Letter from the Executive Board

Dear Shareholders:

Fiscal year 2009 was a disappointing one for BAVARIA Industriekapital AG, with consolidated Group turnover declining year-on-year by EUR 81 million to EUR 404 million (-17%). If we exclude the companies newly consolidated in 2009, the drop in turnover was actually as high as -31%. Thus, the Group's consolidated surplus (net profit) fell by EUR 11.8 million to EUR 11.4 million (-51%).
The aggregate operating result from the Group's going investee companies before depreciation and amortisation (EBITDA) fell from EUR 18.1 million to minus EUR 5.8 million. Only 4 of our investee companies ended 2009 in the black, achieving an aggregate operating result of EUR 7.2 million. The total loss booked by the remaining 7 investee companies amounted to minus EUR 13.0 million.

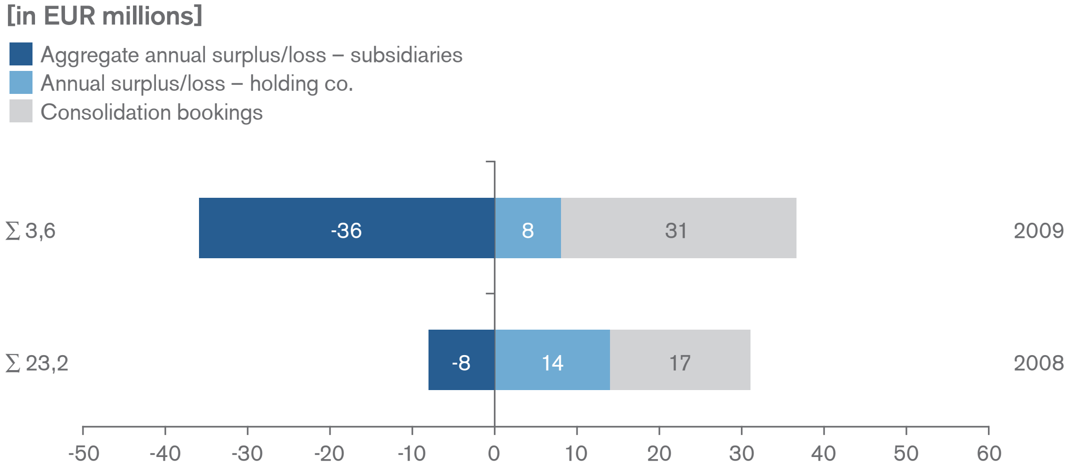
It would be overly simplistic to attribute this dramatic drop in performance to the sales crisis alone. After all, most of our portfolio companies have actively reduced their expenses, adjusting their fixed costs to reduced turnover. In the case of two of our investee companies, however, we must own up to fact that we acted too late in implementing the necessary change of management.
The following overview of the change in Group performance shows that our results were steadily improving until 2008; starting in Q4 2008, they began to deteriorate in the wake of insufficient reduction of fixed costs:

In %	2005	2006	2007	2008	2009
Aggregate operating result	100%	100%	100%	100%	100%
Other operating revenues	5%	5%	3%	3%	3%
Material expense	-61%	-59%	-61%	-60%	-56%
Personnel expense	-38%	-26%	-25%	-26%	-33%
Other costs	-15%	-13%	-15%	-13%	-18%
EBITDA	-8%	7%	3%	4%	-3%
Depreciation/write offs	-3%	-4%	-3%	-4%	-6%
EBIT	-11%	2%	0%	0%	-9%
Taxes	-2%	-1%	-1%	-2%	0%
Dissolution of negative goodwill	13%	6%	2%	3%	12%
Other significant consolidation effects & shareholding disposals	5%	3%	4%	4%	0%
Extraordinary result	1%	-1%	-4%	0%	-2%
Annual surplus (net profit)	7%	9%	1%	5%	1%

In this context, we regard operating result and cash flow (for the holding company as well as the investee companies) as two key indicators of the success of our restructuring measures. The consolidated Group result, on the other hand, is influenced to a great degree by non-cash items such as deconsolidations and the dissolution of negative goodwill.

The extraordinary result for 2009 includes restructuring expenses of EUR 5.4 million (prior year: EUR 1.9 million), which we allocated to two of our investee companies to cover possible claims under redundancy/social compensation plans. As a rule, however, our restructuring expenses (e.g. severance payments) are part of our ongoing operations and are thus included in the normal operating result.

In 2009, the aggregate annual loss of our going investee companies climbed by EUR 28.3 million to EUR 36.0 million. During the same period, the annual surplus of the holding company (AG) decreased by EUR 5.7 million to EUR 8.2 million. The 2009 consolidated Group profit was positive on balance thanks to consolidation bookings of EUR 31.4 million. This still represented a decline in relation to the prior year, however (from EUR 23.2 million to EUR 3.6 million). The following overview shows how the consolidated Group result was derived from the annual net profit of the individual subsidiaries:



Our recommendation to the General Shareholder's Meeting will be for a dividend payout of EUR 1.25/share or EUR 8 million in total. This means that almost all of the AG/holding company's annual surplus would be distributed to shareholders. The table below shows the trend of dividends paid as well as the annual surplus of the holding company (AG) over the past 5 years:

	2005	2006	2007	2008	2009
In EUR millions					
Annual surplus	2.1	13.8	23.2	13.9	8.2
Dividends	2.2	6.6	19.2	19.7	7.7
Per share:					
Annual surplus	0.42 (1)	2.09 (1)	3.50	2.17	1.29
Dividends	0.33 (1)	1.00 (1)	3.00	3.15	1.25
Number of shares	1,705,000	2,205,000	6,615,000	6,394,500	6,394,500

(1) figures adjusted for the share split in 2007

We have set ourselves the goal of boosting the value of BAVARIA shares by repurchasing treasury stock. Thus, we have reduced the number of outstanding shares from 6.6 million to 6.4 million since 2007. As of 31 March 2010, an additional 221,136 treasury shares were held by the AG/holding company. In the wake of our initial public offering, we had opted to give BAVARIA managers a particularly strong incentive to perform by offering stock options at the expense of our shareholders. Since then, our thinking has changed, however, and we have reacquired all the outstanding options granted to our present or former employees. In order to keep motivating our management to perform at peak levels, we have developed an alternative incentive plan: BAVARIA managers can now participate in the growth of our investee companies by acquiring shares/virtual ownership interests in said companies on favourable terms. These shares also entail the risk of loss, however.

The second key indicator of our success is the change in liquid funds, which include marketable securities. Not included in this figure were BAVARIA shares held as treasury stock in the amount of EUR 1.8 million (prior year: EUR 1.3 million). In 2009, liquid funds rose by EUR 13 million to EUR 76 million by year's end – a highly satisfactory trend. During the same period, bank liabilities rose by EUR 11 million to EUR 20 million. This means that net liquidity underwent a year-on-year increase of EUR 3 million to EUR 57 million. At roughly 26% of liquid funds, our debt ratio is exceptionally low in comparison to other companies.
Despite our operating losses, we were able to invest EUR 13.6 million in property, plant and equipment (investment ratio of 3.5%). These investments were financed primarily from the reduction in our investee companies' working capital in the wake of declining turnover. Also in 2009, a total of EUR 20.2 million was allocated to share buybacks and dividend distributions.
If we break down our operating performance by individual segments, we see that the sharpest decline occurred in the Series Manufacturers segment, which also has the highest share of fixed costs. While we had still been able to book an operating profit of EUR 18.4 million in the prior year, the 2009 result was a loss of EUR 3.1 million. This EUR 21.5 million drop in the operating result was the result of turnover declining by EUR 69 million down to EUR 259 million (-21%).
The Plant Engineering & Construction segment, by contrast, has a significantly more flexible cost structure since its activities tend to be project-based. Here, the operating result took a relatively small dip of EUR 2.2 million to end at 0.4 million, despite the fact that turnover plummeted by EUR 26 million down to EUR 48 million (-35%).
Thanks to the initial consolidation of the Hunsfos company, turnover in our Business Services segment rose by EUR 13 million to EUR 96 million. This segment's operating loss remained practically unchanged at EUR -3.1 million (prior year: EUR 3.0 million).

The table below summarises our 3 segments' operating performance over the past 5 years:

EBITDA in EUR millions	**2005**	**2006**	**2007**	**2008**	**2009**
Series Manufacturers	**-12.7**	**11.6**	**17.3**	**18.4**	**-3.1**
Plant Engineering & Construction	**2.8**	**9.8**	**3.3**	**2.6**	**0.4**
Business Services	**-0.9**	**-0.7**	**-2.4**	**-3.0**	**-3.1**
Total	**-10.8**	**20.7**	**18.2**	**18.1**	**-5.8**
AG (holding company)	**2.5**	**13.8**	**22.8**	**13.6**	**7.6**
Consolidation bookings	**21.5**	**16.9**	**-3.0**	**18.6**	**34.5**
Group result	**13.1**	**51.4**	**38.0**	**50.4**	**36.3**

A quarter-by-quarter breakdown of our segments' operating performance shows that our cost-cutting measures are gradually having an impact:

EBITDA in EUR millions	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Series Manufacturers	**-3.3**	**0.1**	**2.0**	**-1.9**	**-3.1**
Plant Construction	**-1.4**	**-1.1**	**0.2**	**2.7**	**0.4**
Business Services	**-0.2**	**-0.8**	**-1.4**	**-0.8**	**-3.1**
Total	**-4.9**	**-1.9**	**0.8**	**0.1**	**-5.8**

We fully expect the positive trend of H2 2009 to continue into 2010. We also expect that most of our investee companies will be able to achieve operating profits, thanks to the measures already taken to cut fixed costs. Insofar as turnover rises again in 2010 – as it is forecast to do – this will only help to boost the operating profits ultimately achieved. Meanwhile, our restructuring of the companies newly acquired in 2009 (Osny, tech-FORM, Austria Druckguss and the 2 Spanish aluminium foil producers) is off to a promising start. After booking aggregate operating losses of EUR 3.7 million in 2009, these companies are expected to make a net positive contribution to the bottom line in 2010.

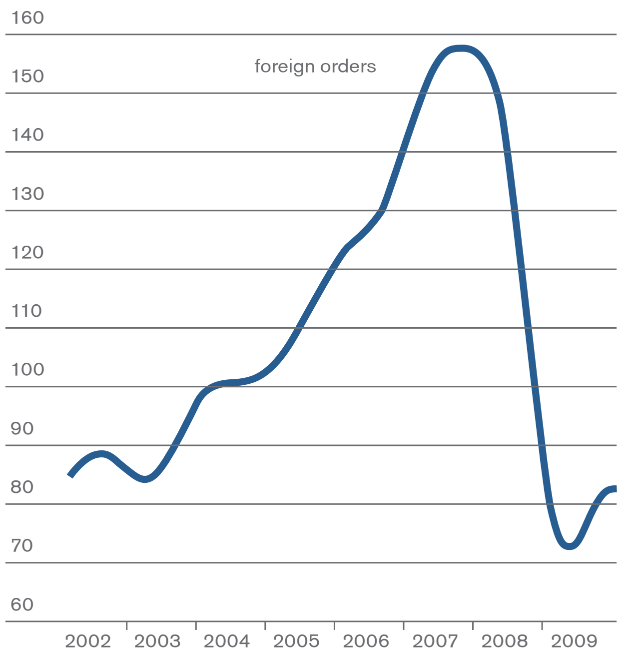
A few general remarks: Our business consists of two main lines: company restructuring and asset management. We are always on the lookout for CEOs who manage a company as if it were their own, taking business decisions from the vantage point of view of a proprietor. Since we must often come to grips with heavy operative losses right after an acquisition, our initial expenditure of time and effort is very high. It takes time for the takeover company's workforce to grow accustomed to the heightened accountability that is essential to the success of a mid-sized firm.

We place particular emphasis on acquiring subsidiaries whose management has been neglected by their former corporate parent, and whose operations have had a purely manufacturing character (e.g. our plants in Spain, Norway and Italy). We then give these investee companies additional responsibility for turnover and profits.

Once we have conducted an initial management assessment and implemented our tried-and-tested "BAVARIA Operating System", we expect our investee companies to be able to operate with a high degree of independence over the long term. A key to our success is that, once we have restructured an investee company, we interfere as little as possible with its subsequent operations. As our investee companies become healthy and profitable, our role increasingly becomes that of an asset manager, one whose main task consists in deciding on the allocation of available liquid funds. This not only includes setting the investment ratio, but above all deciding whether to acquire additional (also profitable) lines of business, with the existing investee company serving as an integration platform.

As a rule, we do not plan the resale of investee companies in advance. Rather, we see ourselves as a long-term investor, one who prefers to reap dividends than having to manage gains on disposal in a time deposit account. While the operating results of our investee companies are an indicator of our successful restructuring activities and a valuation benchmark for our investment portfolio, the annual surplus of the holding company (AG) reflects our success in managing our assets.

In recent years, successful restructurings in the industrial sector were significantly facilitated by a favourable environment of rising order volumes, as the following chart illustrates (based on data from the VDMA/German Systems Engineering Association):



Order intake German engineering industry
Index adjusted for price changes, based on turnover 2005 = 100

From 2003 to middle of 2008, order volume rose by a total of 400%. By contrast, there was a drop of 36% in 2009 alone! It goes without saying that restructuring is much easier when a company's order backlog is rising. We doubt that such a golden 7-year period will reoccur anytime soon. This will make any long-term restructuring activities significantly more challenging.

On the other hand, we have managed to build up an 8-year track record of selecting and successfully reorganising over 20 different companies. This experience will stand us in good stead as we strive to sustain our success in this new environment. The personal visit paid us by the French ambassador as well as our meetings with government officials in Zaragoza, Spain and Milan, Italy are proof positive that our restructuring intervention is increasingly valued and in demand, bringing as it does the preservation of imperilled jobs.

BAVARIA Industriekapital AG is a majority-family-owned company and therefore makes its investments on the basis of a long-term horizon. Our confidence in the future profitability of BAVARIA is reflected in the extensive purchases of Company shares by the Executive Board (in 2008 and 2009) as well as the ongoing buyback of own shares by the Company itself.

Our social commitment is borne out by our high training ratio (6.2% in Germany alone) as well as by our five-figure donation to Ashoka, a charitable association that supports social entrepreneurship worldwide. One example is the current initiative by Mr. Stenger to support a private school in Munich that helps parentless immigrant children earn their secondary education certificate.

We would to like to assure all of our shareholders and business partners that we are extremely confident about the future success of BAVARIA Industriekapital AG, the adverse economic climate notwithstanding. Current opportunities to acquire new investee companies on favourable terms make us especially optimistic.

We would like to thank you for the trust you have placed in our firm. If you have any proposals, suggestions for improvement or leads for new acquisitions, please do not hesitate to share them with us.

Yours sincerely,

Reimar Scholz
Spokesman of the Executive Board

Harald Ender
Member of the Executive Board, Operations