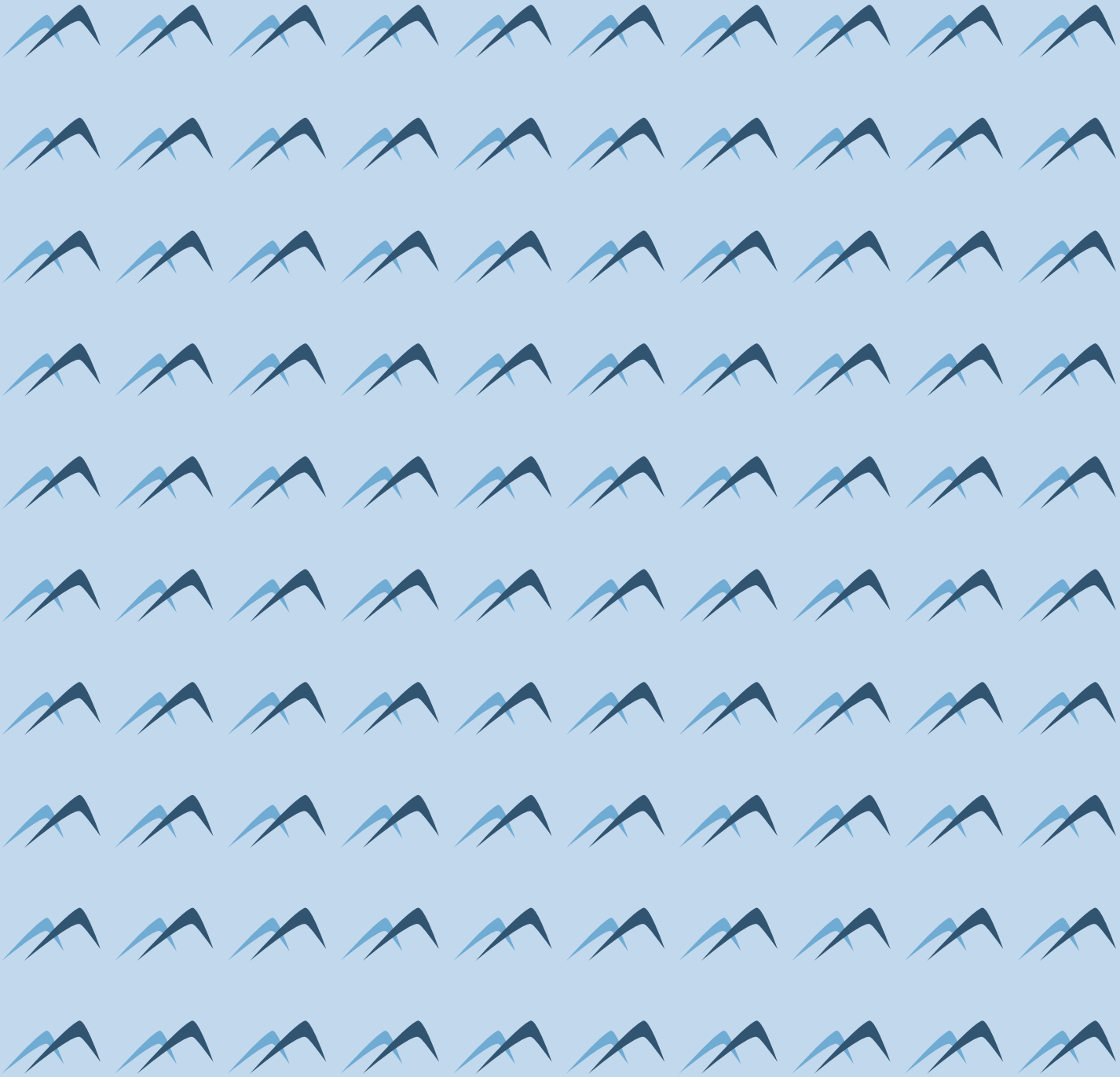
Make it better

BAVARIA
Industriekapital AG

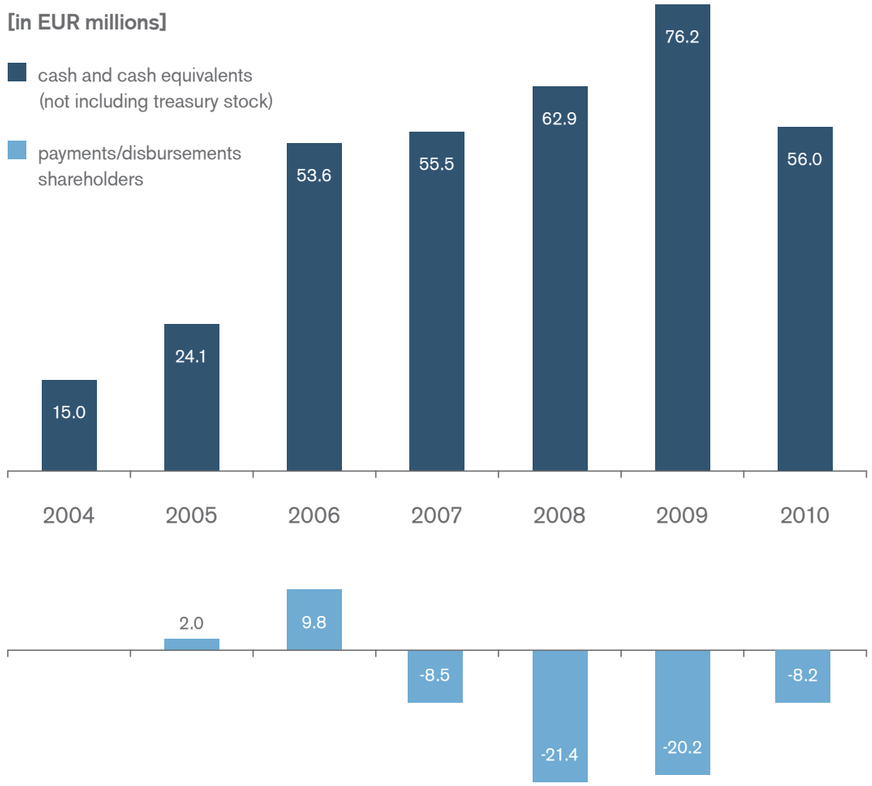


ANNUAL REPORT 2010

Group key figures

[in EUR millions]	2005	2006	2007	2008	2009	2010
GROUP						
Profit and Loss						
Group turnover	132.5	332.6	409.7	485.4	403.6	638.4
EBITDA (before dissolution of negative goodwill)	-3.4	32.2	29.1	37.3	-12.4	16.4
Group net result	8.5	31.5	5.2	23.2	3.6	-0.8
– thereof dissolution of negative goodwill	16.5	19.2	8.9	13.1	48.7	18.4
Balance Sheet						
Equity	18.1	61.2	58.6	58.5	43.5	34.1
Total assets	100.0	232.4	277.4	321.7	342.1	448.5
Fixed assets	21.6	56.1	82.2	104.5	111.9	140.5
Cashflow						
Cash flow from current operations	-1.6	15.5	-4.8	38.2	16.6	-22.4
Cash flow from capital expenditure	2.0	-0.7	9.7	-13.2	-3.7	-33.9
Cash flow from financing	0.7	9.7	-11.2	-20.3	-12.7	35.4
Cash and cash equivalents (without treasury stock)	24.1	53.6	55.5	62.9	76.2	56.0
HOLDING COMPANY (AG)						
Profit and Loss						
Turnover	1.0	2.0	3.1	3.7	4.5	4.9
EBITDA	2.5	13.8	22.8	13.6	7.6	5.2
Net result	2.1	13.8	23.2	13.9	8.2	5.1
Balance Sheet						
Equity	4.2	28.8	45.4	37.5	26.0	21.1
Total assets	4.7	31.1	48.1	40.1	35.8	31.9
Fixed assets	0.4	0.5	0.9	1.3	1.3	1.1
Cashflow						
Cash flow from current operations	-0.7	9.2	3.8	13.7	6.9	6.5
Cash flow from capital expenditure	-0.1	-2.1	12.3	5.1	-0.1	0.2
Cash flow from financing	2.0	10.8	-8.5	-21.4	-20.2	-8.2
Cash and cash equivalents (without treasury stock)	1.3	19.2	26.8	24.2	10.8	9.3
TOTAL OF OPERATING PORTFOLIO COMPANIES						
Profit and Loss						
Turnover	132.5	332.6	409.7	485.4	403.6	638.4
EBITDA	-10.8	20.7	18.2	18.1	-5.8	20.1
Net result	-13.3	6.0	-13.4	-7.7	-36.0	-0.1
Cashflow						
Cash flow from current operations	-0.9	6.3	-8.6	24.5	9.7	-28.9
Cash flow from capital expenditure	2.1	1.4	-2.6	-18.3	-3.6	-34.1
Cash flow from financing	-1.3	-1.1	-2.7	1.1	7.5	43.6
Cash and cash equivalents (without treasury stock)	22.8	34.4	28.7	38.7	65.4	46.7

Group Cash and cash equivalents (year-end)



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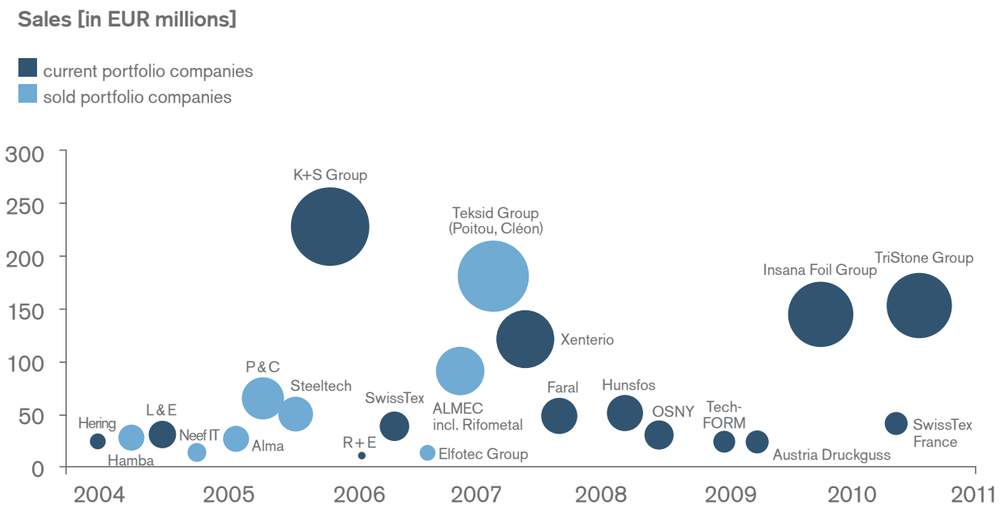


Content

Harald Ender, Reimar Scholz (from left to right)

Dear Shareholders,

Business year 2010 was a good one for BAVARIA Industriekapital AG. Group turnover increased by about 58% in relation to the prior year, from EUR 403.6 million to EUR 638.4 million. The operating result (EBITDA) of our subsidiaries, meanwhile, increased to EUR 20.1 million, a year-on-year improvement of EUR 25.9 million. The following summary of quarterly EBITDA presents an incisive picture of our economic performance since the start of 2009:

Quarterly figures (not year-to-date)

EBITDA in EUR millions	Q1/ 2009	Q2/ 2009	Q3/ 2009	Q4/ 2009	Q1/ 2010	Q2/ 2010	Q3/ 2010	Q4/ 2010
Serial Production/Automotive	-3.3	0.1	2.0	-1.9	4.3	4.4	8.5	7.4
Plant Engineering & Construction	-1.4	-1.1	0.2	2.7	-2.2	1.4	1.7	3.3
Business Services	-0.2	-0.8	-1.4	-0.8	-1.5	-2.9	-1.3	-3.0
Total	-4.9	-1.9	0.8	0.1	0.6	2.9	8.9	7.7
Turnover in EUR millions	Q1/ 2009	Q2/ 2009	Q3/ 2009	Q4/ 2009	Q1/ 2010	Q2/ 2010	Q3/ 2010	Q4/ 2010
Serial Production/Automotive	63.0	57.9	68.1	70.3	60.3	64.1	107.1	113.9
Plant Engineering & Construction	8.5	7.2	10.1	22.3	5.6	18.8	25.1	40.6
Business Services	24.3	26.5	23.9	21.5	49.5	51.9	52.0	49.5
Total	95.8	91.6	102.1	114.1	115.4	134.8	184.2	204.0

The economic recovery began to gain traction particularly in the second half of 2010: While EBITDA was still EUR 3.5 million during the first six months of the year, this number rose to EUR 16.6 million in the second half of the year. Especially notable were, on the one hand, the improved results in the Serial Production/Automotive and Plant Engineering & Construction business segments, and the continued high losses in the Business Services segment on the other. We expect to see the operating result stabilize in the latter segment following drastic personnel cutbacks of about two-thirds of the workforce at the most unprofitable company, Xenterio GmbH. This personnel reduction became necessary given that turnover had plummeted by more than two-thirds due to the loss of several key customers in the wake of the sales crisis.

Looking at the performance trend of the individual business segments, we see the strongest improvement in result in the Automotive/Serial Production segment. After booking a loss of EUR 3.1 million as recently as 2009, this segment was able to boost its result to EUR 24.6 million in 2010. Growing the segment's turnover by 33% to EUR 345.4 million enabled us to attain a better coverage of fixed costs, while the cost-savings measures introduced in 2009 allowed us to improve the operating margin significantly.

Due to the nature of the projects involved, the Plant Engineering & Construction segment tends to feature a significantly more flexible cost structure. Here, turnover rose by 87.5% to EUR 90.1 million, while EBITDA increased from EUR 0.4 million to EUR 4.2 million, primarily due to an improvement in the operating margin.

As a result of the initial consolidation of the Inasa Foil Group, turnover in the Business Services segment jumped from EUR 106.7 million to EUR 202.9 million. Due mainly to the sizeable losses booked by Xenterio GmbH, the business segment booked a significantly negative overall result.

In this context, it should be noted that we regard the operating results and cash flows of our investee companies and of the Group as a whole as especially critical benchmarks of our restructuring effort's success. The Group's annual surplus, on the other hand, is determined to a large extent by non-cash accounting items such as the reversal of negative goodwill or deconsolidations.

The following table shows how our consolidated annual result was derived from the Group's operating EBITDA:

Reconciliation of EBITDA to Group net result

	2009 YTD in EUR millions	2010 YTD in EUR millions
EBITDA of operating portfolio companies	-5.8	20.1
Depreciation and amortization	-21.8	-23.0
Interest results	-0.5	-6.2
Taxes	-0.8	-5.8
Extraordinary result	-9.5	-0.6
Consolidation entries		
Dissolution of negative goodwill	48.7	18.4
Deconsolidations	-0.2	-3.2
Other consolidation entries	-6.5	-0.5
Group net result	3.6	-0.8

The Group's consolidated annual result amounted to EUR -0.8 million, which represents a decrease of EUR 4.4 million in relation to the prior year. This was partially a result of the non-cash reversal on our books of negative company/business goodwill in the amount of EUR 18.4 million, or EUR 30.3 million less than in the prior year. Negative goodwill (so-called "badwill") arises due to the fact that money-losing enterprises are generally sold off below book value. Reversals of negative goodwill are performed when newly acquired investee companies continue to operate at a loss; to a great extent, this was no longer the case in 2010. This improvement in profitability is also reflected in the EUR 5.0 million increase in our tax expense.

As a rule, BAVARIA Industriekapital AG does not conclude profit-transfer agreements with its investee companies, and is therefore not obligated to finance operating losses. Thus, we believe that the following overview of quarterly results of our profitable companies conveys the most accurate picture of our financial performance:

Quarterly figures (not year-to-date)

	Q1/ 2009	Q2/ 2009	Q3/ 2009	Q4/ 2009	Q1/ 2010	Q2/ 2010	Q3/ 2010	Q4/ 2010
EBITDA in EUR millions	0,8	2,1	4,2	4,5	7,3	7,2	10,6	11,5
Total number of companies	2 (8)	3 (9)	7 (11)	5 (11)	7 (12)[1]	7 (12)[1]	9 (13)[1]	10 (13)[1]

[1] Inasa Foil and Inasa Sabiñánigo were listed as one group

It should be noted that ten out of our thirteen investee companies are once again operating profitably. If we project the cumulative Q4 result of these ten companies (EUR 11.5 million) on an annualised basis, we arrive at annual EBITDA of EUR 46.0 million, which is equivalent to the Group's current "run rate". At year's end, the market capitalisation of BAVARIA Industriekapital AG amounted to roughly EUR 93.4 million (closing price: EUR 14.60 per share), or about double of our annual run rate.

The following abbreviated Cash Flow Statement shows the change in financial resources in 2010:

Reconciliation of EBITDA to Group Cash Flow	2009 YTD in EUR millions	2010 YTD in EUR millions
Operating Cash Flow	**16.6**	**-22.4**
thereof EBITDA of operating companies	-5.8	20.1
thereof interest result	-0.5	-6.2
thereof taxes	-0.8	-5.8
thereof extraordinary result	-9.5	-0.6
thereof changes in Working Capital	29.7	-21.6
thereof changes in accruals and provisions	-1.7	-6.7
Investing Cash Flow	**-3.7**	**-33.9**
thereof investments in fixed assets	-13.6	-18.7
thereof sales of fixed assets	11.3	0.8
thereof purchase of consolidated companies	0.0	-15.3
Financing Cash Flow	**-20.8**	**-7.7**
thereof dividends and share buybacks	-20.2	-8.2
Other	**10.4** [1]	**0.3**
Group Cash Flow (without cash in from bank liabilities)	**2.5**	**-63.7**

Net financial resources	31.12.2008	31.12.2009	31.12.2010
Financial resources	62.9	76.2	56.0
Liabilities towards banks	-8.8	-19.6	-63.1
Net financial resources	54.1	56.6	-7.1
Change in net financial resources		**2.5**	**-63.7**

[1] thereof EUR 11,6 million changes in consolidation scope

The Cash Flow Statement clearly shows that a significant portion (EUR 21.6 million) of the EUR 63.7 million decrease in net financial resources was due to an increase in working capital. During the sales crisis in 2009, working capital had fallen by EUR 29.7 million, creating a significant financing contribution; in 2010, on the other hand, the steep rise in sales had precisely the opposite effect. To take just one example: the inventories of plant engineering & construction companies surged from EUR 6.8 million to EUR 32.6 million in the wake of higher order volumes.

In 2010, the Group also invested EUR 33.9 million in long-term assets, of which EUR 18.7 million was allocated to fixed assets and EUR 15.3 million towards new company acquisitions. Our shareholders received a total of EUR 8.2 million in 2010 (prior year: 20.2 million), of which EUR 7.7 million was paid out as dividends and EUR 0.5 million to repurchase shares.

In addition to the reduction and avoidance of wastage in whatever form (our "lean management" philosophy), one of BAVARIA's key success factors is the innovative capacity of our Group companies. A few of our many innovation initiatives are presented in detail in our Annual Report. Without technical innovations such as "glulock", for example, we would not be a force on the growth market for hybrid motors. Only by continually pushing the technological envelope, moreover, the SwissTex company was able to boost its turnover from EUR 13.8 million in 2009 to EUR 55.5 million in 2010.

BAVARIA Industriekapital AG is a majority family-owned company, and thus maintains a long-term horizon with regard to its investment activities. In 2010, our confidence in the future profitability of BAVARIA was reflected in extensive purchases of company shares by our management as well as in continued share repurchases by the company itself. At the upcoming General Shareholders' Meeting, we will for the first time recommend to distribute only the compulsory minimum dividend of EUR 0.04 per share in order to compensate for our increased investment efforts.

Finally, we also take our obligation to contribute to society seriously: Besides helping to create and preserve jobs, we boast a high training ratio (6.2% in Germany alone). We are also actively engaged in charitable activities. In 2010, for instance, we granted loans totalling EUR 100,000 to assist flood victims in the Czech Republic. Currently, we are subsidising two charitable associations: the "Initiative Straßenchor", which helps reintegrate vagrant persons into society through musical activities, and www.sunshine4kids.de, which allows underprivileged kids to go on free sailing trips.

We would like to extend a special thank you to our 5,000 employees. During the crisis, they demonstrated their commitment by voluntarily agreeing to wage/salary cuts, thereby making an important contribution to the preservation of existing jobs. As the business climate improved, we were more than happy to reward our employees for these past sacrifices. We would also like to thank all of our managers for their hard work and perseverance in difficult circumstances, without which our outstanding profit performance would not have been possible.

We would like to assure all our shareholders and business partners that we continue to see a very bright future for BAVARIA Industriekapital AG. Our optimism derives from the healthy growth potential of our investee companies as well as from our ability to acquire new companies on highly favourable terms.

We thank you once again for placing your trust in us. As always, we remain open to comments, improvement suggestions, or even leads for promising new acquisitions.

Sincerely yours,

Reimar Scholz
Spokesman of the Executive Board

Harald Ender
Member of the Executive Board, Operations

Introduction of the organs

Executive Board

Reimar Scholz (CEO)

Dipl.-Kfm., MBA (INSEAD, Fontainebleau)

Reimar Scholz is the CEO and founder of BAVARIA Industriekapital AG. Reimar Scholz, born 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 him and turned into the European market leader for IT services as a result of additional acquisitions.

Harald Ender (COO)

Dipl.-Ing., Dipl.-Kfm.

Harald Ender, born 1952, is the COO for BAVARIA Industriekapital AG. After completing his studies at RWTH-Aachen in 1978, Harald Ender has almost exclusively worked within the automotive supplier industry, serving as CEO, COO, vice-president and president in the last 21 years. He was responsible for reorganizing and restructuring several companies, utilizing Lean Management methods.

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

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

Dr. Harald Linné, Businessman, Munich
Member of the Supervisory Board
Managing Partner of Atreus GmbH and previously Managing Partner of Boyden Interim Management

Report of the Supervisory Board

For the fiscal year from 1 January to 31 December 2010

During the past fiscal year, the Supervisory Board both advised and monitored the Executive Board in the management of BAVARIA Industriekapital AG and the Group, while also fulfilling the tasks incumbent upon it under the law as well the Articles of Association and corporate governance principles of the Company – specifically in connection with key matters such as the changing legal and adjudicative environment. Thus, the Supervisory Board satisfied itself that proper procedures were followed by management.
During the reporting period, a total of 4 Supervisory Board meetings were held, namely on the following dates: 26 March 2010, 11 June 2010, 24 September 2010 and 10 December 2010. The Supervisory Board also adopted certain resolutions outside of these meetings by means of various remote and/or electronic voting procedures. In addition, the Supervisory Board was involved in regular and intensive exchanges of information, ideas and concerns with the Executive Board Members above and beyond the scope of regular Supervisory Board meetings.
This specifically included working conferences in which both the Chairman and the other Members discussed matters of key importance with the Executive Board.
Thus, the Supervisory Board has called upon the Executive Board to provide regular oral and/or written reports on the status and performance of the Company. This has invariably included a detailed, monthly written report from the Executive Board focusing on the Company's financing/risk management, the performance of BAVARIA Industriekapital AG and its investee companies, and the progress of its ongoing acquisitions and management in general. In addition, the Supervisory Board examined and evaluated the fundamental issues resulting from the aforementioned reporting, such as: the Company's corporate and commercial policies, its business strategy, as well as its financial performance and profitability, while specifically allowing for key developments in the market and competitive environment. Also examined in detail were transactions of significant importance for the Company. The Board of Directors has thus complied with its informational obligations under the law and under the company's rules of procedure.
Once the necessary measures had been identified and evaluated at length by both the Executive Board and Supervisory Board, the Supervisory Board gave its approval for said measures (insofar as such approval was mandated) on the basis of decisional guidelines from the Executive Board and by means of a duly adopted resolution.

1. Focal points of Supervisory Board meetings

In fiscal year 2010, the agenda of the Supervisory Board meetings included the following key topics:

- The business performance and growth of both the Corporate Group as well as the Stock Corporation
- Fundamental issues associated with Company policies, such as the implementation of the early-risk-detection system already adopted and the structuring of deal-making procedures, with a special emphasis on ensuring adequate compliance/corporate governance and personnel growth.
- Further development of adequate compensation structures, based on a short-term and long-term incentive basis
- Important topics of current interest, particularly the strategic alignment of BAVARIA Industriekapital AG, adjustments to the list of transactions requiring approval, an optimized organization (including increased staffing in the area of M&A management) and the company's public relations work

2. Annual reports/Group reports, audit of the accounts, corporate governance

The Company's accounting procedures, Annual Report, Consolidated Group Report and Group Management Report were audited by RP Richter GmbH Wirtschaftsprüfungsgesellschaft, a Munich-based public auditing firm selected for this purpose by the General Shareholders' Meeting. The auditors provided the Supervisory Board with a signed Declaration of Impartiality in accordance with Section 7.2.1 of the Corporate Governance Codex. The areas of emphasis for the audit were defined in advance and discussed at length. All of the audits have culminated in an unqualified opinion by the Company auditors.

The Supervisory Board approved the Annual Report and the Consolidated Group Management Report, after taking note of and considering the auditor's reports and discussing them with the auditor. After the final results of the Supervisory Board's own examination, there were no objections to the annual accounts or the group accounts and group management report. In its session of 24 March 2011, in which the auditor participated, the Supervisory Board approved the result of this examination and endorsed the annual accounts of BAVARIA Industriekapital AG prepared by the Board of Directors along with the group accounts for fiscal year 2010. The annual accounts have thus been adopted.
Moreover, the Supervisory Board has also examined the Board of Directors' proposal for disposition of profits, after considering the liquidity of the company, its financial and investment planning and the financial policies of the Board of Directors, and has concurred with the Board of Directors' proposal for disposition of profits.
The external auditors audited the Dependent Company Report prepared by the Executive Board and gave the following unqualified audit opinion: "Based on the results of our statutory audit and our professional judgment, we hereby confirm that: 1)The information presented in the report is correct. 2) The amounts paid by the Company in connection with the legal transactions presented in the report were not inappropriately high." The Supervisory Board has studied the Board of Director's dependencies report for 2010 as well as the corresponding audit report and discussed them with the auditor. The Supervisory Board gave its assent to the findings of the auditor and had no objections to the declaration made by the Executive Board in the final Section of the Dependent Company Report.
The Supervisory Board is committed to the ongoing enhancement of the Company's corporate governance principles. Thus, the Company strives to implement all the stipulations of every applicable codex – even if only a voluntary basis – unless there are material objections for not doing so in individual cases. This also applies to the Efficiency Assessment undertaken by the Supervisory Board itself.
In this past fiscal year 2010, there were no conflicts of interests on the part of Supervisory Board members to report. Mentionable, however, are the consulting services provided to the Company by the Supervisory Board Chairman's law firm: This activity was specifically authorized by a resolution of the Supervisory Board (with the Chairman duly abstaining). All Supervisory Board members took part in the meetings of the Supervisory Board.
Given its small number of members, the Supervisory Board did not form any committees.

3. Personnel matters
In fiscal year 2010, there were no membership changes in the Company's Executive Board.

4. General Shareholders' Meeting of BAVARIA Industriekapital AG in fiscal year 2010
The official General Shareholders' Meeting of BAVARIA Industriekapital AG took place on 11 June 2010.
The official General Shareholders' Meeting adopted included: 1) A dividend payout of EUR 1.25 per dividend-bearing share out of the balance sheet profit. 2) Empowerment of the Executive Board to repurchase own shares for the account of the Company.

The next official General Shareholders' Meeting will be held on 1 June 2011.

The Supervisory Board would like to thank the members of the Executive Board, the entire workforce of the BAVARIA Industriekapital AG Group, as well as the labour representatives for their motivation and hard work in the fiscal year 2010. The Board is confident that with their help, the Company can look with confidence to the new fiscal year.

Munich, on 24 March 2011

On behalf of the Supervisory Board:

Dr. Matthias Heisse
– Chairman –

The Share

The share of BAVARIA Industriekapital AG can look back on an extremely positive yearly performance. The share price, without consideration of the dividend of EUR 1.25 per share, rose by about 62% in the past year to finish at the end of the year 2010 at the price of EUR 14.595 connected with price fluctuations during the year. The SDAX was likewise able to rise strongly by about 46% in the end-of-year comparison.

The dividend in 2010 was EUR 1.25 per share. Since the initial public offer, EUR 60.5 million has returned to the shareholders in the form of dividends and stock redemptions. The proceeds from the initial public offer in 2006 were roughly EUR 12.0 million.

Number of shares	6,394,500 shares
Type of shares	Individual bearer shares
Authorised capital	EUR 6,394,500
Voting rights	Each share confers one voting right
WKN	260555
ISIN	DE0002605557
Stock exchange code	B8A
Stock exchange segment	Entry Standard
Fiscal year	Equivalent to the calender year
Accounting presentation	As per German Commercial Code (HGB)
Designated Sponsor	Close Brothers Seydler Bank AG
Announcements	Elektronischer Bundesanzeiger (Electronic Federal Gazette)
Top share price in 2010 (29.12.2010)	EUR 14.80
Lowest share price in 2010 (04.01.2010)	EUR 10.60
Closing price (30.12.2010)	EUR 14.595
Market capitalisation (30.12.2010)	EUR 93.4 Mio.
Earnings Holding per share	EUR 0.79 (for fiscal year 2010)
Dividend per share	EUR 0.04 (for fiscal year 2010)

Statement of Compliance

BAVARIA Industriekapital AG puts great emphasis on corporate governance rules.

Although the Company is not exchange-listed and is thus not obligated to comply, the Executive Board and Supervisory Board of BAVARIA Industriekapital AG hereby declare that the Company has complied, and continues to comply, with the recommendations of the "German Corporate Governance Codex" government commission (as published by the Federal Ministry of Justice in the official part of the Electronic Federal Bulletin of 26 May 2010, hereinafter DCGK), subject to the following exceptions:

Executive Board

Item 4.1.5 DCGK: Diversity Executive Board
The German Corporate Governance Codex recommends in Item 4.1.5 that when filling vacancies in leadership positions, the Executive Board pays attention to diversity and, in particular, aims for reasonable consideration of women. In deviation from Item 4.1.5, BAVARIA Industriekapital AG fills vacancies in its corporate bodies and leadership positions in accordance with the qualifications of the applicants and the interests of the company.

Item 4.2.4 DCGK: Disclosure of individual Executive Board salaries
The disclosure of individual Executive Board salaries called for under Item 4.2.4 of the Codex was not implemented. In the judgement of BAVARIA Industriekapital AG, such a disclosure would infringe upon personal privacy rights/laws. Thus, the final decision in this matter has been left up to the individual Executive Board Member concerned.

Supervisory Board and Committees

Item 5.1.2 DCGK: Diversity of the Supervisory Board/Succession Planning
In Item 5.1.2 the German Corporate Governance Codex recommends that when filling vacancies on the Executive Board, the Supervisory Board pay attention to diversity and, in particular, aim for reasonable consideration of women, ensure long term succession planning and set an upper age limit for the Executive Board.

In deviation from Item 5.1.2 of the Codex, there is presently no need for additional, long-term succession planning for the Executive Board, given by its present age structure. This is also why no upper age limit for Executive Board members has thus far been established.

In the interests of the company, persons ought to be selected for membership of the Executive Board on the basis of their technical and personal suitability and qualifications. The Supervisory Board takes the view that the special weighting of further criteria prescribed by the Codex for membership of the Executive Board would unduly restrict selection of candidates, both men and women, for the Executive Board. In this connection one must also consider that the Executive Board currently consists of just two members.

Items 5.3.1, 5.3.2 und 5.3.3 DCGK: Committees of the Supervisory Board
In deviation from Items 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 of the Board make this impossible and/or impractical at the present time.

Item 5.4.1, par. 2 and 3 DCGK: Establishment of concrete objectives for the composition of the Supervisory Board
In the new version of the DCGK of 26 May 2010, Item 5.4.1 par. 2 and 3 contain new recommendations by which the Supervisory Board should state concrete objectives for its composition that take account of the company's specific situation, its international activities, potential conflicts of

interest, and upper age limit for members of the Supervisory Board and diversity and provide for appropriate participation by women. Suggestions of the Supervisory Board made to the selection committees involved should take account of these objectives.

Personal and technical suitability, experience and qualifications are also the decisive selection criteria for filling vacancies on the Supervisory Board. A link to concrete objectives to be laid down in advance would unduly restrict flexibility with filling future vacancies, without the company deriving other evident advantages. Moreover, the recommendations of the Codex are considered anyway when vacancies in the Supervisory Board are filled, without there being a need for establishment of concrete objectives.

There is no general upper age limit for members of the Supervisory Board because it is the competence of each member of or candidate for the Supervisory Board that should be primarily decisive. In particular, experience also plays an important role. Also, in view of the fact that application of Germany's General Equal Treatment Law by analogy can at least be discussed even though this law does not apply directly, the company considers that establishment of an upper age limit would not be proper.

Accounting

Item 7.1.1 DCGK: Accounting
In deviation from the recommendation in Item 7.1.1, the Company has opted to continue preparing its accounts pursuant to the German Commercial Code (HGB) rather than IFRS regulations. This because the required changeover would be unlikely to generate added value, especially given the time and expense it would entail.

Munich, on 24 March 2011

Reimar Scholz	Harald Ender	Dr. Matthias Heisse
The Executive Board		The Supervisory Board

Corporate Governance Report

BAVARIA Industriekapital AG almost fully compliant with stringent German Standards

Pursuant to Item 3.10 of the current German Corporate Governance Codex, the Executive Board and Supervisory Board of BAVARIA Industriekapital AG report regularly on corporate governance. This reporting occurs on a voluntary basis, since § 161 of the German Stock Corporation Act (AktG) has no binding applicability for BAVARIA Industriekapital AG, by virtue of the fact that the Company is Entry-Standard-listed rather than exchange-listed.

2010 Statement of Compliance
According to the Statement of Compliance released by BAVARIA Industriekapital AG for 2010, the Company complied fully with the German Corporate Governance Codex except for only a few deviations, which are spelled out below:

Executive Board
The disclosure of individual Executive Board salaries called for under Item 4.2.4 of the Codex was not implemented. In the judgement of BAVARIA Industriekapital AG, such a disclosure would infringe upon personal privacy rights. Thus, the final decision in this matter has been left up to the individual Executive Board Member concerned.

Supervisory Board and committees
In deviation from Item 5.1.2 of the Codex, there is presently no need for additional, long-term succession planning for the Executive Board, given its present age structure. This is also why no upper age limit for Executive Board members has thus far been established.

In deviation from Items 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 of the Board make this impossible and/or impractical at the present time.

Accounting
In deviation from the recommendation in Item 7.1.1, the Company has opted to continue preparing its accounts pursuant to the German Commercial Code (HGB) rather than IFRS regulations. This is because the required changeover would be unlikely to generate added value, especially given the time and expense it would entail.

Executive Board and Supervisory Board
The Executive Board manages the Company under its own responsibility. In the process, the Board is obligated to pursue the best interests of the Company while striving for sustained growth in the Company value. The Executive Board of BAVARIA Industriekapital AG currently consists of two persons. The Supervisory Board has established rules of procedure for the Executive Board which particularly govern the division of duties among its members as well as it collaboration with the Supervisory Board. On a regular and timely basis, the Executive Board must make comprehensive reports to the Supervisory Board with regard to all matters of importance to the Company, including planning, business performance/development, the prevailing risk environment and risk management.

The Supervisory Board advises and monitors the Executive Board in its management of the Company. Pursuant to the Articles of Association, the Supervisory Board consists of three members.

The Supervisory Board reviews particularly BAVARIA Industriekapital AG's annual report and consolidated Group report, the Group management report as well as the proposal on the allocation of the unappropriated profits and decides after its own review, if the annual report and consolidated Group report are approved.

The process of collaboration between the Executive Board and Supervisory Board is set forth in detail in the respective rules of procedure of each board, which were adjusted to BAVARIA Industriekapital AG's needs in 2010. They also specify which Executive Board activities require Supervisory Board approval. In addition, the Supervisory Board's rules of procedure spell out its particular duties.

The Executive Board and Supervisory Board collaborate closely and on the basis of trust in order to promote the best interests of the Company. All material business events and/or transactions are dealt with jointly. Members of the Executive Board or Supervisory Board must disclose any conflicts of interest to the Supervisory Board.

Shareholders and General Shareholders' Meeting
Our shareholders receive regular updates via the Company's recurring publications regarding the Group's business development as well as its assets, financial position and profitability (annual and quarterly reports). These are released pursuant to a financial calendar accessible on our internet homepage: www.baikap.de, category "Investor Relations". In addition, the date of our annual General Shareholders' Meeting is also published in the financial calendar, once it has been set.

The annual General Shareholders' Meeting is organised and conducted so as to ensure that all shareholders are informed promptly, comprehensively and effectively before and during the meeting, while facilitating the exercise of their rights. Thus, we also provide our shareholders with the usual services associated with the granting of a power of attorney and/or voting instructions in connection with the General Shareholders' Meeting.

The last General Shareholders' Meeting of BAVARIA Industriekapital AG took place on 11 June 2010. The next official General Shareholders' Meeting has been scheduled for 1 June 2011.

Compensation report

Compensation of the Supervisory Board
Pursuant to § 12, Para. 2 of the Company's Articles of Association, the General Shareholders' Meeting sets the amount of remuneration, if any, payable to the members of the Supervisory Board. Accordingly, the fixed payment currently amounts to EUR 10,000 per annum plus applicable VAT. Remuneration for 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, Para 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 was authorised to grant a total of 16,500 convertible debentures (after the share split: 49,500 units) to the Supervisory Board. These 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 issuance of the convertible debenture ("minimum waiting period"). The minimum waiting period expires on the first anniversary of the issue date. Conversion does not depend on the attainment of additional performance goals.

In aggregate, the Supervisory Board received remuneration of EUR 40,000 during the past fiscal year, allocated as follows (while allowing for applicable VAT):

Dr. Matthias Heisse (Chairman)	20,000 EUR
Dr. Gernot Eisinger	10,000 EUR
Dr. Harald Linné	10,000 EUR

In addition, the members of the Supervisory Board received the following additional payments in connection with consulting agreements during the last fiscal year:

EUR 114,322.69 (net) to the Munich-based legal firm of Heisse, Kursawe, Eversheds for legal advisory services rendered.

Executive Board compensation
The remuneration of the members of the Executive Board includes both fixed and variable components. During the past fiscal year, said remuneration amounted to a total of EUR 1,180,991.00 (previous year: EUR 777,247.96). Of this, EUR 623,748.00 (previous year: EUR 602,247.95) was fixed and EUR 557,243.00 (previous year: EUR 175,000.00) was performance-based. The performance-based payments (about 47%, previous year 23% of total remuneration) are essentially contingent on individual and Company-related objectives. Furthermore, each Board Member has the opportunity to earn a share-based bonus under a Company profit-sharing scheme.

Information on stock-option programmes
There is no existing stock-option programme.

Ownership of shares in BAVARIA Industriekapital AG by the Executive Board and Supervisory Board
Holdings of Company shares by members of the board and/or Supervisory Board must be disclosed individually insofar these amount to more than 1% of the Company's issued shares (whether the shares are held directly or indirectly).

As of 31 December 2010 and 31 December 2009, the members of the Executive Board BAVARIA Industriekapital AG owned the following direct or indirect shareholdings:

Executive Board Member	As of 31 Dec 2010 (No. of shares)	As of 31 Dec 2009 (No. of shares)
Reimar Scholz	**4,314,423**	**4,251,964**
Harald Ender	**100,000**	**95,500**

As of 31 December 2010, the members of the Supervisory Board held a total of 0 shares out of the Company's issued capital (prior year: 0 shares).

Insurance for members of the Executive Board and Supervisory Board
BAVARIA Industriekapital AG has taken out financial loss coverage (D&O liability insurance) for the members of the Supervisory Board and the Executive Board of the Company with an appropriate retention amount.

Transparent communication
In order to ensure maximum possible transparency, we aim to provide all target groups with the same information at the same time. Thus, 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 Company's Articles of Association are published on our website.

Accounting and auditing of the annual accounts / Management of Risks and Chances
Thanks to its risk/opportunity management system, BAVARIA Industriekapital AG is able to systematically identify and assess risks and opportunities, while taking appropriate measures in response. The system is continuously enhanced by the Company. Further information is provided in our Group management report as part of the annual report 2010.

The Company has appointed RP RICHTER GmbH Wirtschaftsprüfungsgesellschaft, Munich as its external auditor for fiscal year 2010. The auditors are obligated to promptly notify the Chairman of the Supervisory Board of any grounds for disqualification or appearance of partiality that emerge during the audit. The auditor will also promptly report any discoveries or events that turn up during the audit, insofar as they have a material impact on the duties of the Supervisory Board. In addition, the auditors will notify the Supervisory Board if they discover any facts during the audit that contravene the Statement of Compliance issued by the Executive Board and Supervisory Board pursuant to § 161 of the Stock Corporation Act (AktG).

Prevention of conflicts of interest
Private business dealings or outside employment by members of the Executive Board must be promptly disclosed to the Supervisory Board; if applicable, such dealings/employment must be duly authorised before being undertaken. The Supervisory Board must report any conflicts of interests and their consequences to the General Shareholders' Meeting. In the year under review, there were no conflicts of interests to report on the part of either the Executive Board or the Supervisory Board. We would again like to point out the legal advisory services provided by the Chairman of the Supervisory Board, which were approved by the Supervisory Board.

BAVARIA Industriekapital AG – Who we are.

Founded in 2003, BAVARIA Industriekapital AG is a fast-growing industrial holding company. Currently, its portfolio comprises 13 going companies employing a total of roughly 5,000 people. The shares of BAVARIA Industriekapital AG are exchange-listed, which ensures broad control and strengthens our competitive position.

Our business strategy is to acquire revenue-poor/unprofitable mid-sized companies and turn them around by means of comprehensive and sustained restructuring. In the process, we back up our investee companies as a strong partner. A key part of our strategy is to spin off those activities which are merely peripheral to the investee company's core business. Running these activities on a standalone basis then allows us to identify new growth potential. The application of our in-house "Bavaria Operating System" enables us to improve revenue streams, heighten competitiveness and introduce stringent cash management. By fully involving the investee company's workforce along the way, we are able to draw on their skills and experience to help achieve the turnaround. Meanwhile, our team of specialist provides on-site support for management, thus further ensuring the success of our restructuring.

Before being acquired by BAVARIA Industriekapital AG, the investee company is often faced with the inevitable shutdown of its operations. Once we take over the reins, however, we quickly put the company back on course to profitability. Although restructuring frequently includes personnel adjustments, we are almost always able to ramp the workforce back up over the medium term. This is because we set great store in the potential and initiative of human resources when it comes to securing lasting company success.

None of our investee companies has had to take on additional debt due to being acquired by BAVARIA Industriekapital AG. Our business model is oriented towards achieving positive operating results in our investee companies. This also includes making required investments.

Our investee companies: The type of company we look for
Target sectors: manufacturing or industrial services.
Annual turnover: At least EUR 50 million.
Opportunity to acquire a majority stake, preferably 100%.
Identifiable improvement potentials.

Going forward, we intend to continue acquiring companies without having to compromise our standards. Steady growth and improved operating results form a solid basis for success, both for the investee company as well as for BAVARIA Industriekapital AG.

Our mission statement: We stand behind and beside our companies
We pursue our objectives in a sustainable fashion and with a long-term perspective, in order to create company value while also safeguarding jobs. Integrity, trust and responsibility play a key role in this context. We stand beside our investee companies as a strong partner.

Responsibility: We are committed to creating value and sustainability
We are conscious of the heavy responsibility we take on when we acquire a distressed company. We are ready to take tough decisions while respecting the interests of all stakeholders, and we remain accountable for these decisions. Moreover, we have developed our own risk management system for the early identification of critical events that could endanger the survival of the investee company.

Integrity: Joining together to achieve a common goal
For us, integrity means ethical conduct, a commitment to honest dealings and a reliable work ethic. We not only live up to these standards ourselves, but expect them from our partners as well. Thus, mutual trust forms the basis for a collaborative effort to restore our investee companies to profitability. This is how we make our restructuring successful and credible.

Performance: We set high benchmarks – beginning with ourselves
We set objectives which we aim to achieve not only through our own efforts but also via the performance of the investee company's management and workforce. We work with a clear focus on achieving positive operating results and on reaping the rewards of our success. In order to effectively assess and improve the situation in our investee companies, we work together closely with both management and employees when it comes to formulating and implementing our demanding targets.

Teamwork – We are open to constructive dialog
Communication and cooperation in a team setting are key prerequisites for innovation and creativity. Teamwork is not just a question of leadership style, however; it is a critical factor in motivating the workforce and in preparing them to tackle new challenges and tasks.

A win/win situation: We want everyone to come out ahead!
We only acquire companies with clear improvement potential. Active management of our financial participation allows us to boost revenues and profits. Even before an acquisition is finalised, our Best-Practice Team is busy developing a concrete action plan that will then be promptly implemented in cooperation with management. Since our own management stands to profit from the success of our turnaround companies, we are able to effectively position our executives as "entrepreneurs". Ultimately, our track record speaks for itself.

A win/win situation: We take over companies that have generally been making losses for years and bring them back into the black in short order, while securing the jobs of the affected workforce. Since our acquisition involves the spin-off of unprofitable, peripheral activities, it allows the company's former owners to once again concentrate on their core business. In other words, BAVARIA Industriekapital AG comes in as a long-term investor in the company. We also participate successfully in sectors that tend to be avoided by financial investors with quick exit strategies, e.g. plant construction firms or companies particularly susceptible to the business cycle.

Charitable activities

EXIT Deutschland
Bavaria Industriekapital AG is an active supporter of the charitable organisation EXIT (www.exit-deutschland.de), which helps those caught in the Neo-Nazi subculture to leave their old life behind and turn over a new leaf. Just like BAVARIA Industriekapital AG, the EXIT Organisation strives to improve future perspectives and to make itself available at all times as a trusted go-to partner. This common approach and the desire to make a positive difference in society are what make BAVARIA an enthusiastic sponsor of EXIT. So long as EXIT does not receive government subsidies, its social work is dependent on the generous contributions of those who support its mission.

ASHOKA – Innovators for the Public
We are also proud to support the Ashoka organisation (www.ashoka.org), which specialises in investing philanthropic risk capital in socially beneficial projects. Since 1980, Ashoka has identified social entrepreneurs – both men and women – in almost 70 countries and has supported them in solving social problems with innovative concepts. Ashoka provides these entrepreneurs with assistance, advice and access to support networks, enabling them to spread their innovations far and wide. In addition, Ashoka mentors youth from underprivileged families in accordance with their individual talents. This is particularly important to us, since we consider it highly unfair that, even in Germany, a child's chances for good schooling and a solid professional future are highly dependent on the educational level of his or her parents.

Through the crisis with innovations.

Into the future with innovations.

The economic crisis also demanded a great deal of our company. We had to slim down structures, reduce staff or demand cost concessions from them. This was the only way for us to survive the crisis relatively unscathed. Despite this, we have not omitted to invest in the future of our companies: the necessary facilities have been purchased and the technical development of the companies has been advanced.

We know how important it is to invest in products and services which are new, sustainable and profitable in order to be able to prevail and hold one's ground in the market.

We are aware of the importance of well-trained and motivated staff. Setting the right accents in this respect is an ongoing task which we are in the process of tackling.

Various examples should serve to clarify the new developments which have been brought to market maturity for which we can meanwhile harvest the first fruits.

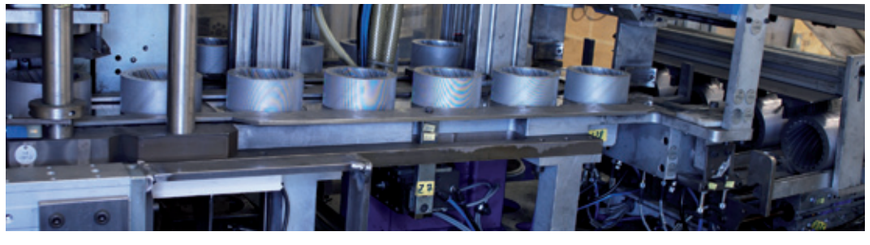
Case Study 1 – Faral Group

FARAL®
Aluminium is intelligent heating

The new product here is called Lato. Aluminium radiators had a hard time of it in recent years. The reason was the exorbitant increase in raw material prices and the slump in important overseas markets, for example in Spain, due to the local property crisis. Faral's turnover also dropped as a result. In order not to end up in a precarious situation, costs had to be reduced, modern manufacturing concepts introduced and other geographical markets developed at the same time. But that was not enough. Faral has pushed forward the development of innovative aluminium-based heating concepts and was able to present the new "Lato" product at the sanitaryware trade fair in Milan last year for the first time. This is a square radiator. It can be brought together with several components to form one wall element of which the front side can be decorated with a graphic design. This opens up completely new options for interior design. A highly attractive design component is thus formed from a standardised industrial product.

Case Study 2 – Kienle + Spiess Group

„**glulock**“ is one of the biggest innovations in this sector in recent years. This procedure can significantly increase the performance utilisation of an electric motor. This permits a smaller electric motor to be designed with the same performance or an existing motor to deliver more performance. „**glulock**“ products are stacks of metal sheets produced in a follow-on cutting tool. The individual slats are fixed with an adhesive bond. Unlike previous technologies, the electrical properties of the stacks of metal sheets are not negatively influenced in the process.



The „**glulock**“ process is basically of interest for every electric motor but especially where weight, build size or battery performance are decisive, in other words mainly with mobile drive requirements such as electric drives for the automotive industry or electric bicycles.

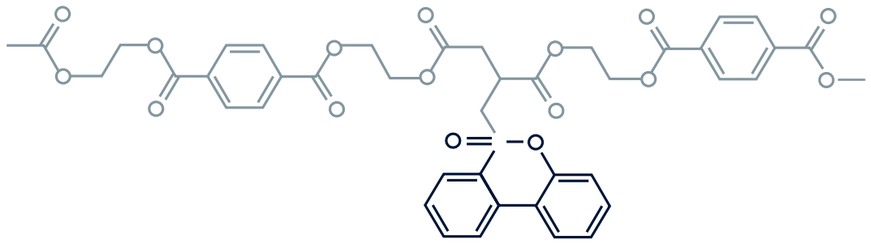
This technology has been refined so far in recent years that it can meanwhile be used for initial prototypes in the automotive field. Last year, it was possible to secure an initial order worth an eight-figure sum with a leading German automotive company to significantly increase the efficiency of the developed hybrid motors. With this, K+S counts as one of the pioneers of the new electric drive age.

Case Study 3 – SwissTex Group

Swiss Filament is a business area of SwissTex, which develops specialised yarns. An initial product is a flame-retardant yarn which differs from previous flame-retardant products in that an additive provides the flame retardancy and that this additive is directly bound to the polymer chain. The additive cannot therefore be washed out, bleached or abraded and offers longer-term flame retardance than other products which only have surface flame protection. As neither halogens nor nitrogen are used, this yarn is environmentally friendly and 100% recyclable.

Swiss Filament is working together with customers and partners in the European market to bring its products to the market. The flame-retarding yarn is suitable for many applications for which flame-retardance has special importance (aeroplane, train, hotel, etc.). The long-term flame-retardance and with it the durability of the product are strong arguments for this product establishing itself in the market despite significantly higher prices.

Further development of special yarns is planned to enable a niche provider to develop which offers new products with technically innovative solutions and simultaneously opens the door for SwissTex itself, which provides the necessary machines for manufacturing the special yarns.



GROUP MANAGEMENT REPORT

I. General environment and operations

1. Overall economic environment and market

Following a period of recovery, the global economy managed to climb back to pre-crisis levels in 2010. At the same time, world trade grew by an extremely robust 5% over the prior year (source: International Monetary Fund), thus rebounding almost completely from the losses of the prior year. In many countries, this significant economic improvement was supported by highly expansive fiscal and monetary policies. Stable demand from the emerging economies also played a positive role. The contributions of individual regions to this global upswing varied widely, however. Thus, while growth in many emerging economies already exceeds pre-crisis levels, most industrialised countries have yet to fully make up for GDP lost in 2008/2009.

The recovery of the global economy since the middle of 2009 has also boosted German exports in a tangible manner, helping the country's real economy to pull out of the crisis. Hence, the economic recovery in Germany proved to be significantly stronger in 2010 than expected. Since the drastic erosion of output in the six months of winter 2008/2009, overall economic production was expanded consistently, with the highest growth occurring in Q2 2010.

Meanwhile, the export-oriented German industrial sector responded quickly to growing demand. This was possible because companies had been able to retain a surprising level of personnel during the crisis, despite being saddled with a great deal of unused capacity. In annualised terms, GDP rose by 3.6% in 2010; this dynamism is expected to abate somewhat in 2011, with GDP forecast at 2.2% (source: International Monetary Fund).

2. The BAVARIA business model

BAVARIA's business model encompasses the acquisition, restructuring, rehabilitation and eventual resale of distressed 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 potentials.

3. 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 2010, BAVARIA Industriekapital AG derived its financing almost entirely from its own equity capital (as in the prior year).

As of 31 December 2010, the Company's equity capital had fallen from EUR 26.0 million in the prior year to EUR 21.1 million, primarily due to a dividend distribution of EUR 7.7 million to the shareholders.

One of the benchmarks we use to measure our performance is the net change in BAVARIA Industriekapital's financial resources fund. This is summarised in the table below:

2010 net change in the BAVARIA Industriekapital AG's financial resource fund (in EUR millions)

Cash flow from operations	2010	2009
Annual surplus	5.1	8.2
Increase/decrease in provisions	1.2	7.0
Gains on disposal of financial assets	0.0	-2.4
Change in receivables and other assets	0.3	-6.0
Change in payables and other liabilities	-0.1	0.1
	6.5	6.9
Cash flow from Group investment activities		
Inflows from the sale of consolidated companies and other business units	0.4	0.1
Outflows from the acquisition of consolidated companies and other business units	-0.2	-0.1
Outflows from investments in financial assets	0.0	-0.1
	0.2	-0.1
Cash flow from financing activities		
Outflows for shareholder distributions	-7.7	-19.7
Outflows for the repurchase of own shares	-0.5	-0.5
	-8.2	-20.2
Changes in the cash balance of the financial resource fund	-1.5	-13.4
Financial resource fund at the start of the period	10.8	24.2
Financial resource fund at the end of the period [1]	9.3	10.8

[1] The financial resources fund comprises cash and cash equivalents as well as short-term securities included in working capital, with the exception of own shares.

If we factor out dividend distributions and outlays for the repurchase of own shares, the financial resource fund of BAVARIA Industriekapital AG actually improved by EUR 6.7 million in 2010 (prior year: EUR 6.8 million).

Development of the shareholding portfolio

In July 2010, the portfolio was expanded through the successful acquisition of an above-average-sized corporate group comprising nine companies and annual turnover of roughly EUR 140 million. Said group was renamed "TriStone Flowtech" and allocated to the "Serial Production/ Automotive" segment.

Besides acquiring the remaining 50% of R+E in January 2010, BAVARIA expanded its holdings in the "Plant Engineering & Construction" segment through SwissTex's takeover of a French company in May 2010 and through L&E's establishment of a new company in Kaukauna (Wisconsin) /USA in March 2010.

For details on the individual portfolio companies, please see the "Shareholding Portfolio" section.

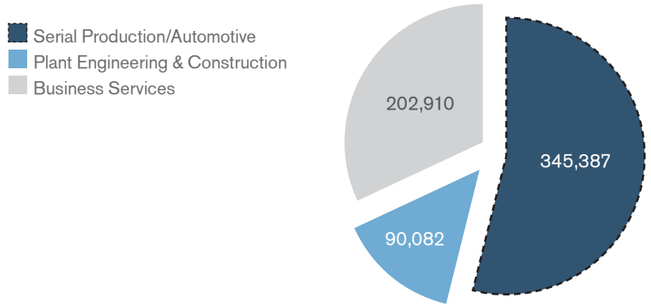
Dividend distributions and share buybacks by BAVARIA Industriekapital AG

By resolution of the General Shareholder Meeting on 11 June 2010, a dividend of EUR 1.25 per share was distributed for fiscal year 2009. Thus, the total distribution to all dividend-bearing shares amounted to EUR 7,716,705.00. During fiscal year 2010, 27,260 shares were repurchased for EUR 0.3 million pursuant to the authorisation granted by the General Shareholder Meeting on 29 May 2009, and an additional 16,092 shares were repurchased for EUR 0.2 million pursuant to the authorisation granted by the General Shareholder Meeting on 11 June 2010. Together with the shares repurchased in prior years (193,876 shares), the total number of own shares held by the Company amounts to 237,228 as of 31 December 2010.

II. Shareholding portfolio

1. Serial Production/Automotive

Sales Revenues 2010 (in EUR thousands)



In 2010, the Serial Production/Automotive segment accounted for EUR 345.4 million (prior year: EUR 259.3 million) or roughly 54% (prior year: 64%) of the BAVARIA Group's sales revenue. In the reporting year, the TriStone Flowtech Group, initially consolidated in July 2010, was added to the shareholding portfolio. Following a sell-off of all its assets and debts as of 31 December 2009, the FDI was no longer included in the portfolio in the reporting year.

Trends in the automotive industry

Demand for all types of motors is dependent on the economic trend in the key customer sectors, such as electronics, drive and control technology, power plant technology and automotive/industrial technology.

According to the ZVEI industry association, production in the electronics industry underwent a price-adjusted 13% YoY increase in 2010. This increase was more or less in line with our expectations.

If we factor out the companies not already in the 2009 scope of consolidation for better comparison, we see that 2010 brought a 50% YoY increase in order volume. Since bottoming out in late 2008 and early 2009, both the automotive industry as well as the remaining companies in this segment have managed an extremely dynamic recovery.

Segment turnover and earnings

At EUR 345.4 million, 2010 sales revenues are about 33% higher than in the prior year. If we factor out the new acquisitions and disposals during the fiscal year/prior year to arrive at a comparison portfolio, we see that turnover is actually about 27% above the prior year – a clear reflection of recovery from the economic crisis.

The segment's EBITDA of EUR 24.6 million was also significantly higher than in 2009 (EUR -3.1 million). This markedly improved performance is primarily attributable to higher turn-over volumes, which in turn has a disproportionate impact on the operating result, given that fixed costs had been slashed dramatically in the prior year. Looking ahead at 2011 and beyond, we expect to see a stable continuation of positive performance.

Additional key data relevant to segment-by-segment performance can be found in the Segment Reporting section of the Notes to the Consolidated Group Annual Report.

Investments, depreciation and personnel changes

In the past fiscal year, our companies invested roughly EUR 11.1 million (prior year: EUR 12.0 million) in plant and equipment, thus remaining somewhat cautious. This level of investment was below annual depreciation, which amounted to EUR 16.2 million (prior year: EUR 16.9 million). Thus, despite the marked improvement in business volume, we have continued to carefully appraise all potential investments with a critical eye. In the process, the focus of investment activity has been on expanding capacity (particularly for the K+S Group) as well as on boosting efficiency (Faral Group). The objective was to limit acquisition costs and follow-on expenses as much as possible by buying plant and equipment in standardised formats as well on the second-hand market.

In the wake of new acquisitions, the segment's total workforce increased from 2,105 to 2,746 employees. If you factor out these new acquisitions, you find that the average total workforce attributable to the existing portfolio of companies remains mostly unchanged throughout 2010.

Outlook for 2011 and beyond

Our key challenge in 2011 will be to master the high degree of capacity utilisation that the improved demand picture entails. The price increases already evident on the sourcing market in the first months of the year will have to be compensated by increased efficiency and other appropriate measures. We will be making significant capacity-expansion investments on a highly targeted basis, mostly in order to strengthen our presence in key markets of the future, such as renewable energies and electro-mobility. Thanks to this process of carefully planned and pinpointed investment, we believe we will be well positioned to turn the present challenges to our best advantage.

Portfolio companies

As of 31 December 2010, the Serial Production/Automotive segment comprised the following five companies:

a) Kienle+Spiess Group

Date of acquisition June 2006
Managing Director Wolfgang Werheid
Legal domicile Sachsenheim/Germany, Bilston/UK, Tokod/Hungary

The Kienle+Spiess Group is the leading European provider of stamped and die-cast compo-nents for electrical machinery and generators. Since 1935, the company has been known for the stamping and packing of rotor and stator laminations as well as all types of electrical drives. The main plant at Sachsenheim and nearby Vaihingen has been in existence for 75 years. Kienle+Spiess also has branch operations in the UK and Hungary.

b) Faral Group

Date of acquisition May 2008
Managing Director Biagio Sisinni
Legal domicile Modena/Italy, Carmaux/France

Faral S.p.A. was established in 1966 in Campogalliano (Modena/Italy), and, with its product "Tropical", became the first company to sell radiators made of aluminium. Faral supplies the European market via 3 plants: a foundry and 2 varnishing/assembly works. The Faral Group has also a French branch operation, Faral France, since October 2009.

c) Tech-FORM

Date of acquisition June 2009
Managing Director Jérôme Della Siega
Legal domicile Auxi-le-Château/France

Tech-FORM was founded in 1917 in Auxi-le-Château, 200 km north of Paris. With its expertise in metal-forming processes such as stamping and flow forming, Tech-FORM specializes in the development and manufacturing of steel and aluminium pulleys, torsional vibration dampers and gearbox components for automotive applications. Thanks to investments in development as well as in laboratory and testing equipment, Tech-FORM is able to design and produce top-quality, competitively priced components tailored to the technical requirements of its customers (mainly in the automotive sector).

d) Austria Druckguss

Date of acquisition May 2009
Managing Director Alexander Schröfl
Legal domicile Gleisdorf/Austria

ADG KG is a provider of complex, die-casting components as well as machining services. The weight of these components ranges from a few grams to as much as 3 kilos. A wide variety of aluminium alloys are used, with some allowing up to 8% distension. Collaborating with partners in low-wage countries will help the company to better meet customer needs in the near future. Solid expertise in stamping and chipping processes coupled with outstanding project management and the ability to produce cost effectively are advantages that ADG KG can pass on to its customers.

e) TriStone Flowtech Group

Date of acquisition July 2010
Managing Director Anders Grahn
Legal domicile Frankfurt on the Main/Germany, Carquefou/France, Cirié/Italy, Walbrzych/Poland, Nová Bana/Slovakia, Tarazona/Spain, Hrádek nad Nisou/Czech Republic, Çerkezköy/Turkey, São Paulo/Brazil

TriStone Flowtech specialises in "flowtech" solutions for the automobile industry, which it develops and prototypes at 3 separate R&D locations and manufactures at 7 separate plants. Besides its proven expertise in products and systems and its ability to produce flexibly and efficiently in proximity to the customer, TriStone also offers on-site support from experienced project teams and in-house engineers.

The result: Cutting-edge technical solutions in the areas of engine cooling, air charge and air intake, as well as long-term, successful supplier relationships with all major automakers.

The main products in the **Motor Cooling** field consist of extruded rubber hoses, either made of multi-layer, fabric-reinforced EPDM or single-layer, fibre-reinforced TriStone composite materials. This, together with its single/multi-layer synthetic ducts and range of coupling elements, allows TriStone to offer a variety of complex motor-cooling assemblies. The Motor Cooling product palette is supplemented by a range of compact or dual cooling-water expansion tanks, which can perform several functions simultaneously.

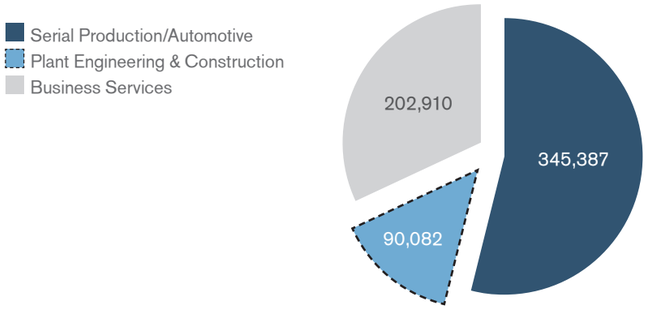
In the **Air Charge** field, the main products include extruded hoses made out of extruded silicon or HT-Vamac, blow-moulded air ducts and injection-moulded resonators. High-performance materials for compliance with the EURO6 standard, combined with intelligent, integrated solutions and systems experience in air-flow routing, acoustics, structures, thermodynamics and decoupling – this is what gives TriStone the ability to offer its clients comprehensive system development and production under one roof.

The main productions in the **Air Intake** field include compact air-filter cartridges, filter elements, air ducts, hoses, baffle plates, flap gates and exhaust units, which together represent wide-ranging systems know-how in air-flow routing, acoustics, filtering and decoupling.

In addition to offering a comprehensive product and systems range, TriStone strives to adapt proactively to the future needs of its clients and the changing requirements of the automotive sector. This makes TriStone a go-to partner of choice for automakers when it comes to developing new engine designs. The Group boasts separate branch operations in no less than 9 countries.

2. Plant Engineering & Construction

Sales Revenues 2010 (in EUR thousands)



In 2010, the Plant Engineering & Construction booked EUR 90.1 million (prior year: EUR 48.1 million) in turnover revenue, or roughly 14% (prior year: 12%) of the turnover revenue of the entire BAVARIA Group. In 2010, R+E was added to this segment's portfolio, which now consists of 4 companies.

Trends in the plant engineering & construction sector

According to the VDMA trade association, the sector has undergone quarter-on-quarter two-digit growth in orders since the end of 2009. This order growth was initially driven mostly by China, South Korea and India, which quickly recovered from the crisis and returned to a growth path, thus helping foster the sector's quick comeback in Germany. In the meantime, foreign demand has begun percolating across the board, also helping to buoy domestic demand.

Back in August 2010, you saw the sector's turnover growth climb back into positive territory for the first time in two years. For the year as a whole, however, production was still slightly below 2009 levels (-3%).

Segment turnover and earnings

Sales revenues were EUR 90.1 million in 2009, or about 87% higher than in the prior year. Roughly EUR 16.0 million of this was contributed by SwissTex France, the French SwissTex subsidiary acquired in 2010, while EUR 3.7 million came from R+E, which was initially consolidated in 2010. If we factor out these acquisitions, we see that our plant engineering/construction firms registered organic growth of about 47%, a trend already presaged in Q4 2009 by a particularly strong increase in order volume throughout the sector.

At EUR 4.2 million, EBITDA for the segment was significantly higher than the EUR 0.4 million earned in 2009. This was due above all to the trend of the market for textile-machinery construction, which not only bounced back from its trough in 2009 but has since begun to boom. The order volume of the Plant Engineering & Construction segment amounted to EUR 134.5 million in 2010, compared to EUR 59.1 million in the prior year.

Additional key data relevant to segment-by-segment performance can be found in the Segment Reporting section of the Notes to the Consolidated Group Annual Report.

Investments, depreciation and personnel changes

Due to its proportionally high use of input materials (i.e. sourced components), Plant Engineering & Construction is a highly labour-intensive segment with a small volume of fixed assets. A total of EUR 1.9 million were invested in 2010 (prior year: EUR 0.2 million), while depreciation amounted to EUR 0.9 million (prior year: EUR 0.5 million). The focus of the investment activities in this sector

included a development plant for textile machinery and equipment, which is intended to boost the competitive position of our portfolio companies in a sustained fashion while also helping to expand market shares.

With 409 employees, the segment's total workforce in 2010 was significantly larger than in 2009 (272 employees). This was primarily attributable to a marked improvement in the market for textile machinery and equipment. Thanks to a burgeoning order book and the acquisition of the French subsidiary, SwissTex increased its workforce almost threefold, from 61 to 173 employees. R+E was added to the portfolio in 2010 along with 28 employees.

Outlook for 2011 and beyond

The German machine tool industry forecasts production growth of 30% in 2011. Thanks to a surge in order volume in relation to 2009, BAVARIA's portfolio companies were able to book orders totalling EUR 74.0 million. Accordingly, these companies are planning for a doubling of turnover in relation to the prior year.

This suggests that our portfolio companies will outperform the average result forecast for the German machine tools industry by the VDMA trade association. This positive trend is additionally supported by our companies' specialised fields of activity (environmental protection and innovative textiles).

We are therefore confident that our portfolio companies will perform well in 2011 and in subsequent years.

Portfolio companies

As of 31 December 2010, the Plant Engineering & Construction segment comprised the following companies:

a) Langbein & Engelbracht

Date of acquisition May 2004
Managing Director Franz-Josef Schanze
Legal domicile Bochum/Germany, Shanghai/China, Kaukauna/USA

With branches in Bochum/Germany, Shanghai/China and Kaukauna/Wisconsin USA, 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.

b) SwissTex

Date of acquisition December 2006
Managing Director André Lienert
Legal domicile Winterthur/Switzerland, Valence/France

Based in Winterthur/Switzerland and Valence/France, SwissTex develops, manufactures and distributes systems for the production of technical and industrial yarns (T&I), bulk continuous filaments (BCF) and most recently specialised technical yarns.

c) Hering

Date of acquisition January 2004
Managing Director Franz-Josef Schanze
Legal domicile Gunzenhausen/Germany

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

In fiscal year 2009, Hering was sold off internally to L&E, and is now administered and directed by L&E management.

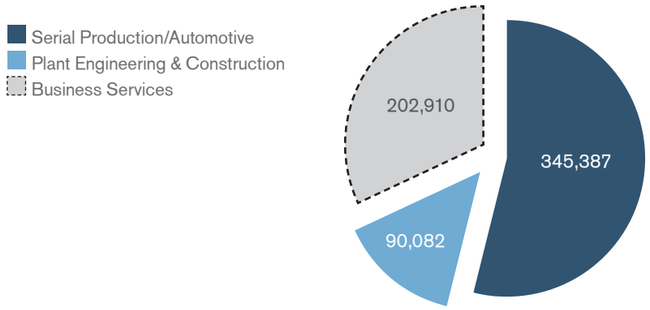
d) R+E

Date of acquisition January 2006 (50%) und January 2010 (50%)
Managing Director Michael Becher
Legal domicile Fellbach-Schmiden/Germany

R+E develops, prototypes and manufactures assembly systems for a wide range of applications. In addition, R+E develops and produces shaker-conveyors for the separation of bulk material, and also distributes aluminium structural shapes for the construction of assembly workstations and systems. These assembly systems are used to turn out ultra-precision products for medical, pharmaceutical, electronic and automotive applications.

3. Business Services

Sales Revenues 2010 (in EUR thousands)



In 2010, the Business Services segment earned turnover revenue of EUR 202.9 million (prior year: EUR 96.2 million), or roughly 32% (prior year: 24%) of the total turnover revenue of the BAVARIA Group. The makeup of the Business Services segment portfolio has not changed during fiscal year 2010. However, the turnover and result of the Inasa Group were included in 2010 for the first time because of the initial consolidation on 31 December 2009.

Trends in the Business Services sector

Given the heterogeneous makeup of the business services sector, it is difficult to make an accurate assessment of its future prospects. Generally speaking, the main influencing factor was significant cost pressure which our portfolio companies were only partially able to pass on to their customers, given the differing competitive situations prevailing on their respective sourcing, distribution and currency markets.

Segment turnover and earnings

At EUR 202.9 million, sales revenues were more than 100% higher than in the prior year. This increase was primarily due to the contributions of Inasa Foil and Inasa Sabiñánigo (turnover of EUR 133.2 million in 2010), which were initially consolidated on 31 December 2009 without inclusion of any turnover and result for 2009. The segment EBITDA of EUR -8.7 million was significantly lower than the EBITDA of 2009 (EUR -3.1 million). This was mainly caused by restructuring expenses incurred by the portfolio company Xenterio as well as by the negative effects of currency fluctuations and rising commodity prices on the performance of Hunsfos.

While the OSNY company was still included in the scope of consolidation during 2010, it was finally deconsolidated on 31 December 2010. For more details, please see our explanations in Section II (Scope of Consolidation) of the Notes to the Consolidated Group Annual Report, as well as the OSNY company profile (see below).

Additional key data relevant to segment-by-segment performance can be found in the Segment Reporting section of the Notes to the Consolidated Group Annual Report.

Investments, depreciation and personnel changes

In 2010, depreciation amounted to EUR 5.6 million (prior year: EUR 4.0 million) while investments totalled EUR 5.7 million (prior year: EUR 1.4 million). The two new companies in the segment, Inasa Foil and Inasa Sabiñánigo, were particularly active in this regard, allocating EUR 4.1 million to a wide range of replacement and expansion investments in the area of production.

The average annual workforce increased from 618 to 748 employees due to the newly added portfolio companies Inasa Foil and Inasa Sabiñánigo.

Outlook for 2011 and beyond

The challenges faced by our portfolio companies in 2011 fall into two categories:
- Generating additional turnover (Xenterio).
- Boosting business profitability (Inasa Group, Hunsfos).

In the first case, it is mostly measures in the area of sales and distribution that will be taken. In the second case, restructuring projects have been defined. The implementation of these measures will exert a strong influence on the future performance of the Business Services segment.

Portfolio companies

As of 31 December 2010, our Business Services segment comprised the following five companies:

a) Xenterio

Date of acquisition January 2008
Managing Director Hans Joachim Hermann
Legal domicile Offenburg/Germany

Xenterio traces its origins back to 1963, when it was established by 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 outfitting of network systems for the telecommunications market. The company's services range from industrialisation (through mass production) to after-sales services.

b) Hunsfos

Date of acquisition December 2008
Managing Director Mark Gooseman
Legal domicile Vennesla/Norway

Hunsfos paper mill was established in Vennesla, Southern Norway in 1886. Today, Hunsfos' entire product range is made from 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 papers" for the textile industry. Hunsfos boasts an annual production capacity of 58,000 tons, all of which is earmarked for export. While its main sales market is Europe, Hunsfos also supplies customers in Asia as well North and South America.

c) OSNY Pharma

Date of acquisition March 2009
Managing Director Sean Higgins
Legal domicile Osny/France

OSNY Pharma produces medications administered orally or in the form of sprays. As a "Contract Research Organisation" (CRO), OSNY Pharma participates in all phases of the synthetic development of active agents, including official certification and manufacture of the finished pharmaceutical product. Thus, OSNY Pharma's customers benefit from its smooth and reliable one-stop service and its experience in all phases of synthesis, right up to the certification phase. OSNY Pharma also offers the made-to-order development of pharmaceutical agents on a laboratory or pilot-plant scale, as well as pharmaceutical analysis.

Although OSNY was still included in the Consolidated Group Annual Report for 2010, it was finally deconsolidated on 31 December 2010. In early 2011, a so-called "procédure de sauvegarde" was initiated for OSNY. This step had to be taken because the company's low capacity utilisation had made implementation of a redundancy programme necessary. Thanks to the procédure de sauvegarde, the high costs associated with a redundancy programme in France are pre-financed by the French government. At the same time, preparations have been made to sell off the company. Sale of the company is not likely to generate a profit for BAVARIA, given that the financing advanced by the French government will have to repaid.

For more details, please see our explanations in Section II (Scope of Consolidation).

d) Inasa Sabiñánigo

Date of acquisition December 2009
Managing Director Miguel Lizarraga
Legal domicile Sabiñánigo/Spain

The Inasa Sabiñánigo aluminium-foil factory was established in 1927 in Sabiñánigo, Huesca (Spain), 120 km north of Zaragoza. With an eventful history behind it, the company today produces high-grade aluminium foil used in packing solutions for the foodstuffs, cosmetics and pharmaceutical industries. The plant's flexible approach to production and stringent service orientation allow Inasa Sabiñánigo to keep pace with fast-changing customer requirements. Inasa Sabiñánigo has a production capacity of about 22,500 tonnes of foil. The plant's products are marketed primarily in Central Europe and Spain.

e) Inasa Foil

Date of acquisition December 2009
Managing Director Miguel Lizarraga
Legal domicile Irurtzun/Spain

The Inasa Foil aluminium foil factory was originally established as a cable works in 1957 in Irurtzun (near Pamplona). In 1968, the plant began producing aluminium foil, switching over to the "continuous casting" process in 1980. Inasa Foil's foil products are used not only in household kitchens, but also in sophisticated construction solutions, high-grade packaging for beverages, foods and cosmetics, as well as in a range of technical goods.

III. Asset, financial and profit position of the Group

Balance sheet ratios

As of 31 December 2010, the BAVARIA Group's balance sheet total amounted to EUR 448.5 million, a year-on-year increase of 31.1%. This change was mainly attributable to initial consolidations and deconsolidations during the reporting year.

Assets

Fixed assets of EUR 140.5 million (prior year: EUR 111.9 million) accounted for about 31.3% of the balance sheet total (prior year: 32.7%). Tangible assets accounted for 91.9% (prior year: 92.2%) of fixed assets, or EUR 129.1 million (prior year: EUR 103.2 million).

Short-term assets – excluding liquid assets – amounted to EUR 252.1 million, or 56.2% of the balance sheet total (prior year: EUR 159.8 million or 46.7% of the balance sheet total). This includes inventories of EUR 110.3 million (prior year: EUR 63.2 million), an increase of EUR 47.1 million over the prior year. However, only EUR 14.5 million of this increase was due to the expanded scope of consolidation; the remaining increase of roughly EUR 32.6 million was attributable to significantly higher business activity in the reporting year. For instance, the companies of the Plant Engineering & Construction segment alone registered an increase in inventories of EUR 25.8 million.

Liquid assets (excluding securities) amounted to EUR 56.0 million as of 31 December 2010 (prior year: EUR 70.4 million). In the reporting year, BAVARIA Industriekapital AG paid out EUR 7.7 million in dividends to its shareholders, among other things.

Equity and liabilities

The Group's equity capital (including negative goodwill from capital consolidation) rose from EUR 114.7 million to EUR 124.5 million; this represents a consolidated equity ratio of 27.7% (prior year: 33.5%). The negative goodwill on the liability side of the balance sheet represents future revenues accruing to money-losing subsidiaries that have not yet been recognised as income for reasons of prudence.

Provisions rose only slightly, from EUR 118.3 million in the prior year to EUR 120.3 million in 2010. As of 31 December 2010, pension provisions amounted to EUR 70.1 million (prior year: EUR 65.7 million). This increase is due to the initial consolidation of the TriStone Group.

Liabilities nearly doubled, from EUR 102.2 million in 2009 to EUR 200.1 million in 2010. Initial consolidations and deconsolidations during the reporting year accounted for only EUR 45.3 million of this increase. Most of the increase came from higher trade payables and liabilities to banks in the wake of accelerating business activity.

Financial liabilities amounted to EUR 63.1 million (prior year: EUR 19.6 million). In the reporting year, the initial consolidation of the new portfolio companies caused liabilities to banks to increase by EUR 22.5 million. Another negative effect was the sharp increase in investments in fixed assets to EUR 20.4 million (prior year: EUR 13.6 million).

For details on the Cash Flow Statement as well as the number of employees in the workforce of the BAVARIA Group, please see the Notes to the Consolidated Group Annual Report.

Result and profits

In fiscal 2010, the turnover of the BAVARIA Group rose to EUR 638.4 million from EUR 403.6 million in the prior year. The main contributors were the K+S Group with EUR 182.0 million in turnover as well as the initially consolidated Inasa Foil Group with EUR 133.2 million. The date of a subsidiary's initial consolidation and/or inclusion into the consolidated annual report is based on

the completion date of the company's acquisition, since this marks the handover of full control over the investee company. The turnover and result of an investee company acquired during a given reporting year do not flow into BAVARIA's consolidated annual report until the acquired company's initial consolidation, and are thus recognised on a pro-rata basis only.

The Group's consolidated result before extraordinary expenses, depreciation, financial result and taxes (EBITDA), which had amounted to EUR 36.3 million in fiscal year 2009, declined to EUR 34.8 million in fiscal year 2010 (including the reversal of negative goodwill). The EBITDA of the Group's operating companies, on the other hand, jumped from EUR -1.7 million to EUR 20.1 million. This highlights the considerable effect of consolidation bookings on the EBITDA of the Group as a whole.

The 2010 Group surplus amounted to EUR -0.8 million in 2010 compared to EUR 3.6 million in the prior year. In both reporting years, the Group surplus was significantly impacted by the following major consolidation effects:

[in EUR millions]	2010	2009
Negative variances from capital consolidation (negative goodwill)	18.4	48.7
Losses from deconsolidation	-3.2	-0.2
Amortisation of goodwill	-1.3	-0.9
Gains/losses from debt consolidation	0.1	0.1
	14.0	47.7

For a full picture of the debit and credit variances from capital consolidation, please see the Notes to the Consolidated Group Annual Report.

IV. 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 Company Act (AktG). This report concludes with the following statement:

"In summary, we declare herewith that for each act of legal significance undertaken by BAVARIA Industriekapital AG and its subsidiaries, we received compensation that we regarded as suitable at the time of the said act of legal significance, given the circumstances of which we were aware at the said time."

V. Significant events after the reporting date

In the context of an arbitration case in connection with our acquisition of the former shareholding in Paulmann & Crone GmbH, an arbitration ruling unfavourable to BAVARIA Industriekapital AG was handed down on 27 January 2011. However, said ruling does not give rise to any new risks above and beyond those covered by existing provisions. BAVARIA has lodged an appeal against enforcement of the ruling.

In March 2011, a French subsidiary was sued for damages in connection with a planned company acquisition. As things stand, however, the Executive Board does not expect this lawsuit to give rise to any risks.

There were no other significant developments to report after the reporting date.

VI. 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. We do not, as a rule, conclude profit-transfer agreements or grant sureties or guarantees on behalf of our subsidiaries. Thus, 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 positioned to exploit a wealth of entrepreneurial opportunities. Admittedly, the high 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 versed in the legalities and other technical ins and outs of this niche business.

Risks and opportunities of company resale

Due to changes in the general business environment, the resale of an investee company can sometimes prove difficult. The present financial crisis, whose impact is still being felt, is likely to make company resales 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 experience and well-established BAVARIA network allow us to maximise the resale opportunities available to us.

Risks and opportunities of restructuring distressed companies

In certain cases, BAVARIA may acquire a stake in a company whose restructuring proves to be more challenging than originally expected. In such a case, you cannot exclude that the takeover company will ultimately become insolvent, due to its difficult point of departure and/or a speedy acquisition decision by BAVARIA. Insofar as restructuring proves to be unsuccessful, there is always the risk that the capital and effort invested – specifically the purchase price paid and any residual claims – may be lost.

Fluctuations in price and volume on capital and commodity 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 and reacting 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 deliver 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 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. This risk is monitored on a continual basis.

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 advertised job vacancy. Our careful and selective personnel recruiting process, the substantial independence that we grant our on-site restructuring managers and our competitive, performance-based compensation package make the BAVARIA Group an attractive employer. Deploying only the most competent managers is one of the key success factors of BAVARIA's business model.

Other personnel risks at BAVARIA Industriekapital AG's level are those that arise from dependency on the performance and conduct of individual managers. Thus, we steadily expand our management team to offset this risk.

Financing, interest rate and currency risks

In the view of BAVARIA's management, the future performance of the Group also 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.

The companies of the BAVARIA Group are becoming increasingly active outside of the Eurozone, in terms of both distribution and sourcing. Thus, currency-exchange risks are to be categorised as not insignificant. The companies of the BAVARIA Group counter this risk on a case-by-case basis by means of hedging via appropriate futures/option contracts. However, the Group absolutely steers clear of speculative transactions.

Given the continued reluctance of banks to lend, refinancing may prove difficult for individual investee companies. Thus, risks associated with possible interest-rate hikes or delayed credit flows could have significant effects on the financial position of our investee companies, thereby also indirectly impacting BAVARIA Industriekapital AG. Rising interest rates increase financing costs of the investee companies, which can in turn have a negative effect on their fitness for restructuring, resale potential, or ability to pay dividends.

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 capital investment companies 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 included in this formal risk-management system.

VII. General forecast

Macroeconomic outlook

Given a weakened global economy and the impending expiry of government stimulus programs, the German economy will probably not manage to sustain its present rate of growth. On the other hand, demand is likely to be supported by German domestic consumption in the coming year. All in all, the German recovery will likely lose some of its steam in 2011, with GDP expected to grow at 2.2%. In the process, consumer spending and plant/equipment investments will continue to rise. According to the Council of German Economic Experts, output potential actually grew by 1.3% in 2010, indicating that the economic crisis has had a lesser impact than previously supposed.

Outlook for BAVARIA Industriekapital AG

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, this will also be strongly influenced by future acquisitions and disposals. On the strength of its present portfolio, BAVARIA Industriekapital AG was able to begin the year 2011 on a highly positive note. For a discussion of the outlook for individual portfolio segments, please see the “Shareholding Portfolio” section.

Looking ahead at 2011 and beyond, we expect to see a continuation of vigorous demand growth as well as a high degree of capacity utilisation. Thus, our focus will be on the efficient handling and execution of customer orders. At the same time, we see opportunities to gain additional market share. Nonetheless, all pending investment decisions will be carefully reviewed on a cost/benefit basis. On the risk side, we foresee a potential increase in lawsuits as a consequence of the growing volume and scope of activity of our business.

Although our industry is becoming more and more competitive, BAVARIA is likely to continue to derive a key portion of its growth from new acquisitions, especially in the German-speaking parts of Europe. Our track record of successfully restructured companies speaks for itself in this regard. Thus, we will continue to strive for 3 to 4 new acquisitions per year in 2011 and beyond, insofar as we can find companies that are realistically valued. In selecting our acquisition targets, we will tend to favour high quality and a relatively large size.

Besides focussing on our traditional core business of taking over distressed companies with turnaround potential (EBIT margin below 3%), we also intend to grow by ramping up our ongoing “add-on” acquisitions, thus supplementing our existing investee companies. Western Europe remains a critical and attractive growth market for BAVARIA. Even when it comes to difficult issues such as deciding on personnel cutbacks, we have demonstrated our ability to achieve cooperation on the part of unions and works councils. This, along with the trend of share prices, will ensure that we will be in a position to profit from an increasing number of buying opportunities.

As we see it, BAVARIA continues to be in a position to maintain its existing portfolio of investee companies over the mid-to-long term. At present, however, it is difficult to estimate when the next profitable company sell-offs can be realised.

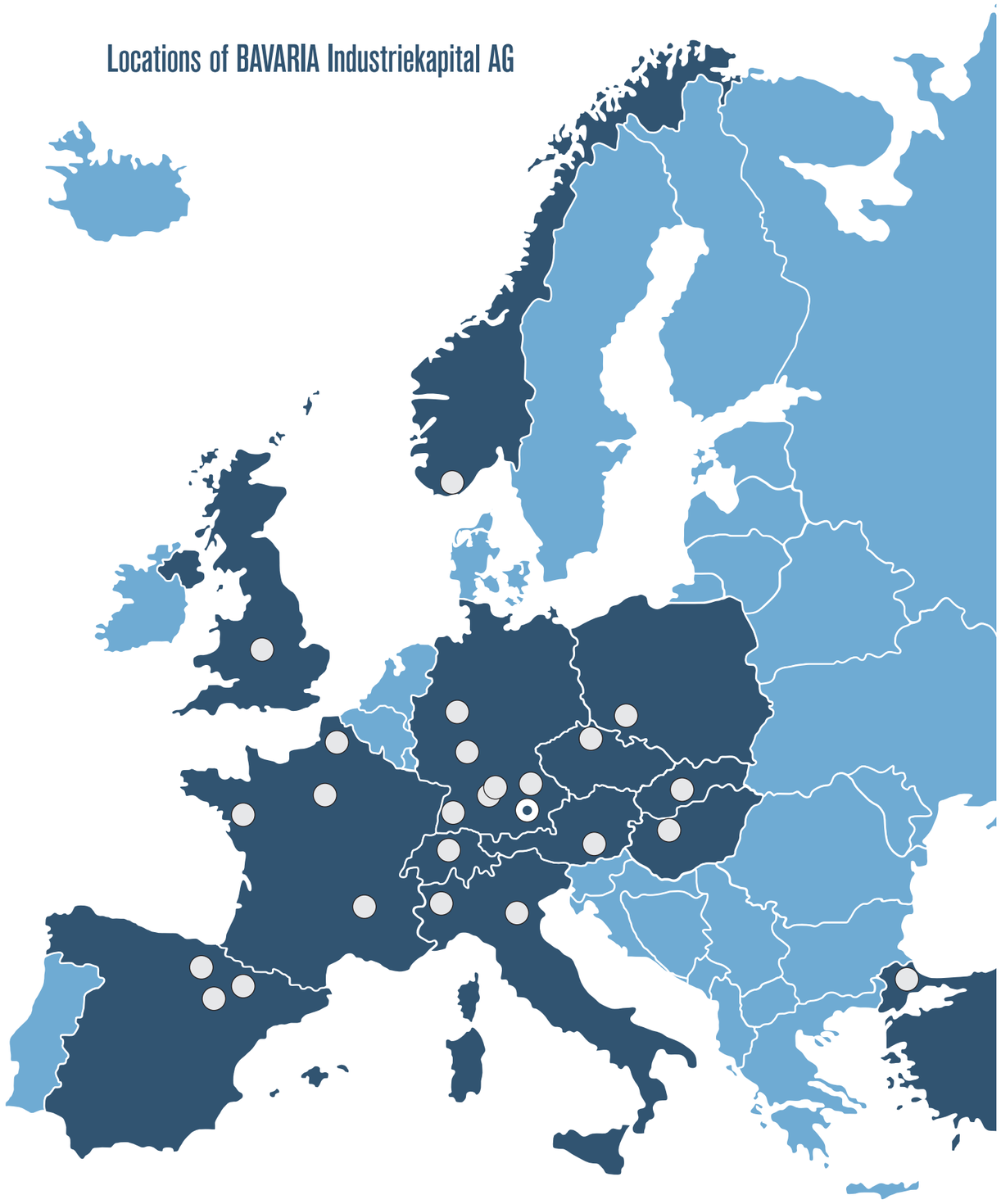
Given these background conditions, it is impossible to make a specific forecast of the BAVARIA Group’s future turnover and profitability. Nonetheless, on the strength of our existing portfolio and our successful start to fiscal year 2011, we, the Executive Board, fully expect the coming years to be profitable ones for BAVARIA Industriekapital AG. All the key prerequisites for success are already in place.

Munich, on 17 March 2011

Reimar Scholz
Executive Board Member

Harald Ender
Executive Board Member

Locations of BAVARIA Industriekapital AG



L&E America Environmental Technologies LLC, Kaukauna, WI/USA
Langbein & Engelbracht Industrial Engineering & Co., Shanghai/China

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated profit and loss account for 2010

[in EUR]			31 Dec. 2010		31 Dec. 2009
1.	Sales	638,378,724.96		403,599,811.15	
2.	Increase or reduction of inventories in finished and non-finished products	13,610,099.76		-12,250,428.66	
3.	Other own work capitalised	754,334.67		1,358,391.47	
			652,743,159.39		392,707,773.96
4.	Other operating income		38,580,517.75		61,286,054.07
5.	Cost of materials				
	a) Raw materials, supplies and merchandise for resale	-355,600,163.57		-187,778,539.29	
	b) Purchased services	-42,137,547.93		-32,496,325.80	
			-397,737,711.50		-220,274,865.09
6.	Personnel costs				
	a) Wages and salaries	-127,739,657.72		-97,080,099.76	
	b) Social insurance and other social charges and benefits	-33,734,273.01		-31,358,678.56	
			-161,473,930.73		-128,438,778.32
7.	Depreciation				
	a) on intangible and tangible fixed assets	-21,717,553.45	-23,021,306.86	-20,874,890.30	-21,789,182.36
	b) on group level	-1,303,753.41		-914,292.06	
8.	Other operating expenses		-97,327,361.87		-69,009,723.87
9.	Other interest and similar income		693,965.30		844,024.42
10.	Interest and similar expenses		-6,895,668.38		-1,332,707.93
11.	**Profit on ordinary operations**		**5,561,663.10**		**13,992,594.88**
12.	Extraordinary income	7,857,872.82		20,079,003.97	
13.	Extraordinary expenses	-8,465,412.38		-29,605,351.60	
14.	**Extraordinary result**		**-607,539.56**		**-9,526,347.63**
15.	Tax on income and earnings	-4,167,176.06		1,471,035.64	
16.	Other taxes	-1,580,138.54		-2,300,100.61	
17.	**Total taxes**		**-5,747,314.60**		**-829,064.97**
18.	**Net income**		**-793,191.06**		**3,637,182.28**
19.	Net profit carried forward from previous year		16,658,432.48		21,467,187.06
20.	Dissolution of the reserve for treasury stock as at 31.12.2009		1,826,238.69		0.00
21.	Compensation for treasury stock as of 31.12.2009		-1,632,362.69		0.00
22.	Appropriation to the reserve restricted in relation to treasury stock		-237,228.00		-528,185.94
23.	Purchases of treasury stock		-459,969.73		0.00
24.	Profit relating to other shareholders		-131,693.84		-201,045.92
25.	**Consolidated profit**		**15,230,225.85**		**24,375,137.48**

Consolidated balance sheet as of 31 December 2010

Assets [in EUR]		31.12.2010		31.12.2009
A. FIXED ASSETS				
I. Intangible assets				
1. Patents, trademarks, licenses and similar rights	2,674,707.27		2,442,680.74	
2. Goodwill	8,516,721.27		6,258,474.68	
		11,191,428.54		8,701,155.42
II. Property, plant & equipment				
1. Land, leasehold rights and buildings incl. buildings on leased land	49,456,380.74		35,632,711.26	
2. Machinery and equipment	68,394,638.78		56,046,993.21	
3. Other equipment, plant and office equipment	4,154,784.41		3,500,053.65	
4. Advance payments and construction-in-progress	7,065,056.17		7,997,955.13	
		129,070,860.10		103,177,713.25
III. Financial assets				
1. Shareholding in affiliated companies	4.00		310.00	
2. Investments	17,813.24		17,563.24	
3. Long-term securities	231,920.35		229.74	
4. Other loans	1.00	249,738.59	1.00	18,103.98
		140,512,027.23		111,896,972.65
B. CURRENT ASSETS				
I. Inventories				
1. Raw materials and supplies	35,435,151.79		22,667,630.56	
2. Work-in-progress	42,479,113.73		22,714,226.56	
3. Finished products and merchandise	31,183,396.02		17,387,963.58	
4. Advanced payments	1,249,899.32		458,231.01	
		110,347,560.86		63,228,051.71
II. Account receivables and other assets				
1. Receivables from trade	105,240,416.04		65,452,124.58	
2. Receivables from group companies	1,960.37		56,218.30	
3. Other assets	30,761,115.85		21,816,439.81	
		136,003,492.26		87,324,782.69
III. Marketable securities				
1. Treasury stock	0.00		1,826,238.69	
2. Other marketable securities	70,374.02		5,846,495.25	
		70,374.02		7,672,733.94
IV. Cash and cash equivalents		55,966,140.68		70,358,541.50
		302,387,567.82		228,584,109.84
C. PREPAID EXPENSES		5,642,460.26		1,596,466.65
TOTAL ASSETS		448,542,055.31		342,077,549.14

Equity and Liabilities [in EUR]		31.12.2010		31.12.2009
A. EQUITY				
I. Issued capital		6,157,272.00		6,394,500.00
1. Subscribed capital	6,394,500.00		6,394,500.00	
2. Nominal value of treasury stock	-237,228.00		0.00	
II. Capital reserve		8,605,500.00		8,605,500.00
III. Revenue reserves		242,728.00		1,831,738.69
1. Legal reserve	5,500.00		5,500.00	
2. Reserve restricted in relation to treasury stock	237,228.00		0.00	
3. Reserve for treasury stock	0.00		1,826,238.69	
IV. Consolidated profit		15,230,225.85		24,375,137.48
V. Offsetting item for holdings of other shareholders		1,364,665.98		1,292,706.24
VI. Difference from currency translation		2,548,750.63		1,020,609.41
		34,149,142.46		43,520,191.82
B. DIFFERENCE FROM CONSOLIDATION OF CAPITAL		90,301,081.64		71,213,390.24
C. ACCRUALS				
1. Accruals for pensions and similar commitments	70,100,646.21		65,699,074.49	
2. Tax reserve	3,097,063.61		3,987,821.91	
3. Other accurals	47,060,379.48		48,565,805.01	
		120,258,089.30		118,252,701.41
D. LIABILITIES				
1. Debt due to banks	63,103,308.15		19,592,583.82	
2. Advanced payments received on orders	8,953,657.05		6,945,228.30	
3. Trade payables	108,819,103.35		59,498,886.56	
5. Other liabilities	19,214,024.79		16,121,833.46	
		200,090,093.34		102,158,532.14
E. DEFERRED INCOME		2,450,196.38		6,932,733.53
F. DEFERRED TAXES		1,293,452.19		0.00
TOTAL EQUITY AND LIABILITIES		448,542,055.31		342,077,549.14

Consolidated statement of changes in equity

[EUR thousands]	Sub-scribed capital	Capital reserve	Earned surplus	Difference from currency translation	Offsetting item for holdings of other shareholders	Conso-lidated profit	Group equity
31 December 2008	**6,395**	**8,605**	**1,304**	**-6**	**1,088**	**41,134**	**58,520**
Net income 2009						3,637	3,637
Dividend payouts						-19,667	-19,667
Appropriation to the earned surplus			528			-528	0
Foreign currency differences				1,026			1,026
Shares of other partners					205	-201	4
31 December 2009	**6,395**	**8,605**	**1,832**	**1,020**	**1,293**	**24,375**	**43,520**
Net income 2010						-793	-793
Dividend payouts						-7,717	-7,717
Capital decrease							
Compensation for treasury stock as of 31.12.2009	-194		-1,632			194	-1,632
Appropriation to the reserve restricted in relation to treasury stock						-237	-237
Purchases of treasury stock	-44		43			-460	-461
Foreign currency differences				1,529			1,529
Shares of other partners					72	-132	-60
31 December 2010	**6,157**	**8,605**	**243**	**2,549**	**1,365**	**15,230**	**34,149**

Consolidated statement of cash flows

[EUR thousands]	2010	2009
Consolidated net income ahead of extraordinary items	-186	13,163
Payment-ineffective portion of extraordinary items	-4,639	0
Earnings proportions of minority shareholders without payment-effective portions	0	189
Depreciation on fixed assets	23,021	21,789
Gains and losses on sales of fixed assets	-215	131
Write-ups on fixed assets	-929	0
Changes in accruals	-6,702	-1,669
Dissolution of differences from the capital consolidation	-18,419	-48,682
Losses from the final consolidation of group companies	3,220	0
Other payment-ineffective changes	0	-1,479
Gross cash flow	**-4,849**	**-16,558**
Change in inventories	-33,673	29,429
Change in receivables, other assets and rest of the assets	-15,591	18,817
Change in liabilities and rest of total equities & liabilities	27,689	-18,504
Proceeds from extraordinary items	4,032	3,420
Cash flow from current operations	**-22,392**	**16,604**
Payments for capital expenditure into the intangible and tangible fixed assets	-18,491	-13,572
Currency differences in fixed assets	-717	-1,355
Payments from disposals of items of intangible and tangible fixed assets	825	11,301
Payments for acquisition of group companies	-15,306	0
Payments for capital expenditure into the financial assets	-232	-93
Cash flow from capital expenditure activities	**-33,921**	**-3,719**
Payments for the purchase of own shares	-503	-500
Payouts to shareholders	-7,717	-19,667
Payouts to minority shareholders	-60	-186
Pledging of cash and cash equivalents	500	-512
Proceeds from borrowing of financial liabilities	43,138	8,116
Cash flow from financing activities	**35,358**	**-12,749**
Payment-effective change of the cash and cash equivalents	-20,955	136
Net funds addition from change in scope of consolidation	-258	11,615
Currency differences	1,544	1,027
Cash and cash equivalents at start of the period	75,543	62,765
Cash and cash equivalents as of 31 December	**55,874**	**75,543**

Composition of cash and cash equivalents [EUR thousands]	31.12.2010	31.12.2009
Cash-in-hand, balances with banks	55,966	70,359
Less cash at bank as deposit	-162	-662
Short-term marketable securities	70	5,846
	55,874	**75,543**

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 in the commercial 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) was made on 26 January 2006 in the Entry Standard (Open Market) segment of the Frankfurt Stock Exchange.

BAVARIA Industriekapital AG is an industrial holding company whose business model comprises the acquisition, restructuring and rehabilitation of distressed firms. Thus, BAVARIA does not limit itself to merely holding and managing its shareholdings, unlike traditional holding companies. Rather, the Company pursues three complementary objectives simultaneously: cutting costs, tapping new sources of turnover and saving imperilled jobs wherever possible.

BAVARIA relies on the initiative and support of an investee company's workforce to boost innovation and avoid all forms of waste, such as excessive reject rates or unnecessary waiting times in the production process. After all, only companies that are profitable over the long term can offer secure workplaces. Thus, the Company works closely and proactively with the investee company during the restructuring process, 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 affiliates in which BAVARIA directly or indirectly controls a majority of voting rights and/or over which it otherwise exercises centralised control.

The various affiliated companies included in BAVARIA Industriekapital AG's Consolidated Group Annual Report are listed separately in the appended "Schedule of Shareholdings". A total of 4 companies were excluded from the consolidated statements due to their minor importance. Of these, Teksid Deutschland GmbH (Heilbronn, Germany) Elfotec AG (Mönchaltdorf, Switzerland) and Elfotec Ltd. (Annacotty, Ireland) have been left out of the Consolidated Group Annual Report pursuant to § 296 Para. 1, No. 1 of the German Commercial Code (HGB) because they are presently being unwound and/or liquidated.

The BAVARIA Group's scope of consolidation is subject to continual change, so that a comparison of Consolidated Group Annual Reports over time is only possible to a limited extent. In particular, due to the differing business activities of the various companies included, the interrelationships among the individual items of the Consolidated Group's Balance Sheet and the Profit/Loss Statement are marked by continual fluctuations.

The changes in the scope of consolidation (group of consolidated companies) in relation to the Consolidated Group Annual Report of 31 December 2009 are presented below:

- **R+E Automationstechnik GmbH**, Fellbach-Schmiden/Germany, was initially consolidated on 1 January 2010 following our acquisition of an additional 50% shareholding (the company is now 100% owned).

- In April 2010, SwissTex AG acquired all those assets of RITM SAS, Valence/France that involved machinery/equipment used for the production of textiles, BCF, T&I or for the glass industry. This deal was implemented through the establishment of a new company, **„SwissTex France SAS"**. Initial consolidation took place on 12 May 2010.

- On 2 July 2010, BAVARIA Industriekapital AG completed its acquisition of the "Fluid Solutions" business segment from Trelleborg Automotive. Fluid Solutions has been doing business as **„TriStone Flowtech"** since the takeover. Initial consolidation of the TriStone Group occurred on 1 July 2010.

- In 2010, **OSNY Pharma** had to absorb the loss of several major customers. For 2011, turnover is expected to be only EUR 10.0 million (2010: EUR 14.3 million). Based on the latest forecasts, the balance sheet will fall from current EUR 15.3 million to roughly EUR 11.6 million. In the context of this negative business performance development and the resulting underutilisation of plant capacity, a so-called "procédure de sauvegarde" was initiated in early 2011. This calls for a restructuring of the financially troubled company before it begins suspending its payments (a step that would lead to opening of formal insolvency proceedings). The objective is to allow company management to take timely restructuring measures at an early stage of a critical situation. In the process, the French government provides advance financing for the high costs associated with an employee redundancy scheme in France. During the development phase of the „plan de sauvegarde", company management will continue to carry on the business under their own responsibility with the support of a court-appointed administrator. Since this company is expected to have an immaterial effect in 2011, and given that our liability to exert influence will be limited due to initiation of the "procédure de sauvegarde", the OSNY Group was still included in our 2010 Consolidated Group Annual Report, but was then deconsolidated as of 31 December 2010.

The key data for the aforementioned initial consolidations and deconsolidations are shown below:

[in EUR thousands]	R+E	SwissTex France	TriStone Group	OSNY Group
Fixed Assets	181	150	38,498	10,514
Working capital	2,050	1,200	51,868	4,796
– thereof liquid funds	*76*	*1,000*	*1,535*	*2,869*
	2,231	1,350	90,366	15,310
Equity	-213	1,000	37,528	6,588
Accruals	152	0	13,902	5,515
Liabilities	2,292	350	38,936	3,207
– thereof to banks	*373*	*0*	*0*	*0*
	2,231	1,350	90,366	15,310
Sales 2010 (from consolidations)	**3,668**	**11,419**	**79,709**	**14,262**

III. Reporting date for the Consolidated Group Annual Report

The key reporting date for the Consolidated Group Annual Report is that of the parent Company, BAVARIA Industriekapital AG (31 December 2010).

The fiscal year of each operating subsidiary is that of the parent Company. Insofar as a subsidiary experiences an event with a significant financial impact between the reporting date and the date of this Consolidated Annual Report, it is reported in the Consolidated Group Annual Report.

IV. Consolidation principles

Principles of financial reporting

The Annual Report of BAVARIA Industriekapital AG for 31 December 2010 was prepared in compliance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The present Consolidated Group Annual Report marks BAVARIA's first application of the new accounting rules introduced under the Accounting Law Modernisation Act (BilMoG), whose use is mandatory for all fiscal years beginning on or after 1 January 2010.

The annual reports of the individual subsidiaries were prepared pursuant to the guidelines of §§ 238 et seq. HGB, and specifically comply with the stipulations for incorporated companies set forth under §§ 264 et seq. HGB, as well as with the provisions of the German Stock Corporation Act.

The present Consolidated Group Annual Report was prepared pursuant to §§ 290 et seq. 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 itemisations or explanations can be found in the Notes.

The Group Profit & Loss Statement was prepared using the Total Cost Method.

Consolidation methods

Method of capital consolidation
For acquisitions through 31 December 2009:
Insofar as an acquisition was carried out by 31 December 2009, § 301, Para. 1, Sent. 2, No. 1 HGB, former version, provides for alternative methods of capital consolidation for purposes 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).

For acquisitions on or after 1 January 2010:
In this case, capital consolidation is performed using the Revaluation Method (§ 301, Para. 1 HGB, New Version), namely in such a way that the financial consideration paid for a company acquisition (acquisition costs) is offset against its identified, acquired assets and assumed debts, accruals/deferrals and extraordinary items. In the process, all these items are stated at their acquisition value at the time of acquisition.

Resulting debit variances that could not be otherwise allocated were capitalised on the Group balance sheet and amortised over a useful life of 5 years. Credit variances are reversed and flow into the Company's net income calculation pursuant to insofar as the conditions of § 309, Para. 2 HGB are met.

Credit variances resulting from capital consolidation are stated separately on the consolidated Group Balance Sheet between equity capital and external capital (debt) in accordance with their specific character.

Other consolidation procedures
The following subsidiary-specific items were eliminated in the course of consolidation: receivables, liabilities, sales revenues, other expenses, other revenues, 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/or deferral, insofar as the variance in taxes payable is expected to be offset in subsequent fiscal years.

V. Accounting and valuation methods

In the reporting year, the Company for the first time applied the revised German Commercial Code (HGB) stipulations contained in the new version of the Accounting Law Modernisation Act (BilMoG). Pursuant to Article 67, Para. 8, Sent. 2 of the Introductory Act to the German Commercial Code (EGHGB), the data reported for prior fiscal years was not adjusted to the new valuation methods. As permissible, the data reported for prior fiscal years was also not adjusted to the new balance sheet layout (§ 266 HGB) introduced by the BilMoG.

The BAVARIA Industriekapital AG Consolidated Group Annual Report was prepared in accordance with the accounting and valuation principles listed below:

In principle, valuations were made under the assumption that company operations would be continued (Going Concern Principle) pursuant to § 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 is assumed to be 3-5 years. Company goodwill purchased against consideration is calculated by netting out acquisition costs against the value of individual company assets (minus liabilities at the time of acquisition). As of 1 January 2010, company goodwill is generally subject to regular amortisation over 5 years (previously: 10 years).

Tangible assets (PP&E) are capitalised at acquisition cost and are depreciated linearly over 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. Reversals of impairment losses pursuant to the Value Recovery Principle are performed up to the acquisition cost amount carried on the books, insofar as the reasons for a long-term value impairment no longer apply.

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 reasonable, general administrative costs.

Receivables and other 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 generally valued using the average exchange rate 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 spot exchange rate on the reporting date.

Pension provisions are formed to cover contractually binding pension claims. The future amounts needed to cover benefit obligations arising from pension guarantees are valued using biometric probabilities on the basis of the net present value of future pension entitlements (Projected-Unit-Credit-Method). Expected increases in wages/salaries and pension benefits are considered when calculating the net present value of vested, future pension benefits.

The actuarial valuation of future pension obligations is based on an interest rate of 4.50% to 6.25%, depending on the remaining terms of the individual obligations. Insofar as it was not possible to assume a specific remaining term, the interest rate used was the one published by the German Bundesbank for remaining terms of 15 years (pursuant to § 253, Para. 2, Sent. 2 HGB). An interest rate of 2.00% - 7.5% per annum was used to reflect future wage/salary increases. The mortality statistics applied are derived from the actuarial tables published by Dr. Klaus Heubeck (2005G) or, in the case of our foreign subsidiaries, the mortality tables provided by the statistical offices of the countries in question.

Tax provisions and other provisions are formed to reflect the full amount of future payments due in accordance with customary professional due diligence, while taking into account all identifiable risks and uncertain obligations. Other provisions are formed so as to include appropriate and adequate individual allowances to cover all identifiable risks from uncertain obligations and potential losses from pending transactions, while also allowing for any foreseeable price/cost increases. Significant provisions with a remaining term of more than one year are discounted with an interest based on the term-appropriate, average market interest rate (based on the past seven fiscal years), as calculated and published by the German Bundesbank. Tax reserves are 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 as of the reporting date. Liabilities denominated in foreign currencies and having a term of less than one year are generally valued using the average exchange rate as of the reporting date. If they have a remaining term of more than one year, this applies only insofar as the conversion results in a higher amount.

The application of commercial law on the one hand and tax law on the other may give rise to differing valuations for assets, debts and accruals/deferrals, as well as for carry-forwards of losses and/or interest that are eligible for consideration. Any such difference in valuation will be reported as a **deferred tax liability**, insofar as it gives rise to a foreseeable net tax liability in future fiscal years. If, on the other hand, net tax savings are expected, this will not be reported as a deferred tax asset (pursuant to § 274, Para. 1, Sent. 2 HGB).

Currency translations

Financial assets, receivables, other assets, securities, liquid assets, provisions, financial obligations and other liabilities as well as guarantees and other commitments denominated in foreign currency are generally valued using the average exchange rate on the reporting date. The values of fixed assets and inventories acquired with foreign currency are generally stated using the average exchange rate as of the transaction date.

The functional currency used by BAVARIA Industriekapital AG as the group parent is the euro (EUR). Insofar as the annual reports of individual subsidiaries are denominated in foreign currencies, all amounts are restated 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 restated using past exchange rates. Variances in equity capital due to currency conversions (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.

Revenues and expenses were restated using the average annual exchange rate. The annual result from the restated Profit & Loss Statement was transferred to the balance sheet and the variance was posted under “equity capital variance from currency translation” without affecting income. In 2010, currency conversion variances of EUR 1,528 thousand were allocated to equity capital in an income-neutral manner.

Cashflow Statement

The financial resources fund consists of cash balances, bank deposits/credits and short-term securities forming part of working capital. Excluded from the financial resources fund are bank balances of the Company in the amount of EUR 162 thousand, since these are subject to third party liens (prior year: EUR 662 thousand).

VI. Notes to the Balance Sheet

Fixed assets

The development of fixed assets during 2010 is shown below:

	Acquisiton and manufacturing costs								
[EUR thousands]		01.01.2010	Additions	Write-ups	Disposals	Reclassifications	Currency translations	Changes in scope of consolidation	31.12.2010
I.	Intangible assets								
1.	Patents, trademarks, licenses & similar rights	4,388	935	0	74	236	2	124	5,611
2.	Goodwill	15,189	1,684	0	0	0	0	1,878	18,751
3.	Prepayments on account	0	0	0	0	0	0	0	0
		19,577	2,619	0	74	236	2	2,002	24,362
II.	Fixed assets								
1.	Land and buildings	49,681	398	0	151	5,179	132	8,537	63,776
2.	Technical plant and machinery	93,038	7,995	0	2,819	3,162	529	6,157	108,061
3.	Other equipment, office and plant furnishings	9,511	1,300	0	322	64	45	821	11,419
4.	Advance payments/ construction in progress	8,012	7,864	0	80	-8,641	30	-106	7,079
		160,242	17,557	0	3,373	-236	736	15,409	190,335
III.	Financial investments								
1.	Shareholding in affiliated companies	0	0	0	0	0	0	0	0
2.	Investments	18	0	0	0	0	0	0	18
3.	Long-term securities	0	232	0	0	0	0	0	232
4.	Other loans	0	0	0	0	0	0	0	0
		18	232	0	0	0	0	0	250
		179,837	20,407	0	3,447	0	738	17,411	214,947

	Depreciation									Book values	
[EUR thousands]		01.01.2010	Additions	Write-ups	Disposals	Reclassifications	Currency translations	Changes in scope of consolidation	31.12.2010	31.12.2010	31.12.2009
I.	Intangible assets										
1.	Patents, trademarks, licenses & similar rights	1,945	1,342	179	72	2	-1	-100	2,936	2,675	2,443
2.	Goodwill	8,931	1,304	0	0	0	0	0	10,235	8,516	6,258
3.	Prepayments on account	0	0	0	0	0	0	0	0	0	0
		10,876	2,645	179	72	2	-1	-100	13,171	11,191	8,701
II.	Fixed assets										
1.	Land and buildings	14,048	3,297	0	60	0	-2	-2,963	14,319	49,457	35,633
2.	Technical plant and machinery	36,991	15,254	750	2,394	8	26	-9,468	39,667	68,395	56,047
3.	Other equipment, office and plant furnishings	6,011	1,824	0	310	-9	-1	-251	7,264	4,154	3,500
4.	Advance payments/ construction in progress	14	0	0	0	0	0	0	14	7,065	7,998
		57,064	20,376	750	2,765	-2	22	-12,682	61,264	129,071	103,178
III.	Financial investments										
1.	Shareholding in affiliated companies	0	0	0	0	0	0	0	0	0	0
2.	Investments	0	0	0	0	0	0	0	0	18	18
3.	Long-term securities	0	0	0	0	0	0	0	0	232	0
4.	Other loans	0	0	0	0	0	0	0	0	0	0
		0	0	0	0	0	0	0	0	250	18
		67,941	23,021	929	2,837	0	21	-12,782	74,435	140,512	111,897

Intangible assets

Consolidated goodwill for the Group changed as follows during the fiscal year (in EUR thousands):

2010				2009			
Increase	Decrease	Amortised	Bookvalue	Increase	Decrease	Amortised	Bookvalue
3,562	0	1,304	8,516	0	38	914	6,258

As of 31 December 2010, the Group's consolidated goodwill was essentially attributable to companies of the Kienle+Spiess Group (EUR 4,968 thousand), Hering (EUR 280 thousand) and the TriStone Group (EUR 2,642 thousand). The remaining average amortisation period for consolidated goodwill is about 5 - 6 years.

The useful life of 10 years is applied to goodwill acquired before 1 January 2010. This 10-year useful life, which exceeds the 5-year period for company goodwill pursuant to § 314 Para. 1 No. 20 HGB, is based on the planned, long-term holding horizons of the respective companies.

An expected useful life of 5 years is applied to goodwill acquired after 1 January 2010.

The useful life of industrial property rights and licenses is 3 to 5 years. Useful life was determined on the basis of the expected period of actual use. All intangible assets are amortised 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 commercial use. Buildings are depreciated based on an economic useful life of 25 to 50 years.

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 is as follows:

31 December 2010 [EUR thousands]	Germany	European Union	Europe (non-EU)	Asia	Total
Intangible assets	2,504	7,244	1,353	90	11,191
Tangible assets	18,571	101,470	9,005	25	129,071
Financial assets	9	9	232	0	250
Total fixed assets	**21,084**	**108,723**	**10,590**	**115**	**140,512**

31 December 2009 [EUR thousands]	Germany	European Union	Europe (non-EU)	Asia	Total
Intangible assets	2,849	5,722	21	110	8,701
Tangible assets	19,694	75,029	8,423	32	103,178
Financial assets	10	8	0	0	18
Total fixed assets	**22,553**	**80,759**	**8,444**	**142**	**111,897**

Working capital

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

[EUR thousands]	31 December 2010	31 December 2009
Raw materials and supplies	35,435	22,668
Work in progress	42,479	22,714
Finished goods and merchandise	31,183	17,388
Payments on account	1,250	458
Trade receivables	105,240	65,452
Receivables from affiliated companies	2	56
Other assets	30,762	21,816
	246,351	150,552

"Other assets" include EUR 16,901 thousand in receivables from tax authorities.

"Trade receivables" do not include any accounts receivable with a remaining term of more than one year. "Other assets" include assets with a remaining term of more than one year totalling EUR 438 thousand.

Equity capital

During the reporting year, equity capital declined by EUR 9,371 thousand to EUR 34,149 thousand.

[EUR thousands]	31 December 2010	31 December 2009
Subscribed capital	6,157	6,395
Capital reserve	8,605	8,605
Retained earnings	243	1,832
Variance from currency translations	2,549	1,020
Adjustment for minority shareholders	1,365	1,293
Group balance sheet profit	15,230	24,375
Equity capital	**34,149**	**43,520**

The Group balance sheet profit of EUR 15,230 thousand includes profits carried forward from the prior year in the amount of EUR 16,658 thousand.

1. Subscribed capital

Subscribed capital amounts to EUR 6,394,500.00. 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 49,500.00.

Following the introduction of the Accounting Law Modernisation Act (BilMoG), the treasury shares (own shares) listed as securities in the prior year have been stated separately from subscribed capital since 1 January 2010. These treasury shares were acquired on the basis of authorisations pursuant to § 71, Para. 1, No. 8 of the German Stock Corporation Act (AktG). The Company does not derive any rights from these treasury shares; in particular, they do not carry any dividend rights.

a) Treasury shares (own shares)

By resolution of the General Shareholder Meeting on 11 June 2010, the Company was empowered, pursuant to § 71, Para. 1, No. 8 of the German Stock Corporation Act (AktG), to acquire own shares up to 10% all in all of equity capital (as of the acquisition date of said shares), at any time until 10 June 2015. This right may be exercised in whole or in part, and in this case more than once. The previous authorisation to purchase own shares pursuant to the General Shareholder Meeting of 29 May 2009 is thereby superseded. In addition, the following provisions apply:

- The authorisation may not be used by the Company to trade in its own shares.
- The Executive Board is empowered, with the consent of the Supervisory Board, to use Company shares, which were acquired pursuant to this authorisation, for the purpose of introducing Company shares to foreign stock exchanges on which they are not yet listed.
- The Executive Board is empowered, with the consent of the Supervisory Board, to offer Company shares, which were acquired pursuant to this authorisation, to third parties in the context of company mergers and acquisitions of companies (or of shareholdings therein).
- The Executive Board is empowered, with the consent of the Supervisory Board, to offer Company shares to persons who are, or have been, employed by the Company or its affiliates within the meaning of §§ 15 et seq. of the German Stock Corporation Act (AktG), or to grant/transfer such shares after a blocking period of at least one year.
- The Executive Board is empowered, with the consent of the Supervisory Board, to retire Company shares acquired pursuant to this authorisation without having to obtain a further resolution from the General Shareholder Meeting. These shares may also be retired via a simplified procedure (without a reduction of equity capital) by adjusting the pro-rata nominal amount of the remaining no-par shares in the Company's equity capital. The retirement of shares may also be limited to a portion of the Company shares acquired. The right to retire shares pursuant to the authorisation may be exercised more than once.

As of 31 December 2010, the Company has made the following share repurchases:

- On the basis of the authorisation granted by the General Shareholder Meeting on 20 June 2008, a total of 150,986 own shares (of which 139,458 shares were acquired in 2008).
- On the basis of the authorisation granted by the General Shareholder Meeting on 29 May 2009, a total of 70,150 own shares (of which 27,260 own shares were acquired under a repurchase offer pursuant to the authorisation granted by the General Shareholder Meeting on 29 May 2009).
- On the basis of the authorisation granted by the General Shareholder Meeting on 11 June 2010, a total of 16,092 own shares.

These repurchased shares amount to a total of EUR 237,228.00 (3.7%) of equity capital.

Share repurchases in 2010 as per the General Shareholder Meeting of 29 May 2009

Date	Repurchased shares (units)	Share of equity capital (in %)	Average price	Total market price (in EUR)	Cumulative no. of shares	Cumulative share of equity capital
Mar 2010	27,260 [1]	0.43%	11.20	305,312.00	70,150	1.10%

[1] As part of a public share-repurchase offer pursuant to the authorisation granted by the General Shareholder Meeting on 29 May 2009.

Share repurchases in 2010 as per the General Shareholder Meeting of 11 June 2010

Date	Repurchased shares (units)	Share of equity capital (in %)	Average price	Total market price (in EUR)	Cumulative no. of shares	Cumulative share of equity capital
Jun 10	3,539	0.06%	11.87	41,992.15	3,539	0.06%
Jul 10	6,634	0.10%	12.24	81,206.94	10,173	0.16%
Aug 10	2,442	0.04%	12.27	29,955.85	12,615	0.20%
Sep 10	233	0.00%	12.50	2,912.50	12,848	0.20%
Oct 10	2,836	0.04%	12.92	36,638.29	15,684	0.25%
Nov 10	408	0.01%	13.00	5,304.00	16,092	0.25%

b) Authorised capital

Authorised capital (2005/ I)
At the joint suggestion of the Executive Board and Supervisory Board, the General Shareholder Meeting resolved on 10 November 2005 to authorise the Executive Board (with Supervisory Board approval) to increase the Company's equity capital by up to EUR 1,102,500.00 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 Shareholder Meeting of 20 June 2008, the Executive Board is authorised (subject to Supervisory Board approval) to increase equity capital by up to EUR 2,094,750.00 through one or more issues of shares (Authorised Capital 2008/I) in return for cash

or in-kind contributions at any time until 19 June 2013. The shareholders' subscription rights may be suspended insofar as any of the following apply:

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

c) Contingent capital

Contingent capital (2005) – stock options for employees
As proposed by the Executive Board and Supervisory Board, the General Shareholder Meeting of 20 December 2005 agreed to a contingent increase in the Company's equity capital of up to EUR 511,500.00, via the issue of up to 511,500 no-par bearer shares (Contingent Capital 2005). This contingent capital increase can be implemented only insofar as the associated option rights were issued and exercised by 31 December 2009.

The temporal and material prerequisites for Contingent Capital I have now lapsed, since the deadline for the granting of share options pursuant to § 4, No. 3 of the Company Bylaws expired on 31 December 2009 and no additional exercisable share options were in circulation at that time. To the extent that share options had been issued before that date, corresponding waiver declarations were provided and, in one particular case, a corresponding judicial settlement was made.

By resolution of the Supervisory Board on 14 April 2010, § 4, No. 3 of the Company Bylaws (Contingent Capital I) was therefore revoked without replacement. The corresponding commercial register entry was made on 2 June 2010.

Contingent capital (2006/I) – convertible bonds for members of the Supervisory Board
At the recommendation of the Executive Board and Supervisory Board, the General Shareholder Meeting of 5 September 2006 agreed to a contingent increase in the Company's equity capital of up to EUR 49,500.00 through the issue of up to 49,500 no-par bearer shares (Contingent Capital 2006/I). This contingent capital increase can 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' statutory subscription rights were excluded.

In December 2006, convertible bonds in the amount of EUR 49,500.00 were issued to the 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 exercised their conversion options fully and all convertible bonds were officially issued as of 31 December 2006 in accordance with the conversion conditions set forth on that date. As per 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.

2. Capital reserve

As of the reporting date, the capital reserve amounted to EUR 8,605,500.00.

3. Reserve for own shares

Following the adoption of the Accounting Law Modernisation Act (BilMoG), it is no longer permitted to state repurchased shares as assets on the balance sheet along with a corresponding reserve for own shares – regardless of the purpose of the share repurchase.

Accordingly, the reserve for own shares was reversed in the reporting year and the corresponding amount freed up was added to the balance sheet profit. In addition, subscribed capital was reduced by the nominal value of said repurchased shares. The excess amount was allocated to balance sheet profit. In the process, the treasury shares were taken off the books.

During the reporting year, the reserve formed for the repurchase of own shares pursuant to § 272, Para. 4, of the German Commercial Code (HGB) therefore changed as follows:

	EUR thousands
Reserve for own shares as of 31 Dec 2009	1,826
Deduction pursuant to BilMoG of own shares repurchased in prior years	-1,826
Reserve for own shares as of 31 Dec 2010	**0**

4. Reserve due to own shares

In order to avoid including own shares in the distributable balance sheet profit, as required by the new legislation, and in order to make due provision for creditor protection, a new "reserve due to own shares" was formed in the reporting year.

The "reserve due to own shares" changed as follows during the reporting year:

	EUR thousands
Reserve due to own shares as of 31 December 2009	0
Inclusion of own shares acquired in prior years, pursuant to BilMoG (stated at nominal value)	194
Formation of a "reserve due to own shares" for own shares acquired during the current fiscal year (stated at nominal value)	43
Reserve due to own shares as of 31 December 2010	**237**

Negative goodwill arising from capital consolidation

The negative goodwill shown as of the reporting date will be dissolved in subsequent years in accordance with its origin and allocated to income.
In fiscal years 2009 and 2010, this item changed as follows (in EUR thousands):

2010				2009			
Increase	Reversal	Decon-solidation	Book value	Increase	Reversal	Decon-solidation	Book value
40,874	18,418	3,368	90,301	50,292	48,682	0	71,213

Negative goodwill arises 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 negative goodwill is reversed in the Consolidated Group Annual Report and applied towards income (insofar as additional other expenses or losses are expected).

Insofar as the negative goodwill 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 negative goodwill 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 negative goodwill 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 reversal of negative goodwill is reflected in the Group's Consolidated Profit & Loss Statement under "other operating income".

The increase in negative goodwill during the reporting year resulted mainly from the initial consolidation of R+E and the TriStone Group. The OSNY Group was deconsolidated.

Provisions

[EUR thousands]	31 December 2010	31 December 2009
Pension provisions	70,101	65,699
Tax provisions	3,097	3,988
Other provisions	47,060	48,566
	120,258	118,253

Pension provisions
As of the reporting date, the amount needed to cover pension obligations amounted to EUR 70,101 thousand (prior year: EUR 65,699 thousand). The year-on-year increase is mainly attributable to the initial consolidation of the TriStone Group. As of 31 December 2010, there was a shortfall of EUR 460 thousand (prior year: EUR 425 thousand) in the coverage of 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).

Other provisions
Other provisions mainly consisted of personnel-related obligations (EUR 19,428 thousand), litigation risks (EUR 10,003 thousand), outstanding invoices (EUR 5,721 thousand) warranty obligations (EUR 2,514 thousand), earnings reductions (EUR 758 thousand) and restructuring measures (EUR 2,370 thousand).

Liabilities

[EUR thousands]	31 December 2010	31 December 2009
Liabilities to banks	63,103	19,593
Advance payments received for orders	8,954	6,945
Trade liabilities	108,819	59,499
Other liabilities including taxes and social security	19,214	16,122
	200,090	102,159

The term structure of liabilities is summarised below:

31 December 2010 [EUR thousands]	< 1 year	1-5 years	> 5 years	Total
Liabilities to banks	54,171	5,956	2,976	63,103
Advance payments received for orders	8,954	0	0	8,954
Trade liabilities	108,816	3	0	108,819
Other liabilities including taxes and social security	15,047	3,788	379	19,214
	186,988	9,747	3,355	200,090

Liens on real property in the aggregate amount of EUR 35,345 thousand were granted to various secured third parties, mainly as sureties for loans and lines of credit. However, a great portion of these credit facilities had not been drawn down by the reporting date.

31 December 2009 [EUR thousands]	< 1 year	1-5 years	> 5 years	Total
Liabilities to banks	12,965	3,430	3,198	19,593
Advance payments received for orders	6,945	0	0	6,945
Trade liabilities	59,498	1	0	59,499
Other liabilities including taxes and social security	11,657	3,953	512	16,122
	91,065	7,384	3,710	102,159

Deferred tax liabilities
Deferred tax liabilities are reported at the consolidated Group level based on a tax rate of 30%. The respective deferred tax liabilities of the Company's subsidiaries were calculated based on the tax rate expected to apply in each case. Deferred tax liabilities arise mainly in the context of variances arising from the tax-related valuation of inventories and provisions.

Liability obligations (guarantees and other commitments)

Perpetual 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 (Gunzenhausen), BAVARIA Industriekapital AG assigned to Zürich Versicherung all of its rights with regard to the credit balance of a specific bank account. This account currently has a credit balance of about EUR 163 thousand.

Perpetual guarantee in favour of Banco Bilbao

Under an agreement dated 15 December 2009, BAVARIA assumed a perpetual guarantee in favour of Banco Bilbao Vizcaya Agentaria S.A., Huesca/Spain to cover the obligations of Inasa Sabiñánigo up to a maximum amount of EUR 174 thousand.

Perpetual guarantee in favour of Commerzbank

Under agreements dated 29 January 2010, and 1 January 2011, BAVARIA assumed a perpetual, directly enforceable guarantee in favour of Commerzbank (formerly Dresdner Bank) to cover the obligations of R+E in connection with a credit facility for EUR 300 thousand.

Time-limited letter of comfort in favour of Daimler AG

With effect from 20 September 2010 until 31 March 2011, BAVARIA Industriekapital AG has undertaken to take all necessary measures, insofar as commercially reasonable, to ensure that TriStone Flowtech, Poland and its affiliated companies ("Supplier") are able to consistently meet their current and future obligations to the Daimler Group in a timely manner. To this end, BAVARIA Industriekapital AG is specifically committed to providing the Supplier with sufficient capital and liquidity. Insofar as the Supplier fails to meet its obligations vis-à-vis the Daimler Group, BAVARIA Industriekapital AG's own receivables against the Supplier will be deemed subordinated in rank behind the receivables of the Daimler Group.

Perpetual guarantee in favour of FORTIS

Under an agreement dated 30 June 2010, BAVARIA Industriekapital AG assumed a guarantee for up to EUR 5.0 million in favour of the FORTIS Group on behalf of the following companies: TriStone France, TriStone Turkey, TriStone Spain, TriStone Italy and TriStone Poland. The guarantee, which was issued in perpetuity, applies to claims against TriStone companies on the part of several factoring firms of the FORTIS Group.

Time-limited guarantee in favour of SERV

Under an agreement dated 18 June 2010, BAVARIA Industriekapital AG assumed a guarantee in favour of SERV, Zurich (Swiss Export Risk Insurance) on behalf of the SwissTex Winterthur company. The guarantee is meant to vouchsafe that all appropriate measures are taken to ensure that SwissTex can continue in business. The guarantee is time-limited until 31 December 2011.

BAVARIA Industriekapital AG enters into guarantee obligations and commitments only after a careful evaluation of risks and generally only in connection with its own business operations and/or the operations of its affiliates and investee companies. On the basis of an on-going evaluation of the risks pertaining to the guarantees and commitments undertaken, and after duly allowing for all information available as of this writing, BAVARIA Industriekapital AG is currently working on the assumption that the obligations underlying the aforesaid guarantees and commitments can be properly fulfilled by the respective principal debtors. Thus, for each of the aforesaid guarantees and other commitments, BAVARIA Industriekapital AG assesses the risk of a corresponding claim against BAVARIA Industriekapital AG as "not probable".

Financial obligations

Total financial obligations arising from purchase commitments and long-term rental/leasing agreements with fixed durations amounted to EUR 13,988 thousand (prior year: EUR 17,574 thousand).

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

[EUR thousands]	31 December 2010	31 December 2009
Term		
< 1 year	8,766	14,573
1 - 5 years	4,452	2,161
> 5 years	770	840
Total	13,988	17,574

EUR 7,697 thousand of these financial obligations is attributable to purchase commitments arising from the order backlogs of individual Group companies (prior year: EUR 13,699 thousand).

Other sureties

Warranty and down-payment guarantees have been issued in a total amount of EUR 32,138 thousand.

Auditors' fees

During the reporting year, the following fees were paid to public auditors for audits, consultations and other services:

2010

[EUR thousands]	Total domestic	Of which: Group Auditors
Term		
Fee for audit of the 2010 financial statements	206	129
Fees for other audits in 2010	25	0
Fees for tax consulting in 2010	130	15
Fee for other auditor services in 2010	71	126
Total	432	270

2009

[EUR thousands]	Total domestic	Of which: Group Auditors
Term		
Fee for audit of the 2009 financial statements	188	120
Fees for other audits in 2009	35	0
Fees for tax consulting in 2009	86	47
Fee for other auditor services in 2009	149	148
Total	458	315

Transactions excluded from the balance sheet

Factoring

Seven subsidiaries of the BAVARIA Group use factoring as a financing tool. The total scope of such factoring amounts to roughly EUR 50 million. Most of the factoring agreements in question involve bona fide open factoring, whereby the factoring partner assumes the entire default risk. The objective and benefit of factoring is an improvement in the liquidity and risk position of the respective company.

On the negative side, the costs associated with factoring must be charged against revenues. Another potential negative is the disclosure of receivable sell-offs in the context of open factoring, since customers generally settle their liabilities directly with the factoring firm.

The use of factoring channels and the associated liabilities are reported on the balance sheet in the item "liabilities to banks".

Sale-and-leaseback transactions

Three subsidiaries of the BAVARIA Group have made use of sale-and-leaseback transactions as a financing tool. In the year 2000 and 2007, three operating buildings were sold off and long-term leasing agreements were concluded for said buildings, the minimum rental period in each case being either 10 or 15 years. The resulting total obligation is included in "other financial obligations", insofar as it is not otherwise shown on the balance sheet.

In 2010, a piece of machinery worth EUR 0.4 million was sold off and leased back under a corresponding agreement. The minimum rental period is 5 years.

The objective and benefit of sale-and-lease-back transactions is the procurement of liquid funds, i.e. positive cash flow for the respective company. The associated risks mainly involve the leasing instalments that the company commits to paying.

Financial derivatives not reported at market value

In the course of their worldwide business, investment and financing activities, the companies of the BAVARIA Group are specifically exposed to risks from fluctuating exchange rates, interest rates and commodity prices. These risks can be hedged and/or eliminated by means of financial derivatives.

In order to hedge against risks arising from fluctuations in the value of assets, liabilities and pending or anticipated transactions, insofar as they are denominated in foreign currencies, the companies of BAVARIA Group make use of financial derivatives, albeit to a restricted extent. The financial instruments employed consist mainly of currency futures/options contracts.

To a lesser extent, financial derivatives are also used by the BAVARIA Group to hedge against commodity-price risks associated with sourcing/procurement transactions. The instruments used for such hedging include commodity futures/options contracts.

The existing portfolio of financial derivatives is held exclusively for hedging purposes. The following table summarises the financial derivatives in place as of 31 December 2010:

31 December 2010 [EUR thousands]	Nominal volume	Market volume
Currency hedging contracts	11,331	259 [1]
Commodity hedging contracts	261	66 [2]
	11,592	325

[1] Calculated on the basis of changes in currency futures prices.
[2] Calculated on the basis of changes in commodity futures prices.

VII. Notes to 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 deconsolidation date).

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

[EUR thousands]	2010	2009
European Union (except Germany)	321,351	197,259
Germany	216,160	165,071
Europe, other	22,227	10,849
North America	13,664	5,929
Asia	5,081	1,636
Africa	2,263	947
Other	57,633	21,909
	638,379	403,600

Other operating revenues

Other operating revenues be broken down as follows:

[EUR thousands]	2010	2009
Gains from the reversal of negative goodwill	18,419	48,682
Gains from currency translations	7,620	5,196
Gains from the reversal of provisions	4,708	3,525
Gains from value adjustments	1,908	633
Gains from abatement of liabilities	1,133	889
Revenues from subsidies [1]	949	0
Gains from the disposal of fixed assets	696	83
Revenues from lease/rental agreements [1]	234	0
Gains from debt consolidation	116	251
Gains from deconsolidation of shareholdings in affiliated companies	0	1
Gains from write-ups to fixed assets	929	0
Miscellaneous	1,869	2,026
	38,581	61,286

[1] Due to modified presentation in 2010, these figures cannot be readily compared with those of prior years.

Gains from the reversal of negative goodwill resulted from the regular reversal of negative goodwill in the wake of the ongoing restructuring of the Group's remaining investee companies.

Materials expense

In fiscal year 2010, materials expense amounted to EUR 397,738 thousand (prior year: EUR 220,275 thousand).

Personnel expense

Personnel expense increased over the prior year, mainly due to the recent acquisition of the TriStone Group (average workforce since consolidation July 2010: 1,045; personnel costs: EUR 20,840 thousand), SwissTex France (83 employees, personnel costs: EUR 4,272 thousand) and R+E (28 employees, personnel costs: 1,222 thousand).

[EUR thousands]	2010	2009
Wages and salaries	127,740	97,080
Social contributions and pension costs Of which: EUR 2.735 thousand for pensions (prior year: EUR 6,810 thousand)	33,734	31,359
	161,474	128,439

Depreciation

There was no extraordinary depreciation during the fiscal year.

Other operating expenses

[EUR thousands]	2010	2009
Packing and freight	16,201	8,102
Repair and maintenance	14,320	8,376
Third-party services, insurance and premiums	12,368	9,073
Losses from currency translation	8,247	4,935
Rentals and leasing	5,807	4,946
IT expense	4,519	3,167
Travel and lodging	4,198	2,306
Administrative costs	3,750	1,676
Costs of temporary personnel	3,700	1,442
Losses from deconsolidation	3,219	226
Commissions	3,047	2,215
Attorney/notary fees and court costs [1]	2,088	0
Miscellaneous personnel costs	1,863	1,540
Management consulting costs [1]	1,600	2,940
Allocations to provisions for litigation risks	1,529	8,400
Advertising [1]	1,237	0
Value adjustments	1,233	277
Bad receivables	36	343
Losses from debt consolidation	5	124
Miscellaneous	8,360	8,922
	97,327	69,010

[1] Due to modified presentation in 2010, these figures cannot be readily compared with those of prior years.

The item "miscellaneous operating expenses", which amounted to EUR 8,360 thousand in 2010 consists of sundry operating expenses incurred at the individual company level, such as: accounting and auditing costs, personnel-recruiting expenses, Supervisory Board and/or Advisory Board compensation, etc.

Net interest income

[EUR thousands]	2010	2009
Interest income and similar revenue Of which: from affiliated companies: EUR 0.00 (prior year: EUR 17 thousand)	694	844
Interest expense and similar costs Of which: to affiliated companies: EUR 0.00 (prior year: EUR 0.00)	-6,896	-1,333
	-6,202	-489

In 2010, interest expense was attributable mainly to Inasa Foil and Hunsfos as well as the K+S Group.

Extraordinary results

Extraordinary income of EUR 7,858 thousand resulted mainly from the reversal of value adjustments at OSNY Pharma (EUR 5,141 thousand) as well as from the reversal of restructuring provisions at the K+S Group (EUR 1,737 thousand).

Extraordinary expense of EUR 8,465 thousand includes EUR 4,270 thousand to outfit a transfer company for Xenterio as well as EUR 2,456 thousand in extraordinary costs incurred by OSNY Pharma in connection with reversing its value adjustments (see extraordinary income above).

Taxes on income

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

Out-of-period income and expenses

The "other operating revenues" item includes EUR 6.6 million (prior year: EUR 4.2 million) in revenues from outside the reporting period. These involve the reversal of provisions as well as changes to value adjustments.

VIII. Reporting by segment

Serial Production/Automotive

The "Serial Production/Automotive" business segment comprises companies that are active in the serial manufacture of components, or that are active, at least in part, as automotive suppliers, specifically:

- In 2010: the K+S Group, the Faral Group, Tech-FORM, ADG KG as well as the TriStone Group.
- In 2009: the K+S Group, FDI, the Faral Group, Tech-FORM as well as ADG KG.

Plant Engineering & Construction

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

- In 2010: Hering, the L&E Group, the SwissTex Group and R+E.
- In 2009: Hering, the L&E Group and SwissTex.

Business Services

The "Business Services" segment comprises all operating companies that cannot be allocated to either of the two preceding business segments:

- In 2010: Xenterio, Hunsfos, OSNY Pharma (deconsolidated as of 31 December 2010), Inasa Sabiñánigo as well as Inasa Foil.
- In 2009: Xenterio, Hunsfos, OSNY Pharma, Inasa Sabiñánigo as well as Inasa Foil.

The "Others" segment mainly consists of the BAVARIA Group's non-operating holdings and interim holdings.
The after-tax surplus for each business segment is reported as the "segment result". Transactions between the various segments are priced according to the "arm's-length principle".
The following Segment Report was prepared in accordance with German Financial Reporting Guidelines DRS 3:

31.12.2010 [EUR thousands]	Serial Production/Automotive	Plant Engineering & Construction	Business Services	Others	Consolidation	Group
Sales						
with external third parties	345,387	90,082	202,910	0	0	638,379
with group companies	0	0	0	4,879	-4,879	0
Profit and Loss Statement						
Segment net income	1,069	1,852	-3,049	5,088	-5,753	-793
Depreciation included therein	16,163	860	5,562	18	418	23,021
Interest result included therein	4,565	445	1,966	-774	0	6,202
Taxes included therein	3,374	1,005	820	548	0	5,747
Extraordinary result included therein	-594	68	-13,987	0	15,120	607
EBITDA	24,577	4,230	-8,688	4,880	9,785	34,784
Other non-cash items (incl. Extraordinary)	5,673	254	20,769	-210	-554	25,932
Income/loss from holdings in consolidated companies	0	0	0	5,940	-5,940	0
Balance Sheet						
Total assets	257,071	65,310	111,363	33,366	-18,568	448,542
Investments in fixed assets	11,088	1,910	5,708	17	1,684	20,407
Provision, accruals and liabilities	198,420	54,692	82,324	11,507	-22,852	324,091
Employees	2,746	409	748	10	0	3,913

31.12.2009 [EUR thousands]	Serial Production/Automotive	Plant Engineering & Construction	Business Services	Others	Consolidation	Group
Sales						
with external third parties	259,290	48,052	96,203	10	0	403,555
with group companies	1	0	0	4,529	-4,485	45
Profit and Loss Statement						
Segment net income	-34,704	-302	-1,043	8,337	31,349	3,637
Depreciation included therein	16,851	549	4,019	21	349	21,789
Interest result included therein	847	90	743	-1,191	0	489
Taxes included therein	810	460	498	640	-1,579	829
Extraordinary result included therein	13,103	-411	-7,354	0	4,188	9,526
EBITDA	-3,093	386	-3,137	7,807	34,307	36,270
Other non-cash items (incl. Extraordinary)	-11,341	792	5,792	26	45,846	41,115
Income/loss from holdings in consolidated companies	0	0	0	11,070	-11,070	0
Balance Sheet						
Total assets	165,382	33,163	132,628	37,605	-26,700	342,078
Investments in fixed assets	11,960	239	1,361	12	0	13,572
Provision, accruals and liabilities	143,827	23,530	88,347	10,891	-39,251	227,344
Employees	2,105	272	618	8	0	3,003

Arriving at the consolidated Group figures

2010 segment result

The 2010 consolidated column contains the following key items: reversal of negative goodwill (EUR 18.4 million); losses from deconsolidation (EUR -3.2 million); elimination of loan abatements between segments (EUR -14.7 million); elimination of dividend payouts between segments (EUR -5.9 million); amortisation of goodwill, insofar as these are not allocated to a specific segment (EUR -0.4 million).

Depreciation/amortisation in 2010

The 2010 consolidated column includes amortisation of goodwill, insofar as this is not allocated to a specific segment (EUR 0.4 million).

Other non-cash items in 2010

The 2010 consolidated column includes the following salient non-cash items: reversal of negative goodwill (EUR 18.4 million); non-cash loan abatements (EUR -15.1 million); losses from deconsolidation (EUR -3.2 million). Also included are, among other things, value-adjustment allocations/reversals and provision reversals, insofar as these arose on the individual company level.

Segment assets and liabilities in 2010

The key asset/liability items included in the 2010 consolidated columns consist of eliminations of receivables and liabilities between segments. In 2010, the assets of the business segments were attributable almost entirely to Germany and the rest of the European Union, with the exception of Hunsfos (Norway) and SwissTex (Switzerland). For a regional break-down of assets, please see our notes on the Company's fixed assets.

2009 segment result
The 2009 consolidated column contains the following key items: reversal of negative goodwill (EUR 48.7 million); losses from deconsolidation (EUR 0.2 million); reversals of value adjustments allocated between segments, of company resales and of dividend distributions (EUR -18.5 million), taxes (EUR 1.6 million); amortisation of goodwill, insofar as it is not allocated to a specific segment (EUR -0.3 million).

2009 depreciation/amortisation
The 2009 consolidated column includes amortisation of goodwill, insofar as it is not allocated to a specific segment (EUR 0.3 million).

Other non-cash items in 2009
The 2009 consolidated column includes the following salient non-cash items: reversal of negative goodwill (EUR 48.7 million) as well as losses from deconsolidation (EUR 0.2 million). Also included are the formation/reversal of value adjustments and reversals of provisions, insofar as these arose on the individual company level.

Segment assets and liabilities in 2009
The key asset/liability items in the 2009 consolidated column were reversals of consist receivables and liabilities between segments. In 2009, segment assets were attributable almost entirely to Germany and the rest of the European Union. For a regional breakdown of assets, please see our comments to fixed assets.

IX. Miscellaneous information

Executive Board and Supervisory Board

Executive Board
- Reimar Scholz, Dipl. Kaufmann, Gauting,
  Head of Acquisitions (Executive Board Spokesman)
- Harald Ender, Dipl.-Ingenieur, Dipl. Kaufmann, Landsberg,
  Head of Operations (Executive Board Member)

Insofar as only one Executive Board Member has been appointed, he/she is entitled to act as sole representative of the Company. Insofar as more than one have been appointed, any two Executive Board Members may jointly represent the company.

Reimar Scholz is entitled to act as sole representative.

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

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

Supervisory Board
- Dr. Matthias Heisse, Rechtsanwalt, Munich (Chairman)
- Dr. Gernot Eisinger, Kaufmann, Munich (Deputy Chairman)
- Dr. Harald Linné, Kaufmann, Munich

Total remuneration of the Supervisory Board and Executive Board as well as former members of these bodies
Remuneration of Supervisory Board Members amounted to EUR 40 thousand (prior year: EUR 40 thousand), of which EUR 0.00 was paid to former Supervisory Board Members (prior year: EUR 0.00). During the reporting year, the Company paid fees of EUR 114 thousand (prior year: EUR 144 thousand) to the law firm of Heisse Kursawe Eversheds, of which Dr. Heisse is a partner. This occurred in the context of a separate consulting agreement as required by § 114 of the German Stock Corporation Act (AktG).
Total remuneration received by Executive Board Members in 2010 amounted to EUR 1,181 thousand (prior year: EUR 777 thousand).

Employees
The total workforce of the companies included in the scope of consolidation as of 31 December 2010 numbered 3,913 employees (prior year: 3,003 employees). The chart below shows a breakdown of the BAVARIA Group's workforce for the past two years:

	2010	2009
Industrial workers	1,875	2,116
Employees	1,967	803
Trainees	71	84
	3,913	3,003

Relationships with affiliated persons/entities
Although BAVARIA has customary business dealings with affiliated but not consolidated subsidiaries, the transactions with these companies are negligible in scope. Moreover, they arise in the course of normal business operations and are performed on normal market terms.
Moreover, none of the companies of the Group has engaged in significant business transactions with members of BAVARIA's Executive Board or Supervisory Board, or with persons belonging to their respective families.

X. Schedule of shareholdings

[thousands of local currency]		Currency	Share of equity in % direct	Share of equity in % indirect	Equity	Net income
Group parent company						
BAVARIA Industriekapital AG, Munich					21,065	5,067
Schedule of shareholdings						
Executive Consulting AG, Munich	(1)	EUR	100.00		37	4
Hering Wärmetauscher Holding AG, Munich	(1)	EUR		62.59	48	0
Hering AG, Gunzenhausen	(2)	EUR		59.28	1,032	178
Nevira Vermögensverwaltung AG, Munich (in liquidation)	(3), (5)	EUR	78.00		-316	-75
BAVARIA Maschinenbau Holding II AG, Munich	(1)	EUR	88.75		970	925
Langbein & Engelbracht GmbH, Bochum	(2)	EUR		83.43	6,738	1,224
Langbein & Engelbracht Industrial Eng. & Co., Shanghai/China	(2)	CNY		83.43	-4,327	-2,001
Verwaltungsgesellschaft 0906 GmbH, Munich	(1)	EUR	100.00		23	7
Blitz 05-316 GmbH & Co. KG, Munich	(1)	EUR	100.00		55	4,882
R+E Automationstechnik GmbH, Fellbach-Schmiden	(2)	EUR	100.00		0	-232
Kienle + Spiess GmbH, Sachsenheim	(2)	EUR		99.74	15,942	-4,606
Kienle + Spiess Hungary Kft, Tokod/Hungary	(2)	HUF		99.74	2,027,044	-1,199,641
Wardstorm Ltd., Ellesmere Port/UK	(2)	GBP		99.74	7,114	0
Sankey Laminations Ltd., Ellesmere Port/UK	(2)	GBP		99.74	5,429	-151
G.L. Scott & Co. Ltd., Ellesmere Port/UK	(2)	GBP		99.74	0	0
Bavariaring 0906 GmbH, Munich	(1)	EUR	100.00		18	-6
SwissTex Winterthur AG, Winterthur/Switzerland	(2)	CHF	100.00		2,031	-2,256
Bavaria Chemicals GmbH, Munich	(1)	EUR	75.00		23	0
Elfotec AG, Mönchaltdorf/Switzerland (in liquidation)	(4), (5)	CHF		75.00	–	–
Elfotec Ltd., Annacotty/Irland (in liquidation)	(4), (5)	EUR		75.00	–	–
baikap Holding 010607 GmbH, Munich	(1)	EUR	100.00		92	-11
baikap Holding 020607 GmbH, Gräfelfing	(1)	EUR	100.00		130	105
EMS Holding Bavaria GmbH, Gräfelfing	(1)	EUR	100.00		-241	-262
Pharma Holding Bavaria GmbH, Munich	(1)	EUR	100.00		234	100
Bavaria France Holding SAS, Neuilly sur Seine/France (prev. Fonderies Aluminium de France SAS)	(1)	EUR		100.00	1,208	11,379
Fonderie Aluminium de Cléon SAS, Cléon/France	(4), (2)	EUR		100.00	-2,070	-2,050
Fonderie d'Ingrandes, Neuilly sur Seine/France (prev. Fonderie du Poitou Aluminium SAS)	(2)	EUR		100.00	-176	-524
Teksid Deutschland GmbH, Heilbronn (in liquidation)	(4), (5)	EUR		100.00	–	–
Xenterio GmbH, Offenburg	(2)	EUR		100.00	-2,824	-3,366
Faral S.p.A., Modena/Italy	(2)	EUR		100.00	13,566	-4,560
K+S Holding GmbH & Co. KG, Munich	(1)	EUR		94.80	1	171
Kienle + Spiess Logisztikai, Tokod/Hungary	(2)	HUF		99.74	23,788	-3,630
Faral France SAS, Carmaux/France	(2)	EUR		100.00	-1,069	-377
Hunsfos Fabrikker AS, Vennesla/Norway	(2)	NOK		100.00	85,043	25,880
Die-Cast Holding Bavaria GmbH, Munich	(1)	EUR	100.00		61	38
baikap Holding 061108 GmbH, Munich	(1)	EUR		100.00	24	0
baikap Holding 070309 GmbH, Munich	(1)	EUR	100.00		12	-7
Inasa Foil GmbH (prev. baikap Holding 080309 GmbH), Munich	(1)	EUR		100.00	22	-2

[thousands of local currency]		Currency	Share of equity in % direct	Share of equity in % indirect	Equity	Net income
OSNY Pharma S.A.S., Osny/France	(2), (6)	EUR		100.00	-931	-5,540
OSNY Pharma Holding S.A.S., Osny/France	(2), (6)	EUR		100.00	845	3
Tech-FORM S.A.S., Auxi-Le-Château/France	(2)	EUR		100.00	1,876	-460
Austria Druckguss GmbH & Co. KG, Gleisdorf/Austria	(2)	EUR		100.00	3,023	-2,432
Austria Druckguss GmbH, Gleisdorf/Austria	(7)	EUR		100.00	17	-4
baikap Holding 090709 GmbH, Munich	(1)	EUR	100.00		24	0
Bavaria Purchasing Group GmbH (prev. baikap Holding 100709 GmbH), Munich	(1)	EUR	100.00		41	17
Inasa Foil Sabiñánigo S.L. (prev. Laminados Sabiñánigo S.L.), Sabiñánigo, Huesca/Spain	(2)	EUR		100.00	4,700	-56
INASA Foil S.A., Irurtzun near Pamplona/Spain	(2)	EUR		100.00	28,201	-12,136
L&E America Environmental Technologies LLC, Kaukauna, Wisconsin/USA	(8)	USD		66.74	–	–
baikap Holding 110510 GmbH, Munich	(1)	EUR	100.00		24	-1
baikap Holding 120510 GmbH, Munich	(1)	EUR	100.00		24	-1
SwissTex France SAS, Valence/France	(8)	EUR		100.00	–	–
TriStone Flowtech Holding SAS, Carquefou/France	(8)	EUR		100.00	–	–
Tristone Flowtech Slovakia spol Sro, Nova Bana/Slovakia	(9)	EUR		100.00	5,270	-657
Tristone Flowtech Poland Sp. zo. o, Walbrzych/Poland	(9)	EUR		100.00	7,952	-548
TriStone Flowtech France SAS, Carquefou/France	(8)	EUR		100.00	–	–
TriStone Flowtech Czech Republic s.r.o, Hrádek nad Nisou/Czech Republic	(9)	EUR		100.00	1,698	-2,455
TriStone Flowtech Istanbul Otomotive SVTLS, Çerkezköy/Turkey	(8)	TRY		100.00	–	–
TriStone Flowtech Italy S.p.A., Cirié/Italy	(9)	EUR		100.00	9,615	-1,547
TriStone Flowtech Germany GmbH, Frankfurt on the Main	(9)	EUR		100.00	452	920
TriStone Flowtech Spain S.A., Tarazona/Spain	(9)	EUR		100.00	2,761	-983
TriStone Flowtech Solutions SNC, Carquefou/France	(9)	EUR		100.00	-538	1,156
baikap Holding 130810 GmbH, Munich	(1)	EUR	100.00		24	-1
baikap Holding 140810 GmbH, Munich	(1)	EUR	100.00		24	-1

(1) Unaudited annual report for 31 Dec 2010 pursuant to German Commercial Code (HGB)
(2) Audited annual report for 31 Dec 2009 pursuant to local accounting principles
(3) Audited annual report for 31 Dec 2008 pursuant to German Commercial Code (HGB)
(4) Not consolidated pursuant to § 296 of the German Commercial Code (HGB)
(5) Company is in liquidation
(6) Company was deconsolidated as of 31 Dec 2010
(7) Unaudited annual report for 31 Dec 2009 pursuant to local accounting principles
(8) Newly established in 2010; an annual report is not yet available
(9) Audited annual report for 31 Dec 2009 pursuant to IFRS

Outside affiliations of the Group

BAVARIA is included in the consolidated group annual report of AS Beteiligungen und Vermögensverwaltung GmbH (formerly AS Vermögensverwaltung GmbH), Gräfelfing. This consolidated group annual report has been published in the Electronic Federal Gazette (elektronischer Bundesanzeiger), where it may be inspected online.

Profit distribution/recommended dividend

In 2010, BAVARIA paid out dividends of EUR 7,716,705.00.

At the upcoming General Shareholders' Meeting, the Executive Board and Supervisory Board of BAVARIA will recommend that only the statutory minimum dividend, or EUR 0.04 per share (total: EUR 6,059,380.36), will be paid out of the Company's balance sheet profit for fiscal year 2010, with the remaining profit to be carried forward. This is to allow for the Company's increased investment activities during the reporting year.

Munich, on 17 March 2011

Reimar Scholz
Executive Board

Harald Ender
Executive Board

Audit opinion of the statutory auditor

We have audited the consolidated annual financial statements prepared by BAVARIA Industriekapital AG, München, comprising the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and the notes to the consolidated annual financial statements, together with the consolidated management report for the financial year of 1 January 2010 to 31 December 2010. The preparation of the consolidated annual financial statements and the consolidated management report in accordance with the provisions of German commercial law are the responsibility of the company's legal representatives. Our responsibility is to express an opinion on the consolidated annual financial statements, together with the book-keeping system, and on the consolidated management report based on our audit.

We conducted our audit of the consolidated annual financial statements in accordance with Article 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, 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 annual financial statements and in accordance with the applicable financial reporting framework and in the consolidated management report are detected with reasonable assurance. Knowledge of the Group's business activities and the economic and legal environment and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the Group's accounting-related internal control system and the evidence supporting the disclosures in the consolidated annual financial statements and consolidated management report are examined primarily on a test basis within the framework of the audit.

The audit includes assessing the annual financial statements of the entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated annual financial statements and the consolidated management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on findings of our audit, the consolidated annual financial statements comply with the relevant legal provisions and give a true and fair view of the Group's net assets, financial position and results of operations in accordance with German principles of adequate and orderly accounting. The consolidated management report is consistent with the consolidated annual 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.

The above auditor's opinion may only be used in connection with audit report. Any use out of context of our audit report requires our agreement in advance. Publication or propagation of the annual financial statements and management report in any form other than the audited version (including translation in other languages) requires our agreement our auditor's opinion is quoted or if our audit is referred to. We particularly refer to Article 328 HGB.

Munich, on 18 March 2011

RP RICHTER GmbH
Wirtschaftsprüfungsgesellschaft

Frank Stahl
Wirtschaftsprüfer
(German Public Auditor)

Martin Costa
Wirtschaftsprüfer
(German Public Auditor)

List of Abbreviations

ADG KG	Austria Druckguss GmbH & Co. KG, Gleisdorf, Austria
AktG	German Stock Corporation Act
BAVARIA Industriekapital	BAVARIA Industriekapital AG, Munich
BilMoG	Accounting Law Modernisation Act
DRS	German Financial Reporting Guidelines
EGHGB	Introductory Act to the German Commercial Code
Faral France	FARAL France SAS, Carmaux, France
Faral Italy	FARAL S.p.A., Modena, Italy
FDI	Fonderie d'Ingrandes (prev. FDPA Fonderie du Poitou Alum. SAS), sur Vienne, France
Geo L. Scott	Geo L. Scott & Co. Ltd., Ellesmere Port, UK
Hering	Hering AG, Gunzenhausen
HGB	German Commercial Code
HGB a. F.	German Commercial Code former version
HR	Commercial Register
Hunsfos	Hunsfos Fabrikker AS, Vennesla, Norway
IDW	Institut der Wirtschaftsprüfer in Germany e.V., Düsseldorf
Inasa Foil	Inasa Foil S.A. Irurtzun, Spain
Inasa Sabiñánigo	Inasa Foil Sabiñánigo S.L. (prev. Laminados Sabiñánigo S.L.), Sabiñánigo, Huesca, Spain
KStG	German Corporate Tax Act
K+S Germany	Kienle + Spiess GmbH, Sachsenheim
K+S Holding	K+S Holding GmbH & Co. KG, Munich
K+S Hungary	Kienle + Spiess Hungary Ipari kft., Tokod, Hungary
K+S Logistik	Kienle + Spiess Hungary Logisztikai, Tokod, Hungary
L&E	Langbein & Engelbracht GmbH, Bochum
L&E USA	L&E America Environmental Technologies LLC, Kaukauna, Wisconsin, USA
L&E Shanghai	L&E Industrial Eng.&. Co., Shanghai, China
OSNY Pharma	OSNY Pharma SAS, Osny, France
OSNY Holding	OSNY Pharma Holding SAS, Osny, France
R + E	R+E Automationstechnik GmbH, Fellbach-Schmiden
Sankey	Sankey Laminations Ltd., Ellesmere Port, UK
SwissTex	SwissTex Winterthur AG, Winterthur, Switzerland
SwissTex France	SwissTex France SAS, Valence, France
Tech-FORM	TechForm SAS, Auxi-le-Château, France
Teksid Germany	Teksid Germany GmbH, Heilbronn (in liquidation)
TriStone Germany	Tristone Flowtech Germany GmbH, Frankfurt on the Main
TriStone France	Tristone Flowtech France SAS, Carquefou, France
TriStone Holding	Tristone Flowtech Holding SAS, Carquefou, France
TriStone Italy	Tristone Flowtech Italy S.p.A., Cirie, Italy
TriStone Polen	Tristone Flowtech Poland Sp. zo.o., Walbrzych, Polen
TriStone Slovakia	Tristone Flowtech Slovakia spol S.r.o., Nóva Bana, Slovakia
TriStone Solution	Tristone Flowtech Solution SNC, Carquefou, France
TriStone Spain	Tristone Flowtech Spain S.A.U, Tarazona, Spain
TriStone Czech Republic	Tristone Flowtech Czech Republic s.r.o., Hradek nad Nisou, Czech Republic
TriStone Turkey	Tristone Flowtech Istanbul Otomotiv Sanayi ve Ticaret Limited Sirketi, Cerkezköy, Turkey
Wardstorm	Wardstorm Ltd., Ellesmere Port, UK
Xenterio	Xenterio GmbH, Offenburg

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