

Letter to the shareholders

August 2007

Fellow shareholders and
business associates,

We can look back on a very successful first six months of 2007. The Group's sales revenue shot up 97% to over EUR 193 million mainly as a result of changes in the scope of consolidation. Total EBITDA of the operating subsidiaries improved from EUR 2,5 million to EUR 6,2 million - producing a marked rise in the operative earnings power. Group EBITDA in the first six months of 2007 decreased from the previous year's EUR 15,8 million to EUR 6,1 million. However, this was mainly influenced by the effects of consolidation. On the assumption of a constant investment portfolio, we in the Group reckon with operative EBITDA based on HGB (German Commercial Code) of at least EUR 22 million for the whole of 2007 (without realized acquisition profits).

Net cash in the holding company at the end of the first six months were EUR 18,8 million (previous year: EUR 19,2 million); in the Group itself they were at a figure of EUR 47,5 million (EUR 51,9 million as of 31/12/06). The EUR -4,4 million change in net cash is highly influenced by the EUR 6,6 million dividend payouts and a pronounced rise in inventory by EUR 5,9 million as a result of the favourable order situation.

The operative development of the Kienle + Spiess Group is particularly pleasing: the companies registered EBITDA of EUR 9,5 million (previous year: EUR -6,8 million) in the first six months of 2007. The expectation is for EBITDA of at least EUR 16 million for the Kienle + Spiess Group over the whole of 2007.

EBITDA on an HGB number basis in the first six months were EUR -2,0 million (previous year: EUR -0,3 million) for the equipment engineering companies (Langbein & Engelbracht, SwissTex, Hamba and Hering), which were included in the scope of consolidation as of 30 June 2007. This figure was principally affected by the negative EBITDA of SwissTex (EUR -2,7 million, not included the previous year) which was acquired in December 2006. The increase in deliveries in the second half of the year should see EBITDA of approx. EUR 7 million arising for our equipment engineering companies for the whole of 2007. Their order

intake in the first six months was EUR 70,7 million; comparatively, this represents a 54 % jump over the previous year.

The results of the other companies (Neef IT Solutions and Elfotec) with EBITDA of EUR -1,0 million (previous year: EUR -0,5 million) were not satisfactory. However in view of a significant cutback in jobs and the concentration of Elfotec - which was only acquired in December 2006 – on a single site, our expectation is for a marked rise in earnings in the second half of the year.

The first six months were also characterized by a number of sales and continued development of our holding structures. For instance, we disposed of Alma Küchen to its management and Paulmann & Crone GmbH to K3 Industries. Two more sales are planned for the third quarter.

In March 2007 Executive Board member Jan C. Pyttel stepped down for reasons of health. Mr. Robin Laik, Chief Financial Officer up to July 2007, left the company in that month. To deal more effectively with the increased requirements of our company size and significantly strengthen best practice interchange between the portfolio companies, our plans are ongoing to appoint a new Chief Operations Officer and a new Chief Financial Officer. The creation of a new Executive Board role for Operations should lead to an improved use of synergies between portfolio companies and a further rise of the earnings power. The purpose of launching a Business Operating System is to improve ongoing monitoring of the measures planned.

Personnel numbers have been substantially increased in order to continue and extend BAVARIA's successful acquisition activities. This strengthening of the M&A team will be reflected by an increase in additional company acquisitions in the second half of the year. In fact, we acquired ALMEC S.p.A. (Italy) in August 2007. This company manufactures aluminium diecast components for the automobile industry and recorded turnover of some EUR 100 million in 2006. A further acquisition has already been finalized and will, in all probability, become legally binding and be published over the next few weeks. All in all, we reckon on just falling short of doubling our current turnover by the end of the year.

We would like to take this opportunity of expressly thanking our employees in the Group – approx. 2,100 as of 30 June – and particularly our managers for their effective work.

We can assure our shareholders and business associates that we have every confidence in the development of the holding company. Our thanks go out to you for the trust you have placed in us. Please let us know about any suggestions, improvement proposals or hints on other transactions 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