November 2007

Dear Shareholders,
Dear Business Associates,

BAVARIA Industriekapital AG is continuing on its growth track: sales revenues in the Group increased by around 41% to more than EUR 291 million in the first nine months of 2007, mainly on the back of a change in the scope of consolidation. EBITDA in operating subsidiaries rose from EUR 10.2 million to EUR 11.5 million. Portfolio companies which have been included in our portfolio for less than one year (Elfotec AG, Swisstex AG and Almec S.p.A.) and have therefore not been fully turned around as yet contributed a total of EUR -3.9 million to the result.

In the first three quarters of 2007 Group EBITDA reached EUR 10.6 million. This figure had been about EUR 20 million higher in the previous year on the back of releasing negative goodwill (non-cash relevant). Under the assumption of a stable investment portfolio we are expecting operating EBITDA of around EUR 22 million (without releasing negative goodwill). Our positive outlook is based on traditionally higher profits generated by equipment engineering companies in the fourth quarter. This is also driven by double-digit million earnings from the sale of our investment Hamba Filltec on 15 October 2007.

At the end of the quarter, net cash in the holding amounted to EUR 18.9 million (previous year EUR 22.6 million) and at Group level reached EUR 30.1 million (EUR 51.9 million as of 31 December 2006). The change in net cash of EUR -21.8 million is the result of the dividend distribution of EUR 6.6 million as well as the first-time consolidation of ALMEC S.p.A, which is posting financial liabilities of EUR -17.3 million. These are the only financial liabilities in the Group.

Companies which have been in the portfolio longer are benefiting from the turnaround activities of BAVARIA Industriekapital AG: in the first nine months of 2007 Kienle + Spiess Group generated an EBITDA of EUR 14.2 million (previous year EUR 6.1 million). EBITDA for engineering companies included in the scope of consolidation as of 30 September 2007 (Langbein & Engelbracht, SwissTex, Hamba and Hering) returned the same EBITDA figure for the first nine months as in the previous year at EUR 0.4 million. This figure was impacted by the negative EBITDA of SwissTex (EUR -1.1 million) which was acquired in December 2006. We are expecting a significant increase in the EBITDA figures reported by our equipment engineering companies given higher order completion levels in the second half of the year on the back of risen order entry. In the first nine months this figure amounted to EUR 95.3 million – an increase of 36% year-on-year. Neef IT Solutions AG reached a balanced EBITDA result in the first nine months of the year (previous year EUR 0.7 million). Reductions in headcount taking effect in Q4 are going to contribute to improved results. The newly acquired companies Elfotec AG and Almec S.p.A. returned an EBITDA loss of EUR -2.8 million. Earnings are going to increase considerably at both companies in 2008. At Elfotec AG this is going to be the result of closing the Swiss production site effective Q4 and in the case of Almec S.p.A. on rolling-out the production improvements in excess of 30% achieved in one unit throughout the entire company. The French foundry group Teksid acquired on 3 October 2007 is not included in the figures being disclosed.

In addition to reporting on the development of business we would like to take this opportunity to take a brief glance at the key success factors of our business:

Revenue and earnings growth

Since BAVARIA Industriekapital AG was founded in 2003 sales revenues have increased by 110% on average. At the end of 2007, the sales revenues figure is forecast to reach around EUR 440 million. New investments are only consolidated from the point of their acquisition. Our successful turnaround business is reflected in the development of the results of our investments: in all our material investments EBITDA increased by a total of EUR 63 million[1] compared to one year before being acquired.

Increase in net cash

The benchmark for a successful turnaround is the change in net cash. The development of liquid assets less all financial liabilities is the only truly objective benchmark for success. Profits reported by companies are always driven by the subjective assessment of the value of assets acquired and the amount of required provisions for a looming turnaround. Many supposedly successful turnaround organizations have boosted their performance by taking hefty charges at the point of acquisition and later realized book gains. As long as the loss of liquidity continues there has been no operating improvement. The Enron disaster involved high book gains and a continuing loss of liquidity and should serve as a warning to every shareholder. Frequent changes in investment portfolios and acquisitions with negative goodwill offer additional leeway. In contrast to that, since 2004 net cash in the holding has increased from EUR 0.2 million to EUR 18.9 million as of 30 September 2007 in spite of all

[1] The figures posted for the companies disposed by 30 September 2007 (Alma, P&C, Steeltech) are EBITDA figures from 2006; the figures for the remaining companies (Hering, Hamba, Langbein & Engelbracht, Neef IT, K + S Group) are forecasts for 2007.

acquisitions. In total, the IPO only contributed EUR 4.6 million adjusted for dividend distributions to shareholders and share buy-backs.

Headcount development at portfolio companies

In many cases the alternative to a sale to BAVARIA is to close a distressed company, but after initial adjustments to headcount we have generally been able to increase the workforce. Since 2005 the workforce in our equipment engineering companies has increased from 319 to 337. At K + S Group and the remaining companies, headcount has only decreased slightly since 2005, down from 2,083 to 2,019. In the future we are expecting a marked increase in headcount.

Improved acquisition situation

The earnings lever in larger-scale acquisitions is ultimately higher than in smaller acquisitions. Input required for a turnaround is similar in every company, regardless of its size. New management has to be recruited, cost cutting potentials tapped and earnings sustainably improved with investments. Sales revenues of companies acquired in 2004 averaged only EUR 21 million, but increased to EUR 80 million in 2006 and reached EUR 150 million in 2007. This is also an expression of the reputation we have built with successful turnarounds.

Experienced management

We have learned form experience to focus on Group spin-offs and to fund restructuring measures mainly from reducing working capital. As a rule we enable management to participate in success, we closely monitor defined milestones and swiftly react if improvements in results are in doubt.

No assumption of losses

It is our policy not to install profit transfer agreements and not to accept any liability for losses in our portfolio companies. According to our philosophy, we are opposed to funding losses, because this is the only way to reinforce the understanding that a company has to face the market with its own resources. Companies receiving subsidies are not going to secure jobs in the long-term.

Risk management

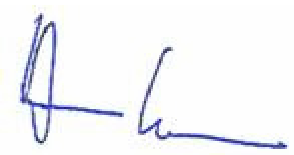
Our risk exposure to companies is limited to the price of the acquisition and the initial funding provided. We generally do not accept any guarantees or assume any liability. In addition to mandatory financial disclosures, we also closely monitor companies based on operating key figures. This enables us to react quickly if we notice any deviations. Our supervisory board is extremely active and well versed in the investment business and cooperates closely with our management board in the interest of our company.

In summary, we are of the opinion that our portfolio companies offer considerable potential to increase earnings. We can also see us continuing to grow considerably on the back of acquisitions. Our confidence is also expressed in the fact that we are going to continue to buy own shares based on the current authorization issued: effective 23 November a total of around 100,000 shares were bought back for EUR 1.3 million, about 1.5% of authorized capital.

We would like to take this opportunity to thank our employees in the Group – all 2,300 as of 30 September 2007 – and our managing directors for their successful 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, improvements or ideas on new transactions you might have.

Faithfully yours,



Reimar Scholz
Chief Executive Officer