

Dynamic
Bavaria
Compelling
the Site of Choice
Advantageous

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Top Location in Central Europe

The Free State of Bavaria is one of Europe's foremost economic powers, recognized throughout the world for the excellence of its high-tech and service industries. Compared to other German states and member nations of the European Union, Bavaria ranks at or close to the top of practically every key economic indicator.

Top performer — Bavaria's economic parameters in 2003

Occupying an area of more than 70,000 square kilometers, Bavaria is Germany's largest state. With 12.4 million inhabitants, it is the most populous state of Germany after North-Rhine Westphalia with its 18 million and comes 8th among the 25 EU member states.

Overall economic performance

With its year-2004 output of € 385 billion, Bavaria and its workforce of 6.2 million people outperformed 18 of the 25 EU states.

The per capita output of € 31,000 is significantly larger than the average attained by the other German states and all of Europe. Using the same economic yardstick, only Hessen, particularly due to Frankfurt's role as a financial center, outperformed Bavaria among the German states that are not city states. Similarly, Bavaria also ranks second in terms of gross domestic product of € 62,000 per gainfully employed person.

Value-added chain

In 2004 Bavarian manufacturers, many high-tech oriented, produced nearly 30 percent of the gross value added; the tertiary sector — specifically trade, transportation, financial institutes and insurance as well as other services, public and private households — accounted for close to 70 percent, agriculture and forestry 1.3 percent.

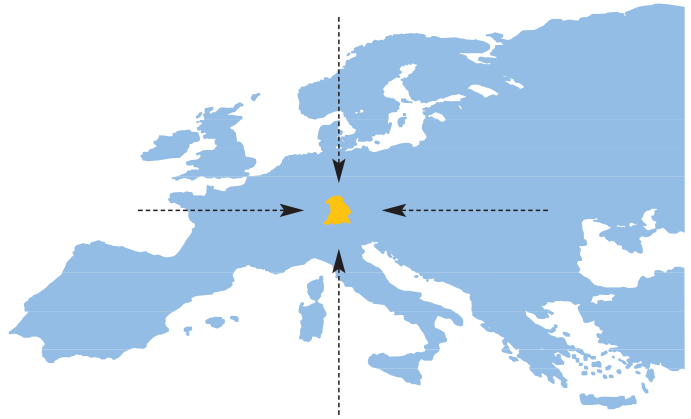
Exports

The state's exports of € 118 billion in 2004 reached not only a record high for the eleventh time running, but demonstrated once again the international competitiveness of the Bavarian economy and its products. That 45 percent of Bavarian industry sales were shipped abroad also reflects the above-average export orientation of its manufacturers. This placed the export share of Bavarian industry five and a half percentage points above the rate for the whole of Germany.

Employment

Almost half (47 percent) of the people in Bavaria are gainfully employed in 2004 — which is more than in any other German state. By contrast the other "old" states recorded 3.5 percent less in 2004. At almost 12 percent the state's self-employment rate is substantially higher than the median of the "old" states (11 percent).

Every year since 1994 Bavaria, together with Baden-Wuerttemberg, has registered the lowest average unemployment among all German states — in 2004 7 percent of the whole workforce were out of work as against more than 8 percent for the other "old" states.



	Bavaria	“Old” states	Total Germany	Bavaria’s share in % resp. index
Area (km²)	70,549	249,342	357,027	19.8
Population¹⁾ (mil.)	12.4	69.1	82.5	15.0
Gross domestic product				
nominally²⁾ (€ bil.)	385.2	1,934	2,177	17.7
per capita (€)	30,993	28,025	26,388	117.5
per gainfully employed (€)	61,870	59,046	56,631	109.3
Gross value added (percent share)				
Agriculture and forestry	1.3	1.1	1.3	17.8
Manufacturing	29.3	28.2	28.1	18.5
Tertiary sector	69.4	70.7	70.6	17.4
Exports (€ bil.)	118.0	–	733.5	16.1
Imports (€ bil.)	95.1	–	577.4	16.5
Industry’s export rate (%)	44.9	40.9	39.6	113.4
Gainfully employed (total in Germany) (mil.)				
	6.2	32.8 ⁸⁾	38.4	16.2
Employment rate³⁾	46.9	43.5 ⁸⁾	43.2	108.6
Self-employment rate⁴⁾	11.9	11.0 ⁸⁾	10.8	110.2
Employees subject to social-security payments				
	4.29	20.67 ⁹⁾	26.52	16.5
Unemployment rate (%)⁶⁾	6.9	8.5	10.5	–
Youth unemployment rate⁷⁾	7.3	8.1	9.9	–

1) as of 12/31/2004

2) “old” (pre-unification) incl. Berlin

3) gainfully employed, relative to total population, microcensus

4) self-employed, relative to gainfully employed, microcensus

5) as of 6/30/2004

6) relative to all gainfully employed civilians

7) relative to all civilian population under 25 dependent to gainful employment

8) incl. Berlin

9) exclusive of Berlin

Bavaria — where growth and innovation are at home

An unparalleled effort has propelled Bavaria from an agricultural state into a first-rate economic powerhouse.

Compelling performance — decades of economic expansion

By the 70s and 80s Bavaria's economic expansion was already outpacing the growth of the "old" states in the Federal Republic by a large margin — and continued to maintain the momentum during the last decade.

Gross domestic product

Since 1991 Bavaria's gross domestic product advanced by more than 24 percent and led all of the "old" states in growth.

Real gross domestic product — change in percent

	Bavaria	"Old" states	Total Germany
1970–1980	40.5	31.4	–
1980–1990	34.1	25.5	–
1970–1990	88.5	64.9	–
1991–2004	24.4	14.3 ¹⁾	17.8

1) incl. Berlin

Per capita income

In terms of GDP created per capita, Bavaria lagged clearly behind the average achieved by the Federal Republic during the 70s. By the beginning of the 80s it had surpassed North-Rhine Westphalia whose economy had formerly been decidedly stronger. By 1986 Bavaria matched the national average for the first time. Since 1993 it has ranked second among Germany's non-city states.

Per capita gross domestic product in € (nominal)

	Bavaria	"Old" states	Total Germany
1970	5,415	5,804	–
1980	12,145	12,457	–
1991	22,178	21,386 ¹⁾	18,781
2001	29,281	26,892 ¹⁾	25,185
2002	29,721	27,270 ¹⁾	25,586
2003	29,946	27,431 ¹⁾	25,803
2004	30,993	28,025 ¹⁾	26,388

1) incl. Berlin

Since 1991 acc. to the European system of national accounting (ESVG)

Impressive — decades of employment growth

Bavaria's robust economic expansion generated an above-average growth in employment.

Employees

From 1974 to 2004 the number of employees subject to social-security payments increased by just under one fourth. Bavaria has now a far greater number than any German state.

Employees subject to social-security payments — change in percent			
	Bavaria	"Old" states	Total Germany
1974–1992	25.0	13.0	–
1974–2004	22.4	6.2	–
1992–1997	–4.8	–6.1	–7.4
1997–2004	2.9	0.0	–2.8

Even though the Bavarian economy has had to cope with severe restructuring pressures in past years, 786,000 jobs subject to social-security payments were added from the mid-70s to the year 2004. Over the last seven years, Bavaria was able to break away from negative German trend (–2.8 percent) and substantially increased the number of employees subject to social-security benefits by nearly 3 percent. Measured in terms of all gainfully employed in preunification Germany, Bavaria's share has increased since then by 2.6 percentage points and came to over 19 percent in 2004.

Employees subject to social-security payments — Bavaria's share in national performance (%)		
	"Old" states	Total Germany
1974	16.8	–
1992	18.6	14.9
2001	19.2	15.9
2002	19.3	16.0
2003	19.3	16.0
2004	19.4 ¹⁾	16.2

1) incl. Berlin

Looking ahead — Bavaria's progress in recent years

Engine of growth (1998 – 2000) enabling Bavaria to beat the recession from 2001 to 2004

As had been the case in previous upswings, the Bavarian economy was also the engine of growth in Germany from 1998 – 2000. In the peak year 2000, over 5 percent growth was reached. The subsequent cyclical downturn did not turn out to be as strong in Bavaria as it was in the federal territory. In 2004, the Bavarian economy expanded by nearly 2 percent compared with the previous year, while the “old” states and Germany as a whole were unable to keep up with this trend.

<i>Percent change in real gross domestic product compared to prior year</i>				
	<i>Bavaria</i>	<i>“Old” states¹⁾</i>	<i>“New” states²⁾</i>	<i>Total Germany</i>
1992	2.9	1.7	7.7	2.2
1993	-2.2	-2.3	11.9	-1.1
1994	2.0	1.3	11.4	2.3
1995	1.1	1.4	4.5	1.7
1996	1.2	0.5	3.2	0.8
1997	1.7	1.4	1.6	1.4
1998	3.6	2.2	0.4	2.0
1999	2.6	2.0	2.6	2.0
2000	5.2	3.0	1.4	2.9
2001	0.7	1.0	-0.2	0.8
2002	1.2	0.0	0.7	0.1
2003	0.2	-0.2	0.2	-0.1
2004	1.9	1.6	1.5	1.6

1) incl. Berlin

2) without Berlin

The dynamics of proactive economic policy

Dynamic initiatives applied in keeping with the principles of social free market economy continue to support Bavaria's development into one of the most advanced and most attractive business locations in Europe.

Attractive — the five-pronged strategy

Bavaria's economic policy is based on a five-pronged supply-side oriented strategy.

Goals

1. To provide cost reductions to enhance industry's global competitiveness
2. To promote steady growth and employment gains by strengthening the dynamics of the market economy. The state is therefore privatizing its financial holdings and other interests, eliminating unnecessary bureaucracy, accelerating planning and approval processes and introducing deregulation with medium-sized companies in mind.
3. To modernize and systematically improve the infrastructure.
4. To champion a policy of New Products — New Plants — New Markets for business sectors confronting economic structural changes by encouraging investments and innovations as well as facilitating start-ups — policies designed to benefit especially small and medium-sized enterprises developing their global markets.
5. Finally, to maintain workforce sizes by ensuring a high level of investment in education and ongoing vocational training.

How the strategy is put into practice

As part of the "Offensive Zukunft Bayern" Initiative for Bavaria's future, the Free State has since 1994 reinvested nearly € 3 billion from the proceeds of privatization (DASA, Bayernwerk, Versicherungskammer, etc.) primarily in education, research, technology transfer, start-ups and strengthening foreign economic policies.

In addition, a "High-Tech Initiative" (1.35 billion) was launched in the late 90s to consolidate Bavaria's leading position in life sciences, information and communications technology, new materials, environmental and medical technologies as well as mechatronics, to bolster the technical competence in the state's administrative districts, enhance the technology infrastructure, advance the internationalization of the economy and sciences and make Bavaria still more attractive as a media location.

Bavaria's economic policy is characterized by its dual strategy of care for existing assets and modernization towards new products, new businesses and new markets. On the strength of this approach, more emphasis will be placed on promoting state-wide clusters in order to consistently and proactively consolidate the future of Bavaria as a top location for the business and scientific community. Cluster managers will coordinate and intensify the creation of networks among companies as well as between companies and research establishments. This will speed up process and product innovations and enhance the competitiveness of Bavarian industry.

In order to enhance the competitive position of small and medium-sized companies located in Bavaria's border regions in the new enlarged EU, Bavaria launched an "Empowerment program for Eastern Bavaria" in 2001. Some € 100 million from the sale of shares in E.ON have been used to specifically promote investments and the recruitment of companies as well as innovation counseling and qualification in Bavaria border regions. The Free State also supports Eastern Bavaria with a € 100 million program funded by other privatization proceeds.

Global perspectives

Bavaria is meeting the challenges of the enlargement of the EU to the East, globalization, the change to a knowledge-based industry and service-oriented society as well as the trend towards an ageing and shrinking population with resources that are a cut above the rest.

A solid base of operations

On average more money — measured in terms of the macroeconomic investment share — is being invested in Bavaria than in all the “old” states of the Federal Republic. Moreover, the state and its communities average far greater allocations to capital expenditures than the “old” states.

At close to € 1,900 (2004) Bavaria has the lowest per capita indebtedness of all the “old” states. As a result it has more financial flexibility to shape its future.

Bavaria ranks among the most research-intensive regions in the world. The state has a wide range of university, commercial and non-profit research installations as well as an outstanding technology transfer infrastructure. State and private funding for research and development in aggregate represents 3.0 percent of the gross domestic product, which puts Bavaria internationally among the leaders and meets the target parameters of the EU Lisbon Summit. The state’s education systems is the most performance-oriented in Germany, as the PISA-study has shown.

	Bavaria	“Old” states	Germany
Overall investment rate, 2002 (gross capital expenditures in percent of GDP)			
	19.4	17.6 ¹⁾	18.6
Investment rate, 2004 (percent of investments in total expense)			
State of Bavaria	11.7	7.6	12.3
Bavarian communities	20.7	15.3	16.3
Per capita indebtedness of all states, 2003 (€)			
	1,861	7,128	16,908
R&D expense per nominal GDP, 2001 (percent)			
	3.0	2.5 ³⁾	2.5 ³⁾
Patents per 100,000 inhabitants, 2004			
	100	–	59
High-tech industries²⁾ share in sales, 2004 (percent)			
	65.1	–	55.1
Share of exports, excluding EU (25) 2004 (percent)			
	40.3	–	36.1

1) incl. Berlin

2) WZ (product categories) 93-No.: 24 chemicals, 29 machinery, 30 office machinery, 31 equipment for the production and distribution of electricity, 32 radio, TV and communications technology, 33 medicine, measuring and control technology, optical, 34 production of automobiles and automotive parts, 35.3 space and aviation engineering

3) BMBF, Research Data Report 2002 (latest figures)

Geared for the future in all segments**Economic structure**

Because Bavaria anticipated the primary needs of transportation, energy and telecommunications early, it now has a first-rate economic infrastructure in place. With its current "Bavaria on-line" initiative the state is ready for the communications challenges of the 21st century.

Bavaria's economic structure is robust and future-oriented. The economic power of the state is not merely rooted in its multitude of global players, including also larger medium-sized companies, but also in its broad spectrum of small and medium-sized firms — top performers in industry, skilled crafts, trade and services.

High-tech electronic, information and communications technologies, mechanical engineering and automotive industry as well as aerospace firms dominate industry. Bavarian companies are also setting the pace in biotechnology and genetic engineering, transportation and propulsion, environmental and medical technologies, new materials as well as advanced energy and transportation technologies.

Bavarian companies are active in the growth markets of Asia, Central and Eastern Europe as well as Latin America. Strident export gains reflect their success in international competition.

Services — a major constituent of the economy

Key economic indicators point to the prominent role services play in the Bavarian economy. The state is the No. 1 in German insurance and No. 2 in banking. It is also a top address for asset management, a leading location for private equity, venture capital and leasing and a major stock-exchange center.

Bavaria is tops in tourism. The Munich and Nuremberg trade fair centers stage events of international importance. The substantial growth of the corporate services industry yields considerable value.

Bavaria is a leader in classic and new media.

The fundamentals and trends confirm:

Bavaria provides the prerequisites for succeeding in business. The state is also on track to move forward successfully and play a leading role for and in Germany in the 21st century.

Bavaria — the location with a future

Bavaria: Dynamic, compelling and advantageous

■ **An unmatched location in Central Europe**

Bavaria is the hub for Europe's West-East and North-South trade. It is within convenient reach of all European business centers.

■ **Gateway to Central and Eastern Europe**

May 1, 2004 was an historic date for European integration: on this day, Cyprus and Malta as well as the Central and Eastern European states of the Czech Republic, Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia and Hungary officially joined the European Union.

Bavaria has played a major part in developing and enhancing German business relations with the countries of Central and Eastern Europe and over the past few years it has established itself as the turntable between East and West. With the enlargement of the EU to the East, Bavaria is taking up position at the very heart of the European Economic Area with its 455 million consumers and offering companies a secure location close to the new markets. Bavaria's know-how and contacts are bundled here in the Virtual East-West Competence Network of Bavaria (www.bavaria-cee.com).

■ **Growth leader in Europe**

Bavaria is Germany's No.1 growth region. The state's per capita gross domestic product of € 31,000 puts Bavaria in the vanguard of markets with the highest purchasing power in the world.

■ **Advanced energy, transportation and telecommunications infrastructure**

The first-class, business-oriented infrastructure throughout Bavaria responds to the needs of every investor.

■ **Highly-qualified, motivated employees**

The workforce derives its competence from the internationally — acclaimed dual vocational training, combining theory with on-the-job training, as well as the quality of higher education. Few locations in the world match the quality produced in Bavaria.

■ **World-renowned universities and research institutions**

11 universities, 17 universities of applied sciences, 3 major research facilities, 11 Max-Planck institutes and 7 Fraunhofer institutions make Bavaria a world leader in research. The depth of knowledge provides the best prerequisite for the development of new technologies and services.

■ **Strong partners all**

Global players and a dense network of small and medium-sized industrial, skilled crafts and service companies make up the Bavarian economy, a spectrum of competitive suppliers, customers and potential partners.

■ **High-tech clusters with a bright future**

Internationally and nationally Bavaria has emerged as a top-ranked participant in practically all new technologies — information and communications, biotechnology and genetic engineering, energy and environmental technology. Bavaria has an inviting environment for high-tech companies.

■ **Support services for potential investors**

Bavaria responds promptly to the specific information, consultation and support needs of companies interested in establishing themselves in Bavaria.

■ **Assertive economic policies**

Bavarian economic policy encourages: “New products, new firms, new markets.” In the global, ever-changing arena of competition the leitmotif sets the tone for a clear-cut, forward-looking strategy pursued in partnership with business.

■ **Work where others vacation**

Bavaria is Germany’s most popular vacation destination. Its high leisure value, magnificent scenery and a depth and diversity of cultural resources will not fail to meet the expectations of top personnel.

**Please contact us
for more information.**



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