

Letter to the shareholders

1m November 2009

Fellow shareholders and
business associates,

Given that our companies were able to overcome the effects of the sales crisis in Q3 2009, we can confidently say that BAVARIA Industriekapital AG has managed to turn the corner. Admittedly, our turnover of roughly EUR 289 million represents a year-on-year decline of 23%. If we exclude our new acquisitions during the current year, the erosion in sales was actually as high as 37%. On the other hand, our EUR 0.9 million operating profit (EBITDA) from shareholdings in Q3 (Q2: a loss of EUR -1.9 million) is proof positive that our cost-cutting efforts are taking hold. Our turnover, meanwhile, once again rose slightly over the prior quarter (+2.5%, given a comparable basis of consolidation). Though the consolidated result declined significantly, this was due at least in part to non-cash consolidating entries in 2008, since the prior year's result had included de-consolidation effects of roughly EUR 19 million (2009: EUR -0.2 million). The state of our companies' financial resources also confirms the overall positive trend: After declining from EUR 60 million (year-end 2008) to EUR 42 million (Q2 2009) – mainly due to a dividend payout of EUR 20 million – financial resources have climbed back up to EUR 47 million. The level of debt remains essentially unchanged at EUR 20 million.

We are also encouraged by the growth in orders for our portfolio companies in the “Plant Engineering and Construction” segment, since experience has shown that this particular sector tends to be pro-cyclical. Case in point: The SwissTex company, which specialises in the manufacture of textile machinery, was able to acquire several major job orders for new equipment in recent months. The company looks forward to a significantly reinvigorated order volume in Q4 2009 as well.

Despite the still fraught economic environment, we expect to close business year 2009 with a positive result. Our confidence is reflected in our Managing Board's recent decision to once again repurchase own shares this year. (The Board is empowered to do so under a standing authorisation.) Given that the market capitalisation of our shares currently amounts to roughly EUR 70 million, we consider the holding company and its participations to be undervalued. This opens up attractive buying opportunities. We believe that one of the key bases for any reasonable valuation must be the sum total of the valuations of those companies that have proven to be profitable and viable. This analysis should be performed

independently of the individual money-losing companies, which are still in the process of reorganisation. Thus, if we exclude the three main money-losers, we arrive at a Q3 operating profit (EBITDA) of EUR 4.0 million.

We are also pleased with the increasing recognition being accorded to BAVARIA and certain of its companies in foreign countries. For instance, the French ambassador recently paid a visit to our headquarters in Munich, betokening our status as a significant investor in France, with six acquisitions under our belt thus far. We are also proud of having finalised our most recent French and Spanish takeovers with the express consent of the local work force, although we cannot rule out future job cuts as a result of the economic crisis. We ostensibly have a competitive advantage in those business segments where sellers are strongly interested in ensuring the takeover company's continued existence and stability, as well as maintaining its key supplier relationships. Thus, we were careful to secure the goodwill and support of key French customers well in advance of acquiring the Thyssenkrupp Sofedit works (in Auxi) and the Teksid Group.

As part of our constant striving to improve, we have decided to intensify our public relations efforts going forward. This will enhance our communication with shareholders and business partners, as well as strengthen our market image and reputation. We also believe it will prove especially important when it comes to financial reporting with regard to individual investee companies. We are of course always open to suggestions for further improvements or potentially promising new deals.



Reimar Scholz
Chief Executive Officer