

Letter to the shareholders

August 2008

Fellow shareholders and
business associates,

We can look back on a very successful first six months of 2008. The group turnover increased by 27 per cent to EUR 244 million in the first half of the year, while the operative result (EBITDA) of the subsidiary companies rose from EUR 6 million in the previous year to EUR 11 million. Not including the holdings in Faral S.p.A. and Xenterio GmbH acquired in 2008, the operative result was actually EUR 15 million. The cash flow from current business climbed within the group to EUR 27 million compared with EUR 3 million last year. Investments amounted to EUR 7 million, i.e. around 3 per cent of turnover for the first half of 2008. Despite a dividend payout of EUR 20 million, the financial resources in the group rose to EUR 54 million (previous year: EUR 48 million). With only EUR 1 million, the group is almost free of bank liabilities.

For the year as a whole we are expecting an operative result for all holdings of at least EUR 30 million. The sharp increase in profits is due mainly to the rapid and successful revitalisation of the holding companies.

The highest operative result was achieved in the division Series and Automotive with EUR 14 million. Due to the traditionally weaker first half of the year, the result for the segment Engineering was just about balanced. The company newly acquired in January 2008, Xenterio GmbH, a manufacturing services provider in Offenburg, is expected to achieve a balanced operative result by the second half of the year. Last year the company had losses of around EUR 15 million.

The strong increase in profits in the operative area confirms our holistic, sustainable revitalisation approach which allows us to invest in the future of our companies. As well as our managing directors, we would also like to thank all of the employees and in particular the employee representatives and unions who have fought hard in what were often difficult situations but always retained a sense of what was feasible. The improved profits, investments and additional jobs we achieved in the revitalised companies confirm the advantages which arise for both employees and investors from our activities.

We can assure our shareholders and business associates that we have every confidence in the development of the Bavaria group. We thank you for your trust. Please let us know any suggestions, improvements or ideas on new transactions 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