

Letter to the shareholders

August 2010

Fellow shareholders and
business associates,

The first half of 2010 was a positive one for BAVARIA Industriekapital AG, with Group turnover amounting to EUR 250 million, a 34% increase over the prior year (EUR 187 million).

During the same period, the operating result (EBITDA) of the Group's active subsidiaries climbed from EUR -6.8 million to EUR 3.5 million, a year-on-year improvement of more than EUR 10 million. Moreover, the Group's Q2 2010 operating result of EUR 2.9 million is the highest since the beginning of the sales crisis, as the following tables - showing turnover and quarterly results since the start of 2009 - illustrate:

Turnover in EUR million	Q1/2009	Q2/2009	Q3/2009	Q4/2009	Q1/2010	Q2/2010
Series Manufacturers	63.0	57.9	68.1	70.3	60.3	64.1
Plant Engineering and Construction	8.5	7.2	10.1	22.3	5.6	18.8
Business Services	24.3	26.5	23.9	21.5	49.5	51.9
Total	95.8	91.6	102.1	114.1	115.4	134.8

EBITDA in EUR million	Q1/2009	Q2/2009	Q3/2009	Q4/2009	Q1/2010	Q2/2010
Series Manufacturers	-3.3	0.1	2.0	-1.9	4.3	4.4
Plant Engineering and Construction	-1.4	-1.1	0.2	2.7	-2.2	1.4
Business Services	-0.2	-0.8	-1.4	-0.8	-1.5	-2.9
Total	-4.9	-1.9	0.8	0.1	0.6	2.9

Thus, the "Series Manufacturers" segment was once again able to boost its quarterly result, which amounted to EUR 4.4 million in Q2 2010. The "Plant Engineering and Construction" division also had a positive second quarter, earning a result of EUR 1.4 million, whereby the strongest increase is not expected to take place until the second half of the year, due to the delivery cycle. On the other hand, the Q2 result of the "Business Services" division was encumbered by such factors as the operating losses of Xenterio GmbH, which amounted to EUR -2.7 million in Q2 alone. If we factor out this particular company, we arrive at a consolidated operating result of EUR 5.7 million in Q2. On an annualized basis, this translates into an operating result of ca. EUR 23 million for the BAVARIA Group.

The BAVARIA Group had cash and cash equivalents of EUR 59 million as at 30 June 2010, which means a reduction of EUR 11 million in comparison to the first quarter of the year mainly due to our payment of the dividend of EUR 8 million in June 2010.

Following completion of our acquisition of TriStone Flowtech (formerly Trelleborg Fluid Solutions) on 2 July 2010, the turnover for the year as a whole is expected to climb to roughly EUR 600 million.

We still have a very positive assessment of the market for making new acquisitions at attractive terms. As the recent case of TriStone Flowtech demonstrates, we are at a distinct advantage when it comes to persuading conglomerate sellers who are particularly selective in choosing a buyer for their subsidiaries: To clinch the aforementioned deal, we had to make sure that not just the French labour unions but also the key automotive customers were completely sold on the future viability of our strategy. After all, we will remain connected to the seller for years to come via a nexus of supplier and sourcing relationships.

We can assure our shareholders and business associates that we have every confidence in the development of the BAVARIA group in spite of the tense economic conditions. We are especially optimistic about the possibility to complete new acquisitions at attractive terms. We thank you for your trust. Please let us know any suggestions, improvements or ideas on new transactions you might have.

A handwritten signature in blue ink, appearing to read 'Reimar Scholz', with a stylized flourish at the end.

Reimar Scholz
Chief Executive Officer