachsenheim/Germany, Bilston/UK, Tokod/Hungary

[´000]	2005	2006	2007	2008
Turnover	204.9	226.7	237.3	219.3
Number of employees	1,589	1,526	1,398	1,349

The Kienle+Spiess Group is the leading European provider of stamped and die-cast components for electrical machinery and generators. The 2008 business year began well for the firm. Turnover targets were met during the first half of the year. At the same time, planned restructuring measures were continued, further boosting profitability. By the 4th quarter of 2008, however, the K+S Group, too, began to experience a sharp drop in turnover, which could not be offset by cost adjustments. All in all, the profit margin on sales could be maintained in 2008, but the decline in turnover led to a smaller EUR-denominated result.

The drop-off in orders that had become apparent by the end of 2008 continued to worsen in the first months of 2009. Thus, the Group expects a smaller turnover volume for 2009. By 2010, however, we hope to again see moderate but stable order growth. Additional cost-adjustments will most likely translate into a smaller result coupled with stable profitability in 2009 and 2010.

1.b Fonderie du Poitou Aluminium S.A.S.

Date of acquisition October 2007
Managing Director Yannick Chouffot
Legal domicile Ingrandes sur Vienne / France

[´000]	2005	2006	2007	2008
Turnover	106.4	101.6	103.7	86.3
Number of employees	611	590	581	573

Fonderie du Poitou Aluminium (FDPA) specializes in the design, development, manufacturing and distribution of aluminium cylinder heads and safety components for the automotive industry. The company's low-pressure process ensures that its cylinder heads feature the proper geometric and mechanical properties required under high-stress conditions.

Until the middle of the year, turnover and profitability were developing very favourably, so that FDPA was well on the way to turning a profit within the first year of being taken over. Unfortunately, FDPA was unable to escape the general slump in the automotive industry caused by the current downturn. Thus, the most important customer, Renault, has drastically cut back its orders (by up to 50%).

Due to its high fixed-cost structure, the company was unable to react with corresponding cost reductions, so that profitability also declined dramatically. As of August 2008, the company began to book negative monthly results and to fall further behind its targets. At present, the company is in intensive negotiations with customers and suppliers and is reviewing all its options. A short-term outsourcing or suspension of production is not possible, given the critical nature of the components the company delivers to customers. Since the recent development of alternative production capacity took 12-18 months to complete, all activities are now geared toward maintaining the manufacturing plant at its present location.

1.c Faral S.p.A.

Date of acquisition May 2008
Managing Director Giovanni Fregnan
Legal domicile Modena/Italy

[´000]	2007	2008	(Of which: consolidated in 2008)
Turnover	50.4	34.3	22.5
Number of employees	240	162	162

Faral S.p.A. was established in 1966 in Campogalliano (Modena/Italy), and became the first company to sell radiators made of aluminium (the "Tropical" line). In May 2008, Faral was acquired by BAVARIA. Faral supplies the European market via 2 factories, a foundry and an assembly/ painting plant.

Since its takeover by BAVARIA, Faral has instituted active working-capital management. Inventories have been drastically reduced, receivables management intensified and additional savings realised with regard to personnel expenses and general costs. The result has been a dramatic improvement in liquidity: while bank debt had amounted to EUR 2.6 million on the takeover, this had been converted to a positive cash balance of EUR 1.4 million by year's end. By October 2008, the firm was already seeing positive monthly results (in terms of EBITDA).

In October 2008, Faral S.p.A. acquired two additional French subsidiaries from the Swiss Zehnder Group: a production plant for the assembly of aluminium heaters in Carmaux (near Toulouse) and a specialised supplier of sales and marketing solutions (south of Paris).

Since we are also endeavouring to open up new markets for the company, we expect to see turnover growth for Faral S.p.A. in the coming year. Given the cost savings already implemented and those planned for the future, we expect to also see a steady improvement in EBITDA.

2. Plant engineering & construction

2.a Langbein & Engelbracht GmbH

Date of acquisition May 2004
Managing Director Dr. Peter Engelmann
Legal domicile Bochum/Germany

[´000]	2005	2006	2007	2008
Turnover	25.0	29.5	38.3	32.2
Number of employees	131	126	123	126

With branches in Bochum/Germany and Shanghai/ China, Langbein & Engelbracht GmbH (L&E) is a globally operating machine-construction company focusing on paper products, surface technology and process technology. Boasting a long tradition, the company develops, produces and installs customised systems for leading manufacturers in the following industries: automotives, chemicals, paper, synthetics, packaging, wood processing and waste incineration.

L&E's 2008 performance can be divided into 2 distinct periods. In early 2008, the company benefited from a number of significant growth drivers, such as a new focus on environmental technology and power engineering, newly launched manufacturing operations in Shanghai, and a newly patented process for the drying of residual materials. Thanks to a flexibilisation of cost structures, the firm's projects were implemented with steadily increasing profitability.

From the start of the 3rd quarter to year's end, however, the firm's order volume began to decline significantly in the wake of the global economic crisis. Since L&E's projects tend to have a long throughput time, the full effects of the crisis were not yet felt in 2008. Thus, the firm was still able to markedly improve its 2008 bottom line in relation to the prior year.

As of early 2009, the order volume is still satisfactory, enough to ensure sufficient capacity utilisation for the first few months of the year. Our current forecast for the rest of 2009 calls for slightly higher turnover and a more or less unchanged result. However, we cannot exclude the possibility of further adjustments or corrections during 2009. Looking ahead at subsequent years, we are cautiously optimistic that moderate growth in turnover will continue. Moreover, we are confident that L&E's flexible cost structure will enable us to make any necessary cost adjustments.

2.b SwissTex AG

Date of acquisition December 2006
Managing Director Hans Peter Locher
Legal domicile Winterthur/Switzerland

[´000]	2007	2008
Turnover	36.9	30.0
Number of employees	86	79

Based in Winterthur/Switzerland, SwissTex AG develops, manufactures and distributes systems for the production of technical textiles and bulk continuous filaments (BCF). SwissTex was established in late 2006, when BAVARIA acquired Rieter AG's operations in the manufacture of synthetic continuous yarn, including all plant and equipment. Since SwissTex was created from this asset deal, no comparison data is available for prior years.

2008 began on a highly promising note for SwissTex, as growth targets seemed to be in reach. By the 2nd quarter, however, it became clear that the textile machine segment was a "quick responder" to the economic cycle. Thus, SwissTex suffered a massive decline in order volume, one that continued all the way to year's end. This in turn led to a significant decrease in turnover starting in September 2008. Efforts were made to stabilise profitability through ongoing improvement of internal process efficiency, but the resulting cost savings could not keep pace with lost revenue. Thus, SwissTex fell far short of its turnover and profit targets for 2008, registering a minor loss overall.

This negative annual result notwithstanding, SwissTex was able to hold its own in the market in 2008. Of particular note: 1) The acquisition of new market share in China with the launch of a SwissTex subsidiary in Shanghai. 2) The successful re-entry into the US market. 3) A further strengthening of the company's position in Turkey.

In 2009, we expect SwissTex to derive increasing sales revenues from upgrading and modernisation activities, but we do not foresee a general market recovery over the short term. The company intends to adapt to this trend with a renewed focus on innovative technologies and on modernisation and upgrades, while continuing to adjust costs to changing market conditions.

All in all, the company expects turnover of about EUR 24.0 million in 2009 and a stable result. Looking ahead to subsequent years, we are cautiously optimistic that we will be able to maintain turnover constant at these low levels, while our cost adjustments will allow us to maintain a small profit.

2.c Hering AG

Date of acquisition January 2004
Managing Director Norbert Märkl, Stefan Schröder
Legal domicile Gunzenhausen/Germany

[´000]	2005	2006	2007	2008
Turnover	8.9	9.0	10.0	11.6
Number of employees	68	85	93	90

Hering AG, a well-established name in the heat-exchanger segment, has been the leading international supplier of oil-purification systems for many years. This machine construction company develops and manufactures equipment such as heat exchangers, ventilators, dryers and vacuum units. Hering supplies well-known manufacturers in the following industries: chemicals, foodstuffs, environmental protection and cooling technology.

Thanks to measures introduced back in 2007, the firm was able to boost turnover during the reporting year. As a result of consistent process improvements and comprehensive portfolio restructuring, Hering was able to almost completely eliminate orders with poor or negative contribution margins (in contrast to prior years), while also significantly improving profitability.

In order to deal with the current economic crisis, our focus in 2009 will be on further process improvements, cost savings in materials purchasing, as well as comprehensive product reviews. In the years to come, Hering expects moderate turnover growth as well further increases in profitability.

3. Business Services

3.a Xenterio GmbH

Date of acquisition January 2008
Managing Director Dr. Gerhardt Kleineidam
Legal domicile Offenburg/Germany

[´000]	2006	2007	2008
Turnover	102.8	119.2	80.8
Number of employees	421	460	359

Xenterio GmbH (formerly Elcoteq Communications Technology GmbH) traces its origins back to the 1960s, and the establishment of the now defunct AEG-Telefunken. As a so-called provider of "EMS" (Electronic Manufacturing Services), Xenterio offers a wide range of partnership options in the field of electronics manufacturing. The firm's core business consists of the production and rigging of network systems for the telecommunications market. The company's services range from industrialisation (through mass production) to after-sales services.

Immediately after BAVARIA's takeover in January 2008, the newly appointed company management began to develop a comprehensive restructuring plan. Given that the company had many products with negative margins and a bloated, inflexible cost structure, prompt action was required to prevent its collapse.

To this end, we called upon all of Xenterio's stakeholders to make a contribution. Intensive negotiations with Xenterio's employees, customers and suppliers resulted in a restructuring plan that has allowed the company to survive. Overall, company earnings were still in a negative range in 2008, but the trend has been improving significantly from month to month. Starting in the 2nd quarter of 2009, we expect to once again see positive results.

The biggest challenge in 2009 will be to dampen the effects of the global economic crisis, while also exploiting any opportunities that it may entail. For 2009, we are forecasting a turnover of about EUR 76.0 million and a moderately positive annual result. In 2010, we expect to see this trend continue more or less unchanged. Additional savings are being planned in all cost categories on an ongoing basis.

3.b Hunsfos Fabrikker AS

Date of acquisition December 2008
Managing Director Jan-Tore Vale, Mark Gooseman
Legal domicile Vennesla/Norway

[´000]	2007	2008
Turnover	44.0	38.6
Number of employees	158	140

The Hunsfos Fabrikker paper mill was established in Vennesla, Southern Norway in 1886. Today, Hunsfos' entire product range is made using sustainable, environmentally friendly cellulose pulp. This not only conforms to BAVARIA's environmental standards but also helps Hunsfos adapt to customer/end-user requirements. The firm's 3 most important business segments are unvarnished speciality paper, „high white", solid fibreboard lamination, and so-called "transfer paper" for the textile industry.

Hunsfos boasts an annual production capacity of 58,000 tons, all of which is earmarked for export. While the main sales market is Europe, Hunsfos also supplies customers in Asia as well North and South America. Hunsfos was acquired in December 2008, and consolidated for the first time as of 31 December 2008.

Since its takeover, Hunsfos has been implementing a self-developed profit enhancement plan in close collaboration with local management. The goal is to optimise production processes and rapidly reduce general costs, so as to consistently exploit cost-savings potential.

In the coming years, Hunsfos intends to first stabilise turnover at current levels, while concurrently improving profitability. The company's proximity to an ocean harbour will be advantageous in this regard, since favourable container freight fees will facilitate expansion of the global customer base. Given current sales targets and actual monthly results, we expect that Hunsfos will already achieve solid profitability within the first year of its acquisition.

IV. Asset, financial and profit position of the Group

In fiscal year 2008, the BAVARIA Group's turnover rose to EUR 485.4 million (PY: EUR 409.7 million). This development was due in large part to the enlargement of the consolidated Group of companies (through Xenterio GmbH and Faral S.p.A.). The main single source of turnover was the Kienle+Spiess Group, with EUR 219.3 million

The BAVARIA Group is on a solid financial footing, as reflected in a financial resources fund (including short-term securities) totalling EUR 62.9 million (PY: EUR 55.5 million) and in relatively low bank debt of EUR 8.8 million (PY: EUR 17.1 million). The net cash balance of the BAVARIA Group rose from EUR 38.4 million in 2007 to EUR 54.1 million in fiscal year 2008 (+ EUR 15.7 million). The increase in net financial resources was mainly driven by changes on the consolidated balance sheet (reduction of bank debt by EUR -12.2 million).

The result before extraordinary expenses, depreciation & amortisation, financial result and taxes (EBITDA) amounted to EUR 38.0 million in fiscal year 2007, rising to EUR 50.4 million in fiscal year 2008 (including the reversal of negative goodwill). The 2008 Group surplus amounted to EUR 23.2 million, compared to EUR 5.2 million in the prior year. A particularly large contribution to the annual surplus came from the final consolidation of ALMEC S.p.A. (EUR 19.0 million).

Below are the main effects from consolidation on the annual Group surplus for both the present and prior reporting year:

[´000]	2008	2007
Dissolution of negative goodwill	13.1	8.9
Gains from deconsolidation	19.1	3.4
Losses from deconsolidation	-0.5	-6.1
Deferred taxes at Group level	0.3	2.6
Amortisation of goodwill	-1.1	-1.3
Gains/losses from debt consolidation	-0.5	1.8
	30.4	9.3

For a complete overview of debit and credit variances from capital consolidation, please see the Notes.

Balance sheet ratios

The Group's balance sheet total rose from EUR 277.4 million in fiscal year 2007 to EUR 321.7 million in fiscal year 2008.

Assets

Fixed assets of EUR 104.5 million (PY: EUR 82.2 million) accounted for 32.5% (PY: 29.6%) of the balance sheet total. Fixed assets consisted mainly of commercial land and buildings (EUR 33.8 million, PY: EUR 28.0 million) as well as machinery and equipment (EUR 53.3 million, PY: EUR 39.5 million).

Also on the asset side, financial resources, consisting of cash and cash equivalents plus short-term securities, totalled EUR 62.9 million (PY: EUR 55.5 million). Thus, financial resources represented about 19.6 % of the BAVARIA Group's balance sheet total (PY: 20.0%).

Liabilities

The Group's equity capital (including the negative difference from capital consolidation) was successfully increased from EUR 91.0 million to EUR 128.1 million. In the process, the negative variance from capital consolidation underwent a particularly sharp increase (EUR 37.3 million).

Pension provisions as of 31 December 2008 amounted to EUR 59.1 million (PY: EUR 46.0 million).

Financial liabilities amounted to EUR 8.8 million (PY: EUR 17.1 million) in the reporting year. Of this, EUR 16.8 million was attributable to the final consolidation of ALMEC S.p.A. The initial consolidation of Hunsfos Fabrikker AS caused bank debt to increase by EUR 4.6 million. Moreover, one of the K+S Group's subsidiaries took out an investment loan during the reporting year (to finance a new company building), of which EUR 3.3 million was still outstanding at year's end.

For a detailed statement of the BAVARIA Group's cashflows and number of employees, please see the Notes.

V. Interdependencies

BAVARIA Industriekapital AG is majority-owned by AS Vermögensverwaltung. We have therefore prepared a "Report on Relationships with Affiliated Companies", as required under § 312 of the German Stock Act (AktG). This report concludes with the following affidavit: "In conclusion we hereby declare that, to the best of our present knowledge, BAVARIA Industriekapital AG, as well as all of its subsidiaries that conduct business under the law, received adequate (arm's-length) consideration in return for every legal transaction".

VI. Significant events after the reporting date

There are no such significant events to report.

VII. Future risks and opportunities

The future business performance of the BAVARIA Group is subject to risks and opportunities closely associated with the Group's business model. The BAVARIA Group's risk management is geared toward minimising risks while evaluating potential earnings and the risks they entail. As a rule, we do not conclude profit transfer agreements, nor do we grant sureties or guarantees on behalf of our subsidiaries. Thus, any losses or write-downs by individual subsidiaries generally do not have a financial impact on the holding level. In order to promptly anticipate a potential crisis at any of its investee companies, BAVARIA collects and analyses a slew of key data from its subsidiaries on a monthly basis.

Risks and opportunities of company acquisition

When it comes to identifying and acquiring turnaround companies, BAVARIA's specialised acquisition team can draw on many years of experience as well as an extensive support network. Thus, BAVARIA is well poised to exploit a wealth of entrepreneurial opportunities. Admittedly, the potential returns of investing in „companies with improvement potential" makes this a highly competitive market sector. However, BAVARIA's credibility as an experienced and successful restructuring expert gives us a competitive edge over our rivals, many of whom are less experienced in the legalities and other technical ins and outs of this niche business.

Risks and opportunities of company disposal

Due to changes in the general business environment, the re-sale of an investee company can sometimes prove difficult. The present financial crisis, which has grown more severe during the second half of 2008, is likely to make company re-sales and possible exit strategies (e.g. stock market floatation) more complicated and/or less profitable. Thus, we cannot exclude negative effects on the assets, finances and profitability of the Group. Nonetheless, our long-term experience and the well-established BAVARIA network will allow us to maximise the resale opportunities available to us.

Risks and opportunities of company restructuring

BAVARIA may sometimes invest in a company whose restructuring proves more difficult than originally expected. Thus, one cannot exclude the possibility that the investee company may become insolvent due to insurmountable problems, ones that were perhaps underestimated when making a buying decision on relatively short notice. Insofar as restructuring efforts should prove ineffective, there is the risk that the resources and funds employed for this purpose may be lost, specifically the purchase price paid for the acquisition as well as any residual claims.

Fluctuations in price and volume on capital and commodities markets can also have a negative impact on the assets, finances and profits of the various BAVARIA Group companies. We counter such risks on the individual company level by continually monitoring a number of early-warning indicators, so as to be able react promptly. Moreover, the BAVARIA Executive Board maintains close contact with the managers of each investee company in its portfolio. The Executive Board also receives a monthly report from each company and is often represented on a company's Supervisory Board and/or advisory committee. Nonetheless, this does not exclude the risk that our management information system may fail to ascertain important data, or may ascertain such data in an erroneous or untimely fashion. This in turn can lead to incorrect decisions.

Although the shareholdings of the BAVARIA Group run a wide gamut of industries (thus ensuring risk diversification), unfavourable business cycles may nevertheless exert a negative impact on the assets, finances and profits of the Group.

Group-level default risk for BAVARIA Industriekapital AG

One of the cornerstones of BAVARIA's investment strategy is to limit the risk of loss as far as possible by means of contractual provisions and safeguards. For instance, the Group generally refrains from concluding internal profit-transfer agreements. As in the past, the Executive Board of BAVARIA will also avoid assuming liability on behalf of subsidiaries, except in exceptional cases and even then only to a limited degree. The main risk faced by BAVARIA involves quantifying the time and expense required to rehabilitate a given investee company. Insofar as this estimate is inaccurate, there is the corollary risk that the investee company may become insolvent.

Personnel risk

The successful acquisition, rehabilitation and resale of companies requires a great deal of specialised know-how and managerial experience. To implement its business model, BAVARIA must ensure that it has sufficient qualified personnel at its disposal. Due to our proven track record, we generally receive a surfeit of applications from highly qualified candidates for each job vacancy. Among the factors that make us an attractive employer: 1) Our careful and selective personnel recruiting process. 2) The substantial independence that we grant our on-site restructuring managers. 3) Our competitive, performance-based compensation package. Deploying only the most competent managers is one of the key success factors of BAVARIA's business model.

Other personnel risks at Group level (i.e. for BAVARIA Industriekapital AG) are those associated with the performance and conduct of individual key managers. Thus, we are steadily expanding our management team to offset this risk. In 2008, for instance, the BAVARIA Executive Board was expanded through the addition of a new "Operations" unit.

Financing, interest rate and currency risks

As we see it, the future performance of the BAVARIA Group depends in large part on risks associated with currencies, interest rates and financing, since these can have a marked influence on the Group's assets, finances and profits.

Generally speaking, the various companies of the BAVARIA Group provide their own financing via equity capital. External debt is assumed only on a case-by-case basis. Given the present financial and economic crisis, refinancing may prove difficult for individual investee companies, insofar as it may no longer be possible to obtain financing without a surety guarantee from the holding company.

Nonetheless, the risk associated with a spike in interest rates or with a delay in obtaining credit will have a relatively minor effect on the BAVARIA Group, especially in comparison to traditional private equity funds, whose business model relies heavily on external financing.

Since the BAVARIA Group operates mainly in the Eurozone, currency-related risks are likely to be relatively low.

Tax-related risks

We continually monitor the tax-related risks that the BAVARIA business model gives rise to. Due to the fact that income from shareholdings held by corporations is generally tax exempt, BAVARIA falls into a low tax bracket. The foregoing is based on the assumption that § 8b of the German Corporate Tax Act (KStG) is applicable to BAVARIA.

Risk management system

The BAVARIA Executive Board has instituted an early-warning system to identify any risks that may pose a significant danger to the Company. A corresponding risk report is updated once every six months. The subsidiaries are not subsumed under the formal risk-management system, however.

VIII. General forecast

On the one hand, the future success of BAVARIA Industriekapital AG depends on the performance of its existing portfolio of companies. On the other hand, it will also be strongly influenced by future acquisitions and disposals. Thanks to its existing portfolio, BAVARIA Industriekapital AG began the year 2009 on a very positive note. With regard to the outlook for the individual portfolio companies, please see Section III (“Shareholding Portfolio”).

In the wake of worsening financial and economic conditions in the second half of 2008, we have seen a growing number of “distress sales” of companies. Many conglomerates have also come under pressure to sell off their less profitable subsidiaries. BAVARIA Industriekapital AG stands to profit from this increased “deal flow”, and we will be on the lookout for promising new acquisitions. This does not mean that we will speed up our selection process, however. When choosing an acquisition target, we will maintain our preference for high quality and large volumes.

This means that we will continue to strive for 3 to 4 new acquisitions in 2009 and beyond, insofar as we can find companies that are attractively valued. Despite the current financial and economic crisis, BAVARIA is in a position to maintain its existing portfolio of investee companies over the mid-to-long term. Since we are presently not under pressure to sell off our portfolio, it is difficult to estimate when the next profitable disposals will occur.

Given these background conditions, it is impossible to make a specific forecast of the BAVARIA Group’s future turnover and profitability. However, on the strength of our existing portfolio and a successful start of fiscal years 2009, we the Executive Board expect the coming year to be a profitable one for BAVARIA Industriekapital AG!

Munich, Germany on 18 March 2009

The Executive Board

Reimar Scholz Harald Ender

EACH INDIVIDUAL COUNTS!

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated profit and loss account for 2008

		2008	2007
1. Sales		485,376,755.61	409,736,612.52
2. Increase or reduction of inventories in finished and non-finished products		-6,587,589.53	3,502,001.99
3. Other own work capitalised		1,677,730.19	835,768.16
4. Other operating income		47,090,928.52	45,736,989.75
5. Cost of materials			
a) Raw materials, supplies and merchandise for resale	-265,258,504.42		-221,222,855.37
b) Purchased services	-23,506,910.46		-29,599,455.59
		-288,765,414.88	-250,822,310.96
6. Personnel costs			
a) Wages and salaries	-95,711,128.87		-82,893,349.28
b) Social insurance and other social charges and benefits	-28,629,251.16		-21,401,824.86
		-124,340,380.03	-104,295,174.14
7. Depreciation			
a) on intangible and tangible fixed assets	-15,796,279.19		-12,453,861.13
b) on group level	-1,111,936.57		-1,262,089.46
		-16,908,215.76	-13,715,950.59
8. Other operating expenses		-64,066,621.91	-66,713,547,19
		33,477,192.21	24,264,389.54
9. Dividends from associated companies		6,080.00	0.00
10. Other interest and similar income		2,126,569.79	1,873,299.76
11. Depreciation on financial assets and on marketable securities of the current assets		-26,810.59	-194,037.82
12. Interest and similar expenses		-1,149,648.69	-1,024,492.78
13. Financial result		**956,190.51**	**654,769.16**
14. Profit on ordinary operations		**34,433,382.72**	**24,919,158.70**
15. Extraordinary income		0.00	447,153.00
16. Extraordinary expenses		-1,983,253.95	-17,350,763.34
17. Extraordinary result		**-1,983,253.95**	**-16,903,610.34**
18. Tax on income and earnings		-7,228,214.71	-2,103,334.74
19. Other taxes		-2,000,647.14	-678,045.24
20. Total taxes		**-9,228,861.85**	**-2,781,379.98**
21. Net income		**23,221,266.92**	**5,234,168.38**
22. Net profit carried forward from previous year		20,644,186.95	41,040,857.68
23. Dividends		0.00	-6,615,000.00
24. Withdrawal from earned surplus		1,701,297.60	0.00
25. Appropriation to earned surplus		-1,298,052.75	-1,701,297.60
26. Income from capital decrease		220,500.00	0.00
27. Appropriation to capital reserve		-220,500.00	0.00
28. Withdrawal of treasury stock		-2,615,754.36	0.00
29. Profit relating to other shareholders		-518,688.20	1,868,958.49
30. Consolidated profit		**41,134,256.16**	**39,827,686.95**

Consolidated balance sheet as of 31 December 2008

Assets		31.12.2008	31.12.2007
A. FIXED ASSETS			
I. Intangible assets			
1. Patents, trademarks, licenses and similar rights	1,087,160.34		306,051.41
2. Goodwill	7,210,394.61		6,852,177.60
3. Prepayments on account	0.00		39,000.00
		8,297,554.95	7,197,229.01
II. Property, plant & equipment			
1. Land, leasehold rights and buildings incl. buildings on leased land	33,755,955.25		28,017,793.21
2. Machinery and equipment	53,282,417.78		39,544,133.98
3. Other equipment, plant and office equipment	3,692,998.56		2,341,932.49
4. Advance payments and construction-in-progress	5,439,931.42		5,032,018.19
		96,171,303.01	74,935,877.87
III. Financial assets			
1. Shareholding in affiliated companies	1,560.65		76,558.65
2. Investments	36,685.79		9,491.00
3. Other loans	1.00		1.00
		38,247.44	86,050.65
		104,507,105.40	82,219,157.53
B. CURRENT ASSETS			
I. Inventories			
1. Raw materials and supplies	34,900,560.94		28,641,274.05
2.Work-in-progress	18,311,663.78		16,351,356.60
3. Finished products and merchandise	21,361,168.16		15,314,506.53
4. Advanced payments	495,054.30		581,466.95
		75,068,447.18	60,888,604.13
II. Account receivables and other assets			
1. Receivables from trade	65,014,129.00		53,455,021.72
2.Receivables from group companies	65,944.86		325,395.70
3. Other assets	11,940,742.59		22,805,660.02
		77,020,816.45	76,586,077.44
III. Marketable securities			
1. Shares in group companies	0.00		1.00
2. Treasury stock	1,298,052.75		1,701,297.60
3. Other marketable securities	5,933,516.63		5,071,581.09
		7,231,569.38	6,772,879.69
IV. Cash and cash equivalents		56,981,230.65	50,424,197.39
		216,302,063.66	194,671,758.65
C. PREPAID EXPENSES		936,222.13	500,887.27
TOTAL ASSETS		321,745,391.19	277,391,803.45

Equity and Liabilities		31.12.2008	31.12.2007
A. EQUITY			
I. Subscribed capital		6,394,500.00	6,615,000.00
II. Capital reserve		8,605,500.00	8,385,000.00
III. Revenue reserve			
1. Restricted reserve	5,500.00		5,500.00
2. Reserve for treasury stock	1,298,052.75		1,701,297.60
		1,303,552.75	1,706,797.60
IV. Consolidated profit		41,134,256.16	39,827,686.95
V. Offsetting item for holdings of other shareholders		1,088,367.56	1,814,781.39
VI. Difference from currency translation		-6,074.46	268,661.81
		58,520,102.01	58,617,927.75
B. DIFFERENCE FROM CONSOLIDATION OF CAPITAL		69,603,494.91	32,338,695.98
C. ACCRUALS			
1. Accruals for pensions and similar commitments	59,096,875.45		46,033,153.94
2. Tax reserve	8,980,460.26		4,068,692.94
3. Other accruals	36,727,458.54		45,454,580.14
		104,804,794.25	95,556,427.02
D. LIABILITIES			
1. Debt due to banks	8,775,303.49		17,083,500.96
2. Advanced payments received on orders	5,032,537.57		7,761,371.20
3. Trade payables	58,863,736.26		50,402,913.14
4. Payables to group companies	0.00		188,181.04
5. Payables to affiliated companies	92,000.00		36,000.00
6. Other liabilities	13,675,301.92		12,330,169.35
		86,438,879.24	87,802,135.69
E. DEFERRED INCOME		2,378,120.78	3,076,617.01
TOTAL ASSETS		321,745,391.19	277,391,803.45

Consolidated statement of changes in equity

[´000]	Share numbers in circulation	Subscribed capital	Capital reserve	Earned surplus	Difference from currency translation	Offsetting item for holdings of other shareholders	Conso-lidated profit	Group equity
1 January 2007	**2,205,000**	**2,205**	**12,795**	**6**	**1,413**	**3,748**	**41,040**	**61,207**
Net income 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**
Net income 2008							23,221	23,221
Dividend payouts							-19,183	-19,183
Capital decrease	-220,500	-220	220					0
Withdrawal of treasury stock							-2,616	-2,616
Withdrawal from earned surplus				-1,701			1,701	0
Appropriation to the earned surplus				1,298			-1,298	0
Foreign currency differences					-275		0	-275
Shares of other partners						-727	-518	-1,245
31 December 2008	**6,394,500**	**6,395**	**8,605**	**1,304**	**-6**	**1,088**	**41,134**	**58,520**

Consolidated statement of cash flows

[´000]	2008	2007
Consolidated net income ahead of extraordinary items	25,204	22,138
Earnings proportions of minority shareholders without payment-effective holdings	7	-132
Depreciation on fixed asset items	16,908	13,716
Gains on sales of assets	-68	-22,265
Changes in accruals	-2,488	-3,424
Dissolution of differences from the capital consolidation	-13,094	-8,906
Dissolution of differences from the final consolidation	0	-2,519
Income from the final consolidation of group companies	-19,066	-840
Other payment-ineffective changes	574	-155
Gross cash flow	**7,977**	**-2,387**
Change in inventories	16,793	-10,030
Change in receivables, other assets and rest of the assets	21,398	18,033
Change in liabilities and rest of total equities & liabilities	-7,979	-10,396
Cash flow from current operations	**38,189**	**-4,780**
Change in the fixed assets	-17,302	-13,257
Currency differences in fixed assets	1,831	1,012
Payments from disposals of items of intangible fixed assets	957	9,124
Payments from disposal of items of the financial assets	5,599	12,830
Payments for capital expenditure into the financial assets	-4,237	0
Cash flow from capital expenditure activities	**-13,152**	**9,709**
Payments for the purchase of own shares	-2,239	-1,850
Payouts to shareholders	-19,184	-6,615
Payouts to minority shareholders	-132	-663
Proceeds from borrowing of financial liabilities	3,854	0
Payments from repayments of financial liabilities	-2,591	-2,120
Cash flow from financing activities	**-20,292**	**-11,248**
Payment-effective change of the cash and cash equivalents	4,745	-6,319
Net funds addition from change in scope of consolidation	3,092	8,346
Currency differences	-418	-119
Cash and cash equivalents at start of the period	55,346	53,438
Cash and cash equivalents as of 31 December	**62,765**	**55,346**

Composition of cash and cash equivalents [´000]	31.12.2008	31.12.2007
Cash-in-hand, balances with banks	56,981	50,424
Less cash at bank as deposit	-150	-150
Short-term marketable securities	5,934	5,072
	62,765	55,346

EACH INDIVIDUAL COUNTS!

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I. BAVARIA Industriekapital AG – Company profile

BAVARIA Industriekapital AG was established on 3 April 2002. The Company is legally domiciled in Munich, Germany, and has been entered into the trade register of the Munich District Court since 8 August 2002 (Section B: No.143 858). The initial public offering of the Company's shares (ISIN DE0002605557) took place on 26 January 2006 within the Entry Standard (Open Market) segment of the Frankfurt Stock Exchange.

The business model of BAVARIA Industriekapital AG comprises the acquisition, restructuring, rehabilitation and re-sale of distressed firms. Thus, BAVARIA does not limit itself to merely holding and management of shareholdings, in contrast to traditional holding companies. Rather, the firm works proactively to restructure its investee companies, while deploying its own in-house team of specialists to advise and support management on site.

II. Scope of consolidation

Besides the parent company (BAVARIA Industriekapital AG), the Group's consolidated annual report comprises those affiliated companies in which BAVARIA directly or indirectly controls a majority of voting rights and/or over which it otherwise exercises centralised control.

The various companies included in BAVARIA Industriekapital AG's consolidated annual report are listed in the "Statement of Shareholdings" (in the Notes). Four companies (essentially shell entities without active operations) were excluded from the consolidated statements on account of their negligible scope. Teksid Germany GmbH (Heilbronn, Germany) Elfotec AG (Mönchaltdorf, Switzerland) and Elfotec Ltd. (Annacotty, Ireland) were excluded from the consolidated annual report, as per § 296 Para. 1, No. 1 of the German Commercial Code (HGB), due to the fact that these companies are presently being unwound and/or liquidated.

The business model of BAVARIA Industriekapital AG comprises the acquisition, restructuring, rehabilitation and re-sale of distressed firms. Inasmuch, the BAVARIA Group of consolidated companies is subject to continual change, so that a year-on-year comparison of consolidated annual reports is sometimes problematic. Due to the differing business activities of the various consolidated companies, the specific items of the Group balance sheet and profit/loss statement may fluctuate from year to year.

Below is a summary of the changes in the scope of consolidation (group of consolidated companies) in relation to the consolidated annual report of 31 December 2007, along with key annual performance data for each respective company:

- Elfotec AG, (Mönchaltdorf, Switzerland) shut down its business operations in 2007 and was deconsolidated in 2008. As of the final consolidation date, Elfotec AG had accounted for EUR 0.0 million of consolidated Group equity, EUR 2.9 million of the Group balance sheet total, and EUR -4.7 million of the prior year's Group surplus.
- Elfotec Ltd. (Annacotty, Ireland) initiated insolvency proceedings in April 2008 and was deconsolidated. As of the final consolidation date, Elfotec Ltd. had amounted to EUR 0.0 million of Group equity capital, EUR 2.6 million of the Group balance sheet total, and EUR 1.9 million of the prior year's Group surplus.
- The ALMEC S.p.A. (Nusco, Italy) was sold off in April 2008 and deconsolidated. As of the final consolidation date, ALMEC S.p.A. had accounted for EUR -19.0 million of Group equity capital, EUR 29.9 million of the Group balance sheet total, and EUR -19.3 million of the prior year's Group surplus.
- Xenterio GmbH, (Offenburg, Germany), formerly known as Elcoteq Communications Technology GmbH, was acquired in January 2008 and consolidated for the first time on 1 January 2008. Upon initial consolidation, Xenterio accounted for EUR 0.7 million of Group equity capital, EUR 53.4 million of the Group balance sheet total, and EUR -6.9 million of the 2008 Group surplus.
- Faral S.p.A. (Modena, Italy), was acquired in May 2008 and consolidated for the first time on 1 May 2008. Upon initial consolidation, Faral accounted for EUR 20.6 million of Group equity capital, EUR 54.9 million of the Group balance sheet total, and EUR -3.1 million of the 2008 Group surplus.
- In June 2008, BAVARIA acquired and consolidated a 4.8 % stake in the Kienle + Spiess Group.
- FARAL S.p.A, a subsidiary of BAVARIA Industriekapital AG, acquired two additional French companies in November 2008: Zehnder Group Carmaux S.A.S. (Carmaux, France) and Faral S.A.S. (Evry, France). These two French subsidiaries were merged in December 2008 and now operate as Faral France S.A.S. Faral France S.A.S. was consolidated for the first time on 31 December 2008. Upon initial consolidation, Faral France accounted for EUR -0.7 million of Group equity capital and EUR 3.7 million of the Group balance sheet total.
- Hunsfos Fabrikker AS (Vennesla, Norway) was acquired in December 2008 and consolidated for the first time on 31 December 2008. Upon initial consolidation, Hunsfos accounted for EUR 5.3 million of Group equity capital and EUR 20.1 million of the Group balance sheet total.

III. Reporting date for the consolidated annual report

The key reporting date for the Group's consolidated annual report is 31 December 2008, which is also the reporting date of the parent company, BAVARIA Industriekapital AG.

BAVARIA's fiscal year corresponds to that of its most important investee companies (with ongoing operations). Insofar as a subsidiary experiences an event with a significant financial impact before the reporting date, said event is reported in the consolidated annual report.

IV. Consolidation principles

1. Principles of financial reporting

The annual report of BAVARIA Industriekapital AG (as of 31 Dec 2008) was prepared in compliance with the German Commercial Code (HGB) and the German Stock Act (Aktiengesetz). The annual reports of the individual subsidiaries were prepared as per the guidelines of §§ 238 et seq. HGB, and also comply with the stipulations for incorporated companies set forth under §§ 264 et seq. HGB, as well as the provisions of the German Stock Act.

The present consolidated group annual report was prepared as per §§ 290 et seq. of the German Commercial Code (HGB).

Some of the items, whose disclosure on the balance sheet and/or profit & loss statement is mandated by law, have been presented in summary form. The respective itemisation or explanatory notes can be found in the Notes.

The Group profit & loss statement has been prepared using the total expenditure method.

2. Consolidation procedures

Method of capital consolidation
§ 301, Para. 1, Line 2, No.1 of the German Commercial Code (HGB) provides for alternative methods of capital consolidation in the context of financial reporting. Accordingly, the Company has opted to use the Book Value Method, and thus reports its shareholdings in the various consolidated companies at acquisition value (as per § 301, Para. 2 HGB).

Any resulting debit variances that cannot be otherwise allocated are capitalised on the Group balance sheet and written off based on a useful life of 10 years.

Depending on their nature, any credit variances resulting from capital consolidation are included on the Group balance sheet either under equity capital or external capital (debt).

Other consolidation procedures
The following subsidiary-specific items were eliminated in the course of consolidation: receivables, liabilities, sales revenues, miscellaneous expenses, miscellaneous income, interest income and associated expenses, as well as interim Group results.

All significant consolidation procedures with an effect on income are subject to tax accrual and deferral, insofar as the variance in taxes payable is expected to be offset in subsequent fiscal years.

V. Accounting and valuation methods

As a rule, the individual financial statements of the companies included in the BAVARIA Industriekapital AG consolidated annual report were prepared in accordance with the following uniform accounting and valuation principles:

Valuations are generally undertaken under the assumption of ongoing company operations (going concern) as per § 252, Para. 1, No. 2 of the German Commercial Code (HGB).

Intangible assets that have been purchased against payment are capitalised at acquisition cost minus scheduled linear amortisation. As a rule, their useful life lasts 3 - 5 years, while the useful life of company goodwill lasts 10 years.

Tangible assets (PP&E) are capitalised at acquisition cost and are depreciated linearly based on their useful life. Tangible assets with a net worth of up to EUR 150 are fully depreciated in the year of acquisition. Financial assets are valued at acquisition cost or marked down to fair market value (if applicable), as of the reporting date.

Financial assets are valued at acquisition cost and/or marked down to fair market value (if necessary).

Inventories are valued at acquisition/manufacturing cost and/or marked down to fair market value (if necessary), while allowing for a reasonable amount of general administrative costs.

Receivables and miscellaneous assets are reported at face value minus a one-off allowance for general default risk. Doubtful receivables are subject to individual valuation. Receivables denominated in foreign currencies are valued at the transaction exchange rate or marked down to their fair market value (if necessary) as of the reporting date.

Securities are valued at acquisition cost and/or marked down to fair market value (if necessary).

Liquid assets are reported at face value. Amounts denominated in foreign currencies are valued at the exchange rate prevailing on the reporting date, insofar as this does not generate any unrealised gains.

Pension provisions have been formed to cover contractually binding pension claims. The most recent actuarial tables published by Prof. Dr. Klaus Heubeck were used as the basis for calculating the amount of the reserve. The actuarial interest rate applied was 5.5%.

Tax provisions and miscellaneous provisions were formed in accordance with the customary professional due diligence, while taking into account all identifiable risks and potential obligations (even if indefinite). Tax reserves were calculated under the assumption that § 8b of the German Corporate Tax Act (KStG) is applicable to BAVARIA Industriekapital AG.

Liabilities are reported at their repayment amount. Liabilities denominated in foreign currencies are reported at the transaction rate or at a lower asking price (if applicable) as of the reporting date.

Currency valuation

The functional currency used by the group parent, BAVARIA Industriekapital AG, is the euro.

Insofar as the annual reports of individual subsidiaries are denominated in foreign currencies, all amounts are re-stated using the Functional Currency Method.

All balance sheet items of foreign companies included in the consolidated Group were converted into EUR using the average exchange rate on the reporting date – with the exception of equity capital (subscribed capital, reserves, profit/loss carried forward), which was re-stated using past exchange rates. Variances in equity capital due to currency translations (i.e. because of year-by-year fluctuations in exchange rates) were posted under "equity capital variances from currency translation", with no effect on income.

Miscellaneous income and expense are re-stated using the average annual exchange rate. The annual result from the re-stated profit & loss statement is transferred to the balance sheet and the variance is posted under "equity capital variance from currency translation" without affecting income. In 2008, currency conversion variances of EUR 275,000 were attributed to equity capital in an income-neutral manner.

Cashflow statement

The financial resources fund consists of the cash balances, bank deposits/credits and short-term securities that make up working capital, with the exception of the Company's own shares. It should be noted that in the prior year's annual report, the financial resources fund also included the BAVARIA shares contained in working capital. Since the treatment of Company shares is not yet finalised, we have opted to err on the side of prudence and have excluded them from the financial resources fund in this year's report. We have also adjusted the prior year's figures for ease of comparison.

Also excluded from the financial resources fund are certain bank balances of the Company in the amount of EUR 150,000, since these are subject to third-party liens.

VI. Notes to the balance sheet

Fixed Assets

The development of fixed assets is shown below.

	Acquisition and production cost						
[´000]	01.01.2008	Additions	Disposal	Reclass	Currency changes	Change scope of cons.	31.12.2008
I. Intangible assets							
1. Patents, trademarks, licenses and similar rights	1,392	857	78	39	-3	-57	2,150
2. Goodwill	13,780	2,624	1,177	0	0	0	15,227
3. Prepayments on account	39	0	39	0	0	0	0
	15,211	3,481	1,294	39	-3	-57	17,377
II. Property, plant & equipment							
1. Land, leasehold rights and buildings incl. buildings on leased land	37,703	60	402	3,217	-571	4,788	44,795
2. Machinery and equipment	51,072	2,579	555	8,174	-848	14,713	75,135
3. Other equipment, plant and office equipment	6,906	1,251	1,347	364	44	1,091	8,309
4. Advance payments and construction-in-progress	5,032	12,554	3	-11,794	-669	320	5,440
	100,713	16,444	2,307	-39	-2,044	20,912	133,679
III. Financial assets							
1. Shareholding in affiliated companies	77	0	0	0	0	-75	2
2. Investments	9	0	0	0	0	27	36
3. Other loans	0	0	0	0	0	0	0
	86	0	0	0	0	-48	38
	116,010	19,925	3,601	0	-2,047	20,807	151,094

	Depreciation and amortisation							Book values	
[´000]	01.01.2008	Additions	Disposal	Reclass	Currency changes	Change scope of cons.	31.12.2008	31.12.2008	31.12.2007
I. Intangible assets									
1. Patents, trademarks, licenses and similar rights	1,086	269	68	0	-2	-222	1,063	1,087	306
2. Goodwill	6,928	1,112	23	0	0	0	8,017	7,210	6,852
3. Prepayments on account	0	0	0	0	0	0	0	0	39
	8,014	1,381	91	0	-2	-222	9,080	8,297	7,197
II. Property, plant & equipment									
1. Land, leasehold rights and buildings incl. buildings on leased land	9,685	2,369	210	0	-55	-750	11,039	33,756	28,018
2. Machinery and equipment	11,528	11,605	20	-24	-168	-1,069	21,852	53,283	39,544
3. Other equipment, plant and office equipment	4,564	1,553	1,237	24	9	-297	4,616	3,693	2,342
4. Advance payments and construction-in-progress	0	0	0	0	0	0	0	5,440	5,032
	25,777	15,527	1,467	0	-214	-2,116	37,507	96,172	74,936
III. Financial assets									
1. Shareholding in affiliated companies	0	0	0	0	0	0	0	2	77
2. Investments	0	0	0	0	0	0	0	36	9
3. Other loans	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	38	86
	33,791	16,908	1,558	0	-216	-2,338	46,587	104,507	82,219

Intangible assets

Consolidated goodwill for the Group changed as follows during the fiscal year:

2008				2007			
Increase	Decrease	Amortised	Book value	Increase	Decrease	Amortised	Book value
2,624	1,154	1,112	7,210	1,433	15	1,262	6,852

As of 31 December 2008, the Group's consolidated goodwill was essentially attributable to the companies of the Kienle + Spiess Group (EUR 6,528,000) and Hering AG (EUR 525,000). The remaining average amortisation period for consolidated goodwill amounts to about 7 - 8 years.

The useful life of goodwill is a uniform period of 10 years, while the useful life of industrial property rights and licenses is 3 to 5 years. Useful life is determined on the basis of the expected period of actual use. All intangible assets are depreciated linearly.

Tangible assets (PP&E)

The useful life is 3 to 10 years for fixtures and furnishings and 8 to 20 years for technical equipment and machinery, depending on their exact commercial use. Buildings are depreciated according to the stipulations of the German tax code.

Financial assets

The item "shareholdings in affiliated companies" includes non-consolidated holdings valued at acquisition price minus any necessary markdowns to fair value.

Geographic distribution

The geographic distribution of fixed assets was as follows:

31.12.2008 [´000]	Germany	European Union	Europe (other)	Asia	Total
Intangible assets	3,445	4,692	31	130	8,298
Tangible assets (PP&E)	22,234	73,395	501	41	96,171
Financial assets	11	27	0	0	38
Total fixed assets	**25,690**	**78,114**	**532**	**171**	**104,507**

31.12.2007 [´000]	Germany	European Union	Europe (other)	Asia	Total
Intangible assets	1,127	5,924	0	146	7,198
Tangible assets (PP&E)	16,159	57,766	973	38	74,936
Financial assets	86	0	0	0	86
Total fixed assets	**17,199**	**63,566**	**973**	**184**	**82,220**

Working capital

(Not including securities, cash balances, or bank deposits/credits)

[´000]	31.12.2008	31.12.2007
Raw materials and supplies	34,900	28,641
Work in progress	18,312	16,351
Finished goods and merchandise	21,361	15,315
Downpayments made	495	582
Trade receivables	65,014	53,455
Receivables from affiliated companies	66	325
Other assets	11,941	22,806
	152,089	**137,475**

Due to an enlargement in the Group of consolidated companies, working capital increased significantly in relation to the prior year.

Other assets include EUR 8,117,000 in receivables from the German tax authority.

The trade receivables include no accounts receivable with a time to maturity of more than one year. The other assets include those with a time to maturity of more than one year in the amount of EUR 1,036,000.

Equity capital

During the reporting year, equity capital declined slightly (by EUR 98,000 to EUR 58,520,000):

[´000]	31.12.2008	31.12.2007
Subscribed capital	6,395	6,615
Capital reserve	8,605	8,385
Retained earnings	1,304	1,707
Variance from currency translations	-6	269
Adjustment for stakes held by other shareholders	1,088	1,815
Group balance sheet profit	41,134	39,828
Equity capital	**58,520**	**58,618**

The Group balance sheet profit of EUR 41,134,000 includes profits carried forward from the prior year in the amount of EUR 20,644,000.

Subscribed capital

In April 2008, the Executive Board of BAVARIA Industriekapital AG resolved to retire a total of 220,500 Company shares that had been acquired as part of a share-repurchasing programme. This action was taken pursuant to the authorisation granted by the General Shareholders' Meeting of 25 May 2007 (with the approval of the Supervisory Board).

In accordance with this decision, 220,500 no-par bearer shares with a calculated nominal value of 1.00 EUR/share were retired. Following recordation in the trade registry, this action caused the number of issued shares to decline from 6,615,000 to 6,394,500 shares. Subscribed capital declined accordingly to EUR 6,394,500. Subscribed capital has been fully paid in and consists of 6,394,500 no-par shares with a calculated nominal value of EUR 1.00 per share.

Contingent capital amounts to EUR 561,000.

Authorised capital (2005/ I)

At the joint suggestion of the Executive Board and Supervisory Board, the General Shareholders' Meeting of 10 November 2005 authorised the Executive Board (with Supervisory Board approval) to increase the Company's equity capital by up to EUR 1,102,500 through one or more new issues of no-par, bearer shares in return for cash or in-kind contributions, at any time until 09 November 2010.

Authorised capital (2008/ I)

By resolution of the General Shareholders' Meeting of 20 June 2008 (subsequently approved by the Supervisory Board), the Executive Board is entitled to increase authorised equity capital by up to EUR 2,094,750 through one or more issues of shares (Authorised Capital 2008/I) at any time until 19 June 2013. The shareholders' subscriptions rights will be waived insofar any of the following apply:

- a) The issue price is not significantly below the concurrently determined stock-exchange price of the shares and b) the equity increase resulting from in-kind contributions does not exceed 10% of equity capital (at the time of issue).
- Equity capital is to be increased by in-kind contributions for the purpose of acquiring one or more companies.
- A waiver of the shareholders' subscription rights is required by the exercise of convertible bonds, convertible profit-sharing rights or options.
- A waiver of the shareholder's rights is required to even out odd-lot amounts.

Contingent capital

Contingent capital (2005) – stock options for employees

As proposed by the Executive Board and Supervisory Board, the General Shareholders' Meeting of 20 December 2005 agreed to a contingent increase in the Company's equity capital of up to EUR 511,500 via the issue of up to 511,500 no-par bearer shares (Contingent Capital 2005). This contingent capital increase will be implemented only insofar as all the associated option rights have been issued and exercised by 31 December 2009.

The contingent capital increase involves an employee profit-sharing plan and the shareholders' legal subscription rights will be waived in this context. Accordingly, § 4 of the Company by-laws was amended via the incorporation of a new paragraph.

Option beneficiaries

At any time until 31 December 2009, the Company is entitled to issue option certificates for up to 511,500 shares in one or more instalments. Said option certificates are to be allotted as follows: options for up to 127,950 shares to members of the Executive Board; options for up to 127,950 shares to the managers of affiliated companies; options for up to 127,800 shares to key employees of the Company; options for up to 127,800 shares to other employees of the Company and/or its affiliates.

Issuing period

The aforementioned options may be distributed to the respective beneficiary (in one or more installments) only within a predefined issuing period, which begins on the 12th stock-exchange trading day after a General Shareholders' Meeting (or release of an annual or quarterly report), and ends 10 stock-exchange trading days thereafter. The life of an option is 4 years, calculated from the end of the issuing period in which it was distributed.

Exercise price per individual share

Each option (certificate) entitles the holder to a single individual bear share. This option right is subject to the terms and conditions set forth by the Executive Board (with Supervisory Board approval). Insofar as the options are held by members of the Executive Board, the associated rights are subject to the terms and conditions set forth by the Supervisory Board.

Option certificates may only be exercised in lots of at least 50.

Thus far, no options have been granted to present or former members of the Executive Board.

Contingent capital (2006/I) – convertible bonds for members of the Supervisory Board

At the proposal of the Executive Board and Supervisory Board, the General Shareholders' Meeting of 05 December 2006 agreed to a contingent increase in the Company's equity capital of up to EUR 49,500 through the issue of up to 49,500 no-par bearer shares (Contingent Capital 2006/I). This contingent capital increase will be implemented only insofar as the associated convertible bonds are issued and the embedded options to convert said bonds to no-par shares are exercised. The shareholders' legal subscription rights have been waived.

In December 2006, convertible bonds in the amount of EUR 49,500 were issued to members of the Company's Supervisory Board at a minimum issue amount of EUR 0.33 per bond and a calculated nominal value of EUR 1.00 per bond. The members of the Supervisory Board have fully exercised their conversion options as per the conversion conditions set forth on 31 December 2006. In accordance with said conditions, the conversion price was set at EUR 21.70 per bond.

Each convertible bond contains an embedded option allowing its conversion into a single individual share in the Company. A convertible bond must be held for at least two years before the option to convert can be exercised (minimum holding period). Thus, the minimum holding period expired on 31 December 2008. The life of the convertible bonds begins on the day of issuance and ends five years later, i.e. on 31 December 2011.

Capital reserve

The retirement of 220,500 no-par shares in April 2008 caused the capital reserve to increase by EUR 220,500 (while subscribed capital decreased). As of the reporting date, the capital reserve amounted to EUR 8,605,500.

Reserve for own shares

By resolution of the General Shareholders' Meeting on 20 June 2008, the Company was authorised to repurchase its own shares as provided for under § 71 para. 1 no. 8 of the German Stock Act (AktG). Thus, shares amounting to up to 10% of the Company's equity capital (at the time of repurchase), may be repurchased until 19 December 2009. This authorisation may be exercised once or more than once, in whole or in part. The new authorisation to repurchase own shares supersedes the previous authorisation adopted by the General Shareholders' Meeting on 25 May 2007. Moreover, the following additional terms apply:

- The Company may not use the authorisation to trade in its own shares.
- The Executive Board is entitled (subject to Supervisory Board approval) to reissue the shares repurchased under this authorisation on foreign stock exchanges where Company shares have previously not been listed.
- The Executive Board is entitled (subject to Supervisory Board approval) to offer the shares repurchased under this authorisation to third parties in the context of company mergers, acquisitions, or participations.
- The Executive Board is entitled (subject to Supervisory Board approval) to offer Company shares (for purchase) to persons who have had, or still have, an employment relationship with the Company or with an "affiliated company" as defined §§ 15 et seq. of the German Stock Act (AktG), or to grant and/or transfer Company shares to the aforementioned persons, subject to a blocking period of no less than one year.
- The Executive Board is entitled (subject to Supervisory Board approval) to retire the shares repurchased under this authorisation without a specific resolution from a general shareholders' meeting. Such shares can also be subtracted from the Company's equity capital in an expedited procedure without reducing capital, namely by adjusting the pro-rata, calculated nominal value of the remaining no-par shares to the Company's equity capital. All or some of the repurchased shares may be retired. The right to retire shares may be exercised more than once.

As of 31 December 2008, the Company had repurchased 139,458 own shares pursuant to the authorisation granted by the general shareholders' meeting of 20 June 2008. These repurchased shares account for EUR 139,458 (2.18%) of equity capital.

Date	Repurchased shares (no.)	Share of equity capital	Average price	Total market value (EUR)	Cumulative number of shares	Cumulative share of equity capital
Aug 08	3,161	0.05%	11.37	35,937.63	3,161	0.05%
Sep 08	29,243	0.46%	11.80	345,022.40	32,404	0.51%
Oct 08	51,227	0.80%	9.33	478,139.82	83,631	1.31%
Nov 08	43,373	0.68%	8.33	361,350.65	127,004	1.99%
Dec 08	12,454	0.19%	8.07	100,444.33	139,458	2.18%

A reserve for the repurchase of own shares was formed as per § 272, Para. 4, of the German Commercial Code (HGB). During the reporting year, the fund changed as follows:

	[´000]
Reserve for own shares, 31.12.2007	1,701
Formation of a reserve for own shares (till March 2008)	915
Retirement of own shares (April 2008)	-2,616
Formation of a reserve for own shares (starting August 2008)	1,298
Reserve for own shares, 31.12.2008	**1,298**

Difference from the capital consolidation

The negative difference from capital consolidation shown as of the reporting date will be dissolved in subsequent years in accordance with its origin and allocated to income.
In fiscal years 2007 and 2008, this item changed as follows:

2008				2007			
Increase	Reversal	Final consolidation	Book value	Increase	Reversal	Final consolidation	Book value
51,214	13,094	-856	69,603	34,531	-8,906	-2,519	32,339

Negative differences arise when a company is acquired at a price below the book value of its equity capital (as per the balance sheet). Once the investee company has been restructured and rehabilitated, any credit variances are reversed in the Group's consolidated annual report along with a corresponding effect on income (insofar as additional miscellaneous expenses or losses are expected).

Insofar as the negative difference is not associated with expected future miscellaneous expenses or losses, it is reversed as follows (with a corresponding effect on income):

a) The portion of the negative variance that does not exceed the current market value of the acquired non-monetary assets of the investee company is recognised in regular instalments based on the (weighted) average, remaining useful life of the depreciable assets acquired.

b) The portion of the negative difference that exceeds the current market value of the acquired non-monetary assets of the investee company is recognised as income during the initial consolidation.

The negative difference of EUR 32.2 million arising from the initial consolidation of FDPA will be amortised over the remaining useful life of the company's depreciable fixed assets (about 12 years) as per Letter a) above.

The reversal of a negative difference is reflected in the Group's consolidated profit & loss statement under "other operating income". The increase in negative differences during the reporting year resulted mainly from the initial consolidation of Xenterio GmbH and Faral S.p.A.

Accruals

[´000]	31.12.2008	31.12.2007
Pension provisions	59,097	46,033
Tax reserve	8,981	4,069
Other accruals	36,727	45,454
	104,805	95,556

In order to adjust the tax payable amounts from the individual annual reports to the Group result, a deferred tax asset in the amount of EUR 238,000 was posted, which was then combined with the deffered taxes from the individual balance sheets. This resulted in deferred tax liabilities on the Group level in the amount of EUR 432,000.

Other accruals mainly involved personnel-related obligations (EUR 22,776,000), out-standing invoices (EUR 3,448,000), warranty obligations (EUR 2,634,000), earnings reductions (EUR 1,420,000) and restructuring measures (EUR 502,000).

As of 31 December 2008, there was a coverage shortfall of EUR 453,000 (PY: EUR 479,000) in the provisions for pensions and similar obligations. This was due to the Company's decision to treat previous pension commitments as deferred items (as permitted under Article 28 of the Introductory Act to the German Commercial Code (EGHGB).

Liabilities

[´000]	31.12.2008	31.12.2007
Debt due to banks	8,775	17,084
Advanced payments received on orders	5,033	7,761
Trade payables	58,864	50,403
Payables to group companies	0	188
Payables to affiliated companies	92	36
Other liabilities	13,675	12,330
	86,439	87,802

The term structure of liabilities can be summarised as follows:

31.12.2008 [´000]	< 1 year	1-5 years	> 5 years	Total
Debt due to banks	2,815	1,486	4,474	8,775
Advanced payments received on orders	5,033	0	0	5,033
Trade payables	58,864	0	0	58,864
Payables to affiliated companies	92	0	0	92
Other liabilities	7,298	5,399	978	13,675
	74,102	6,885	5,452	86,439

EUR 7,883,000 of the liabilities to banks is secured by property liens, of which EUR 1,913 is additionally secured by receivables.

31.12.2007 [´000]	< 1 year	1-5 years	> 5 year	Total
Debt due to banks	10,413	6,670	0	17,083
Advanced payments received on orders	7,622	139	0	7,761
Trade payables	50,403	0	0	50,403
Payables to group companies	188	0	0	188
Payables to affiliated companies	36	0	0	36
Other liabilities	10,468	735	1,128	12,331
	79,130	7,544	1,128	87,802

Liability obligations

Guarantee on behalf of SIG Plastics

BAVARIA Industriekapital AG has assumed a directly enforceable guarantee on behalf of SIG Plastics to cover the liability of Bavaria Maschinenbauholding AG vis-à-vis SIG Plastics in connection with a rental agreement.

The guarantee is limited to an amount of EUR 650,000. Moreover, it covers all claims (rental payments as well as damages) only insofar as these become due before the fixed expiry of the rental agreement on 28 February 2007 and are asserted in writing by 31 December 2010.

Under agreements concluded on 6 and 13 February 2006, BAVARIA assumed a directly enforceable guarantee on behalf of SIG Plastics Holding GmbH, (Waldshut-Tiengen, Germany) to cover the liability of Bavaria Maschinenbauholding AG (Munich, Germany) vis-à-vis SIG Plastics Holding GmbH with regard to any rental payments and damages which SIG Plastics Holding GmbH may in future be entitled to claim against Hamba Filltec GmbH & Co. KG (Neunkirchen, Germany) on the grounds of breach of a rental contract (improper handover of the rented property).

Transfer of a security interest to Zürich Versicherung

In order to secure all existing and future claims (including time-limited or contingent ones) that Zürich Versicherung may be entitled to assert against Hering AG, BAVARIA Industriekapital AG signed all its rights to a specific account over to Zürich Versicherung. This account currently has a credit balance of EUR 150,000.

Sell-off of the Hamba Group

The agreement for the sale of the Hamba Group resulted in the following liability obligations:

- Any contractual breaches by the seller, BAVARIA Industriekapital AG, can potentially give rise to damage claims by the purchaser. In addition, BAVARIA assumes liability for third-party claims asserted against the Hamba Group even after the selling date. The maximum liability for the aforementioned contingencies amounts to EUR 3.6 million.

- Among the companies included in the sold-off Hamba Group is a former shareholder of Steeltech s.a.r.l. (Creutzwald, France). Insofar as claims should arise in connection with the sale of the now insolvent Steeltech (which occurred before the sale of the Hamba Group), the seller shall also be held liable for these claims.

BAVARIA Industriekapital AG's total liability for the contingencies detailed above is limited to EUR 14.2 million.

Also in connection with the sale of the Hamba Group, BAVARIA assumed a guarantee with regard to obligations under a certain rental agreement. Insofar as the lessor terminates the rental agreement or increases the rental payments due, the seller shall be responsible for up to EUR 0.7 million of the resulting excess costs (e.g. relocation expense or higher rent). Insofar as rental payments due are increased above a certain threshold, the purchaser may also be entitled to additional claims above and beyond the EUR 0.7 million (i.e. 50% of the excess rent charged).

Financial obligations

Total financial obligations arising from purchase commitments and long-term rental/leasing agreements with fixed durations amounted to EUR 23,058,000 (PY: EUR 18,436,000).

The term structure of these financial obligations can be summarised as follows:

	31.12.2008	31.12.2007
Lifespan	[´000]	[´000]
< 1 year	19,807	12,910
1 - 5 years	2,294	2,424
> 5 years	957	3,102
Total	23,058	18,436

EUR 18,788,000 of these financial obligations was attributable to purchase commitments associated with the order inventories of individual Group companies (PY: EUR 11,519,000).

Miscellaneous sureties

Outlays for sureties and surety downpayments amounted to EUR 5,179,000.

Notes on the consolidated profit & loss statement

Sales revenues

Sales revenues from the initial and final consolidation of companies are only recognised on a pro-rata basis (starting with the initial consolidation date and/or ending on the final consolidation date).

The turnover of the BAVARIA Group can be broken down by sales region:

[´000]	2008	2007
Germany	204,689	215,010
European Union	217,934	146,566
Europe (other)	10,186	7,689
America	7,953	15,044
Asia	2,829	5,603
Africa	255	2,876
Other	41,531	16,949
	485,377	409,737

Other operating income

Other operating income can be broken down as follows:

[´000]	2008	2007
Gains from the final consolidation of shareholdings in group companies	19,067	3,359
Gains from the reversal of negative goodwill	13,094	8,906
Gains from currency translations	5,061	2,980
Gains from value adjustments	2,743	955
Gains from the unwinding of reserves	1,545	979
Gains from the disposal of fixed assets	167	22,444
Gains from debt consolidation	130	1,808
Other	5,284	4,306
	47,091	45,737

The item **"Gains from the final consolidation of shareholdings in group companies"** consists mainly of proceeds from the sale of ALMEC S.p.A.

Material expense

In fiscal year 2008, material expense amounted to EUR 288,765,000 (PY: EUR 250,822,000).

Personnel expense

Personnel expense rose significantly in relation to the prior year. This was mainly due to the acquisition of the companies Xenterio (378 employees, personnel costs of EUR 19,433,000) and Faral S.p.A. (145 employees, personnel costs of EUR 4,762,000).

[´000]	2008	2007
Wages and salaries	95,711	82,893
Social contributions and miscellaneous expenses for pensions and social security benefits	28,629	21,402
	124,340	104,295

Depreciation, amortisation & write-offs

During the fiscal year, there was no extraordinary depreciation of tangible assets (PP&E) (PY: EUR 1,016,000).

Other operating expense

[´000]	2008	2007
Repairs and maintenance	9,049	8,224
Third-party services, insurance and contributions	8,628	5,253
Packaging and freight	7,205	6,921
Losses from currency translation	6,938	3,049
Rentals and leasing	5,844	5,160
Administrative costs	4,748	5,485
Travel, meals and lodging	2,293	3,786
Commissions	1,978	1,840
Losses from debt consolidation	643	316
Losses from bad receivables	561	2,145
Losses from final consolidation	532	6,093
Markdowns to fair value	251	3,392
Other	15,397	15,050
	64,067	66,714

The item “other”, which amounted to EUR 15,397,000 in 2008, consists of sundry operating expenses incurred at the individual company level, such as: accounting and auditing costs, notary services, court costs, attorney fees, personnel recruiting expenses, costs of continuing education/training, Supervisory Board and/or Advisory Board compensation, etc.

Net interest income

[´000]	2008	2007
Interest and similar income	2,127	1,873
Interest and similar miscellaneous expense	-1,150	-1,024
	977	849

Interest expense for 2008 mainly consisted of financing costs for factoring activities of FDPA.

Extraordinary gain/loss

The extraordinary gain for the fiscal year was derived mainly from the formation of a reserve for a social insurance scheme at a subsidiary.

Income tax

Income tax expense includes income tax payable as well as deferred taxes.

A deferred tax item is created to reflect the tax effects of temporary variances between the result reported on the tax statement and the one reported on the balance sheet. However, this does not include variances whose effect is not expected to be offset in the foreseeable future. Deferred taxes arising from temporary variances may be reported in the annual report of the individual tax-paying company as well as in the Group's annual consolidated report (in the context of valuation and consolidation measures).

VII. Reporting by segment

Serial Production/Automotive

The "Serial Production/Automotive" segment comprises companies involved in the serial manufacture of components, e.g. automotive parts suppliers. The firms in this segment are:

- In 2008: the Kienle + Spiess Group, FDPA as well as Faral S.p.A.
- In 2007: the Kienle + Spiess Group, Almec, FDPA as well as Paulmann & Crone.

Plant engineering & construction

The "Plant engineering & construction" segment comprises all companies involved in the construction and engineering of plant and machinery, specifically:

- In 2008: Hering, Langbein & Engelbracht, SwissTex.
- In 2007: Hering, Hamba, Langbein & Engelbracht, Steeltech and SwissTex.

Business Services

The "Business Services" segment comprises all operating companies that do business in other industries. These are:

- In 2008: NEEF IT, Xenterio and Hunsfos.
- In 2007: NEEF IT, Alma Küchen and the Elfotec Group.

The "Others" segment mainly consists of the BAVARIA Group's non-operating holdings and interim holdings.

The after-tax result for each segment is reported as the "segment net income". Transactions between the various segments are priced according to the "arm's-length" principle.

BAVARIA's segment reporting was prepared on basis of the guidelines of DRS 3.

31.12.2008 [´000]	Series/ Automotive	Engineering	Business Services	Others	Consolidation	Group
Sales						
with external third parties	327,907	73,859	83,173	0	0	484,939
with group companies	12	0	0	3,776	-3,350	438
Profit and Loss Statement						
Segment net income	-1,658	1,183	-7,175	14,143	16,728	23,221
depreciation included therein	14,318	533	1,766	48	270	16,935
interest result included therein	-545	-42	-425	1,997	-8	977
tax charges included therein	5,238	858	49	1,505	1,579	9,229
other non-cash items	1,527	297	-2,032	1,428	30,047	31,267
income/loss from holdings in consolidated companies	0	0	0	11,963	-11,957	6
Balance Sheet						
Assets	198,458	28,869	68,331	43,824	-17,737	321,745
Investments in long-term assets	15,395	405	1,469	33	2,624	19,926
Liabilities and accruals	138,862	18,924	56,855	2,710	-23,729	193,622

31.12.2007 [´000]	Series/ Automotive	Engineering	Business Services	Others	Consolidation	Group
Sales						
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
Profit and Loss Statement						
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 result 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
Balance Sheet						
Assets	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
Liabilities and accruals	159,792	47,291	13,517	2,020	-36,185	186,435

Notes on consolidated figures

2008 Segment results

The salient items in the consolidated column of the 2008 balance sheet are the following: gains/losses from final consolidation (EUR 18.5 million); reversal of value adjustments between segments and distributions paid out (EUR -11.7 million); reversal of negative differences (EUR 13.1 million); taxes (EUR -1.6 million); amortisation of goodwill, insofar as it has not been allocated to individual segments (EUR -0.3 million).

2008 Depreciation, amortisation and write-downs

The 2008 consolidated column contains amortisation of company goodwill, insofar as it has not been allocated to the individual segments (EUR 0.3 million).

2008 Other non-cash items

The salient items in the 2008 consolidated column are the reversal of negative differences (EUR 13.1 million) as well as gains/losses from final consolidation (EUR 18.5 million). Among the items included under the Business Services and Serial Production/Automotive segment is an extraordinary gain in the amount of EUR 2.0 million due to the formation of a social-insurance scheme. Also included are the posting and reversal of value adjustments and the unwinding of reserves, insofar as these items arose on the individual company level.

2008 Segment assets and liabilities

The salient items in the 2008 consolidated columns are the offsetting of receivables and liabilities between segments. In 2008, segment assets were attributable almost entirely to Germany and the rest of the European Union. For a geographic breakdown of fixed assets, please refer to the preceding section on fixed assets.

2007 Segment results

The salient items in the 2007 consolidation column are the following: gains/losses on final consolidation (EUR -2.7 million); reversal of value adjustments between segments and distributions paid out (EUR 1.3 million); reversal of negative differences (EUR 8.9 million); deferred taxes (EUR 2.6 million); gains on debt consolidation (EUR 1.5 million); amortisation of goodwill, insofar as it has not been allocated to the individual segments (EUR -0.7 million).

2007 Depreciation, amortisation and write-downs

The 2007 consolidation column contains the reversal of depreciation of financial assets (EUR -4.8 million) allocated between segments, as well as the amortisation of goodwill, insofar as it has not been allocated to the individual segments (EUR 0.7 million).

2007 Other non-cash items

The salient items in the 2007 consolidation column are the following: reversal of negative differences (EUR 8.9 million); gains/losses from final consolidation (EUR -2.7 million); gains from deferred taxes (EUR 2.6 million); reversal of loan write-offs allocated between segments (EUR -3.0 million) as well as gains from debt consolidation (EUR 1.5 million). The salient item under the Business Services and Serial Production/Automotive segments is an extraordinary loss of EUR -16.9 million. This extraordinary loss was due to the recognition of a possible liquidation of 3 of the Group's companies: i.e. in order to err on the side of prudence, the assets of these companies were reported at liquidation value, while additional provisions and liabilities were recognised (to reflect potential liquidation).

2007 Segment assets and liabilities

The salient items in the 2007 consolidated columns are the offsetting of receivables and liabilities between segments. In 2007, segment assets were attributable almost entirely to Germany and the rest of the European Union. For a geographic breakdown of fixed assets, please refer to the preceding section on fixed assets.

VIII. Miscellaneous information

Executive Board and Supervisory Board

Executive Board

Reimar Scholz, Dipl. Kaufmann (Gauting, Germany)
Head of Acquisitions
(Executive Board Spokesman)

Harald Ender, Dipl.-Ingenieur, Dipl. Kaufmann (Landsberg, Germany)
Head of Operations (as of 1 September 2008)
(Executive Board Member)

Insofar as only one Executive Board Member has been appointed, he/she will act as the Company's sole, fully authorised representative. Insofar as more than one have been appointed, the Company will be represented by two Executive Board Members acting jointly.

Notwithstanding the above, Reimar Scholz has been granted the power of sole representation.

Harald Ender is entitled to represent the Company in tandem with another Executive Board Member or another fully authorised agent (Prokurist).

The Executive Board Members have been released from the restrictions set forth under § 181 of the German Civil Code (BGB).

Supervisory Board

Dr. Matthias Heisse, Attorney at Law (Munich, Germany)
(Chairman)

Bernard Jan Wendeln, businessman (Munich, Germany)
(Deputy Chairman)

Dr. Gernot Eisinger, businessman (Munich, Germany)

Remuneration of Supervisory Board / Executive Board Members (past & present)

Remuneration to Supervisory Board Members amounted to EUR 40,000 (PY: EUR 44,000). Of this, EUR 0.00 (PY: EUR 0.00) was paid to former Supervisory Board Members.

During the reporting year, the Company paid legal fees of EUR 88,000 (PY: EUR 157,000) to the law firm of Heisse, Kursawe, Eversheds (in which Supervisory Board Chairman Dr. Heisse is a partner). Said fees were covered by a separate consulting agreement, as per § 114 of the German Stock Act (AktG).

In 2008, total remuneration paid to the members of the Executive Board amounted to EUR 639,000 (PY: EUR 545,000).

Workforce

All told, the companies consolidated in the Group annual report as of 31 Dec 2008 employed an average of 2,944 persons during the year (PY: 2,778 persons). The year-on-year change in the BAVARIA Group's workforce is detailed below:

	2008	2007
Industrial employees	2,188	2,044
Office staff	664	661
Trainees	92	73
	2,944	2,778

Relationships with closely related parties

BAVARIA Industriekapital AG maintains customary business relationships with certain affiliated but unconsolidated subsidiaries. However, the transactions carried on with these companies are
1) minor in scope,
2) arise in the normal course of business, and
3) are subject to market-compliant terms and conditions.

Moreover, the companies of BAVARIA Industriekapital AG have not entered into any significant business dealings with members of the Group's Executive Board or Supervisory Board, nor with members of their families.

Schedule of shareholdings

		Currency [´000]	Share of equity in % direct	Share of equity in % indirect	Equity [´000]	Net income [´000]
Group parent company						
BAVARIA Industriekapital AG, Munich					37,469	13,880
Companies included in the consolidation						
Executive Consulting AG, Munich		EUR	100.00		20	-37
Hering Wärmetauscher Holding AG, Munich		EUR	75.00		49	1
Hering AG, Gunzenhausen		EUR		71.06	1,794	471
Neef IT Solutions AG, Karlsruhe		EUR	78.00		-268	-273
BAVARIA Maschinenbau Holding II AG, Munich		EUR	88.75		1,784	1,750
Langbein & Engelbracht GmbH, Bochum		EUR		83.43	5,513	1,502
Langbein & Engelbracht Industrial Eng. & Co., Shanghai/ China		CNY		83.43	-2,326	-1,828
Verwaltungsgesellschaft 0906 GmbH, Munich		EUR	100.00		10	6
Blitz 05-316 GmbH & Co. KG, Munich		EUR	100.00		55	9,707
R&E Automationstechnik GmbH, Fellbach-Schmiden	(1)	EUR	50.00		19	-7
Kienle + Spiess GmbH, Sachsenheim		EUR		99.74	20,549	5,419
Kienle + Spiess Hungary Kft, Tokod/ Hungary		HUF		99.74	3,226,685	366,344
Wardstorm Ltd., Ellesmere Port/ UK		GBP		99.74	7,114	45
Sankey Laminations Ltd., Ellesmere Port/ UK		GBP		99.74	2,641	-2,727
G.L. Scott & Co. Ltd., Ellesmere Port/ UK		GBP		99.74	0	2,693
Bavariaring 0906 GmbH, Munich		EUR	100.00		-5	-17
SwissTex Winterthur AG, Winterthur/ Switzerland		CHF	100.00		4,287	-1,220
Force Ltd., Birmingham/ UK	(1)	GBP	75.00		1	0
Oldenburg Ltd., Birmingham/ UK	(1)	GBP	100.00		1	0
Bavaria Chemicals GmbH, Munich		EUR	75.00		24	0
Bavaria Maschinenbau Ltd., Valletta/ Malta	(1)	EUR	100.00		1	0
Elfotec AG, Mönchaltdorf/ Switzerland (in clearing)	(1)(2)	CHF		75.00	3	-4,657
Elfotec Ltd., Annacotty/ Ireland (in clearing)	(1)(2)	EUR		75.00	0	1,917
baikap Holding 010607 GmbH, Munich		EUR	100.00		124	99
baikap Holding 020607 GmbH, Munich		EUR	100.00		196	172
baikap Holding 030807 GmbH, Munich		EUR	100.00		1,349	1,325
baikap Holding 040807 GmbH, Munich		EUR	100.00		24	0
Fonderies Aluminium de France SAS, Paris/ France		EUR		100.00	899	621
Fonderie du Poitou Aluminium SAS, Ingrandes sur Vienne/ France		EUR		100.00	27,771	-5,135
Teksid Deutschland GmbH, Heilbronn (in clearing)	(1)(2)	EUR		100.00	65	28
Xenterio GmbH (previously Elcoteq Communications Technology GmbH), Offenburg		EUR		100.00	541	-12,809
Faral S.p.A., Modena/ Italy		EUR		100.00	17,486	-3,087
K+S Holding GmbH & Co. KG, Munich		EUR		94.80	1	360
Kienle + Spiess Logisztikai, Tokod/ Hungary		HUF		99.74	27,418	2,418

	Currency [´000]	Share of equity in % direct	indirect	Equity [´000]	Net income [´000]
Faral France SAS, Carmaux/ France	EUR		100.00	-691	-2,230
Hunsfos Fabrikker AS, Vennesla/ Norway	NOK		100.00	59,612	-53,753
baikap Holding 051108 GmbH, Munich	EUR	100.00		25	0
baikap Holding 061108 GmbH, Munich	EUR	100.00		25	0

(1) not consolidated pursuant to § 296 HGB
(2) profit/loss of the year 2007 or shareholder's equity as at 31.12.2007 according to the local accounting principles

Profit distribution / proposed dividend

In 2008, BAVARIA Industriekapital AG paid out dividends in the amount of EUR 19,183,500.

At the upcoming general shareholders' meeting, the Executive Board and Supervisory Board of BAVARIA Industriekapital AG will propose a payout of the following dividend from the balance sheet profit for fiscal year 2008: EUR 3.15 per share (EUR 21,165,096.49), with the remainder to be carried forward.

Munich, 18 March 2009
The Executive Board

Reimar Scholz Harald Ender

Auditor's statement

We have audited the consolidated financial statements prepared by BAVARIA Industriekapital AG – consisting of the balance sheet, profit and loss account, statement of cash flows, statement of changes in equity as well as notes – and the management report for the fiscal year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report as in accordance with German commercial law is the responsibility of the Executive Board of the Company. It is our responsibility on the basis of our audit to express an opinion on the consolidated financial statements and the group management report.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code (HGB) and the generally accepted auditing standards issued by the German Auditors' Institute (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the German principles of proper accounting and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit did not give rise to any objections.

In our opinion, based on the findings of the audit, the consolidated financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with German principles of proper accounting. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 20, 2009

RP RICHTER GmbH
Wirtschaftsprüfungsgesellschaft

Roland Weigl
Wirtschaftsprüfer

Claudia Weinhold
Wirtschaftsprüfer

EACH INDIVIDUAL COUNTS!

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