

Letter from the Executive Board

Dear shareholders,
dear business associates,

during the financial year 2008, BAVARIA Industriekapital AG was able to achieve an impressive improvement of its performance. Compared to the previous year, the group turnover rose by 18% to EUR 485.4 million, and the net income for the year amounted to EUR 23.2 million. The operating earnings before income, taxes, depreciation and amortisation (EBITDA) in the group increased by 28% to EUR 37.3 million. The EBITDA in the Series Manufacturing / Automotive segment amounted to EUR 18.4 million, while the operating income in the Plant Engineering segment of EUR 2.6 million was offset by the losses of EUR 2.9 million in the Business Services area. Nevertheless, the rapid restructuring success at the newly acquired companies is particularly pleasing: After operating losses at Xenterio GmbH (Business Services) and Faral S.p.A. (Series Manufacturing) in an amount of EUR 8.7 million during the first half of the year, the result in the second half was already positive with EUR 1.1 million. The performance trend at Fonderie du Poitou (Automotive) was less satisfactory. Following several years of losses prior to our takeover, we were able to raise the earnings in the first half of 2008 to EUR 4.1 million which corresponds to an EBITDA margin of approximately 8%. Unfortunately, the sales crisis hit us very hard here: The turnover in the second half of the year dropped roughly by one half and the operating loss came to EUR 2.6 million.

The positive trend does not only show up in the accounting results, but especially in the strong cash flow of the BAVARIA group. In 2008, a total of EUR 17.3 million was invested in tangible assets and the disbursements to shareholders added up to EUR 21.4 million, while the borrowed funds declined by EUR 8.3 million to a total of EUR 8.8 million in the group. In addition, the liquid funds increased by EUR 6.6 million to EUR 57.0 million. In view of this, we propose to the General Shareholders' Meeting to increase the dividend by 5% to EUR 3.15 per share. With the dividend payment of EUR 19.7 million in May 2009 and the stock buybacks in the amount of EUR 2.2 million in 2008 and 2009, an aggregate amount of EUR 51.8 million will have accrued to our shareholders since the initial public offering. In contrast, the proceeds from the IPO at the beginning of 2006 only amounted to EUR 12 million net.

In view of the general economic turmoil, the question how BAVARIA will fare commercially and financially is of particular interest. In several respects, BAVARIA Industriekapital AG is well positioned:

- Sound financial basis

Compared to many of our competitors, we have the advantage of being only slightly indebted and holding substantial cash balances. For reasons of precaution, we have secured additional factoring and bank credit lines in order to be better prepared for this crisis. None of our investee companies had to take out loans to finance the acquisition. On the contrary, we strive to reduce existing liabilities to banks as quickly as possible after the takeover. Thus, in the case of Faral S.p.A. for example, which we acquired in June, we were able to transform the liabilities to banks in the amount of EUR 2.6 million that existed at the time of the acquisition into a positive balance of EUR 1.4 million at the end of the year by means of better working capital management, and we accomplished this despite the fact that we also had to finance a social compensation plan at a cost of EUR 1.5 million following the takeover.

- Increased efforts in sales and marketing

At all of our affiliated companies, we have strengthened the sales department in order to exploit the financial weaknesses of our competitors and to gain market share. Especially during a crisis, it is crucial to the customers that their suppliers have a sound financial basis and are not adversely affected by a high interest and repayment load.

- Extensive investments in new technologies

Our rate of investment last year stood at approximately 3.6% of sales and our companies have used the last few years to further expand their technological leadership. Thus, we have created additional production capacity in Hungary at the Kienle + Spiess group (K+S) in order to benefit from the lower labour costs and to handle the catch-up demand in Eastern Europe. Investments were made in new technologies such as "Glulock" and in a standardised SAP enterprise resource planning system. At the headquarters in Sachsenheim, a new production hall with flexible manufacturing cells was built in

order to strengthen the project business. With K+S, we supply rotors to the major wind power systems manufacturers and key components for the hybrid engines of well-known German automakers. We also benefit from the trend to higher energy efficiency at our other investee companies: Langbein & Engelbracht with a new process for residual material drying and Hering with heat exchangers that are used in many industrial processes for energy recovery. Aluminium radiators made by Faral require lower flow temperatures to generate heat in living quarters and thus support power saving. At Xenterio, we stand to gain from the planned capital expenditures for new broadband technologies in the telecommunications sector. SwissTex has developed innovative solutions for the textile industry and beefed up its service operations in order to reduce the dependence on the project business.

- BAVARIA virtues are in demand

Particularly at times like these, the most important BAVARIA virtues initiative, thriftiness and responsibility are sought after. Only a managing director who perceives himself as an entrepreneur reacts in time to a slowdown in incoming orders by adjusting his costs through measures such as reduced working hours or reduction of the temporary staff. He does not wait for the placet of the top management of a group. The consistent quest to work as efficiently as possible has the effect that our managing directors, together with the workforce, are continuously working on increasing the inventory turnover, reducing the working capital and optimising the flow of production to lower the costs. In the team meetings of our managing directors, the numbers speak: Our BAVARIA Operating System focuses the attention on the essential key parameters in the individual divisions and the most important measures to improve the efficiency.

The majority of the share capital of BAVARIA Industriekapital AG is family-owned, and the company therefore places emphasis on a long-term time horizon in its investment decisions. Our belief in the future earning power of BAVARIA is expressed in the extensive share purchases by the Executive Board that were made in 2008 and in the repeated buybacks of its own stock by the company.

Our social commitment is shown in our high proportion of apprentices of 6.2 % in Germany and as well in a charitable contribution of a five-figure amount to Ashoka. The association supports social entrepreneurship worldwide and currently assists the initiative of Professor Meinrad Armbruster who is fighting one of the major injustices in Germany through the Eltern-AG: that children from poor, educationally deprived social strata have worse educational and career opportunities than children of affluent parentage.

We assure our shareholders and business associates that we feel very confident with respect to the further development of BAVARIA Industriekapital AG, despite the difficult economic environment. Particularly the opportunity to acquire new participations on attractive terms and conditions makes us optimistic.

We thank our shareholders and business associates for the confidence they have extended to us. We welcome any suggestions, improvement proposals and information on potential acquisitions.



Reimar Scholz
Spokesman of the Executive Board



Harald Ender
Member of the Executive Board, Operations