

Letter to the shareholders 1/2007:

BAVARIA Industriekapital AG concluded the fiscal year 2006 with a record result.

Dear shareholders and business associates,

We look back on a very successful 2006. Group revenue soared 152% to over €332 million; the year-end net income of the Group Holding Company increased almost sevenfold to €13.8 million in 2006 (vs. €2.1 million in 2005). Net funds in the holding company at the end of 2006 were €19.2 million (previous year: €1.3 million) and in the Group the net cash position was approximately €55 million (previous year: €22 million). The €33 million improvement in financial resources result from net profits, minus the expenditure for five corporate acquisitions in 2006 (Steeltech Sarl., Kienle + Spiess GmbH, R+E Automatisierungstechnik GmbH, Elfotec AG and Rieter filament yarn activities) and €2 million paid in dividends, plus €12 million net funds raised through the IPO.

A glance at our stock price development shows the magnitude of how our shares have surpassed those of other companies which went public in the Entry Standard in 2006. The price of our share has, since the IPO on 26.1.2006, soared from €26 to €66 as of 29.12.2006. Our company's stock market value increased from €57 million to €146 million. However, in our opinion, even this significant rise in share price still does not adequately reflect the true value of our portfolio companies or the true prospects as a whole for our company. The reason we come to this conclusion is that the reported results do not include the profits of our entire subsidiaries and sub-subsidiaries. Due to regulatory auditing and statutory approval procedures of the full-year results in these companies, some of these companies' profits will not be attributed to and consolidated in the Group Holding Company until 2007. The reason for this delay is that, in contrast to many other groups, we do not conclude profit and loss transfer agreements with our subsidiaries.

On the basis of the strong profits from our business operations in 2006, the Management Board proposes paying €3 per share dividends - more than three times last year's dividend payments that were just shy of €1 per share. At a trading price of €66 per share, the dividend represents a 4.5% annual rate of return. This high yield is achieved without interfering with the company's high growth rates.

2006 Highlights: The acquisition on 18 June of Kienle + Spiess GmbH from Cogent, a joint venture in which Chorus plc was a 75% shareholder. Kienle + Spiess manufactures stamping and die-cast components for motors and transformers, mainly for the automotive industry. The company had sales of €225 million in 2006; it serves customers from five plants in the UK, Germany and Hungary and is the European market leader in its industry. Kienle+Spiess was a non-core activity in a big industrial group and showed all the problems typically associated with lack of corporate focus and dedication: inflated costs, particularly in the administration; high customer reject rates; and unnecessarily complex logistics due to lack of responsibility and accountability between the individual plants. The new management and the constructively cooperating works council were quickly able to conclude on the required workforce and overhead costs reduction. The discontinuation of one factory was successfully negotiated with the British trade union - and this step is currently being implemented. Establishing individual profit centers contributed to greater transparency and cost awareness at the individual plant levels. In parallel, the Toyota Manufacturing System, which focuses on continuous process and quality improvements, was launched and has already resulted in a significant reduction of reject rates. After a number of loss-making years, the company regained sustainable profitability already in the second half of 2006. The two managing directors, Dr. Schleede and Mr. Haage, are thus one step closer to their declared target of making this company a world-class stamping and die-cast supplier.

At the beginning of the year, BAVARIA Industriekapital AG acquired Steeltech Sarl from DBT GmbH, a 100% subsidiary of RAG. DBT GmbH continues to be Steeltech's most important customer, something which was secured through a three-year supply contract with the seller. This supply agreement also included giving some of the realised cost savings to the seller in the form of price reductions. Through this model, we positioned ourselves for the first time as a "contract manufacturer" for industrial concerns. Although it is common practice among automotive and the high tech manufacturers to concentrate on key competencies such as distribution, marketing and final assembly, and leave component manufacturing to subcontractors, this outsourcing concept is still in its infancy in traditional mechanical engineering. Steeltech has revenues of €50 million in 2006 and operates profitably.

At the end of the year, BAVARIA Group, in the form of an asset deal, acquired the machinery and plant division, as well as all employees, for producing synthetic continuous yarns from the Swiss-based Rieter Group. This business unit had a turnover of €30 million in 2006. The company supplies customers worldwide with extrusion systems for carpet manufacturing and

industrial yarns. Under this "carve-out", and with the support of a comprehensive set of service agreements, the key operations of the division – which was re-named SwissTex Winterthur AG – were secured. A considerable number of leasing contracts, as well as service-, licence- and agency agreements, were also finalised. At the same time, the seller - with its three subsidiaries - continues to be SwissTex's most important supplier. Renewed lines of credit, in combination with other financial guarantees, enabled the financing basis of the new company to be put on a solid foundation.

Other acquisitions in 2006 were R+E Automatisierungstechnik, a company operating in assembly automation and conveyor/feeding systems, and Elfotech AG, which produces toner cartridges for laser printers and copy machines from its two locations in Switzerland and Ireland.

Further reporting on the BAVARIA Group activities in equipment engineering and other industries (kitchen manufacturing & sales and IT services) will follow when the Group facts & figures are published on 10 April.

We would like to take this opportunity to expressly thank our Group employees – approximately 2,500 during the year – and particularly our managers for their successful work. We can assure our shareholders and business associates that we have solid confidence in the continued development of the BAVARIA Group Holding Company. Our thanks go out to you for the trust you have placed in us. Please do not hesitate to inform us about any suggestions, improvement proposals or information on potential acquisitions that you might have.

Best regards,

A handwritten signature in blue ink, appearing to read 'Reimar Scholz', with a stylized initial 'R' and a long horizontal stroke.

Reimar Scholz
Chief Executive Officer