

Letter to the shareholders

In November 2010

Fellow shareholders and
business associates,

Changes for the better continued gaining momentum in Q3 and enabled BAVARIA Industriekapital AG to achieve Group turnover of EUR 434 million for the nine-month reporting period of 2010. This is an increase of 50% compared to the same period a year ago (EUR 289 million). Also during this period, the operating results (EBITDA) of the Group's active subsidiaries posted a year-on-year improvement of EUR 18.3 million to EUR 12.4 million. Turnover in Q3 alone amounted to EUR 184 million, while the operating result was EUR 8.9 million.

The following overview provides a very instructive picture of how the EBITDA has performed by quarter for the last two years since July 2008:

Quarterly figures (not year-to-date)

EBITDA in EUR million	Q3/ 2008	Q4/ 2008	Q1/ 2009	Q2/ 2009	Q3/ 2009	Q4/ 2009	Q1/ 2010	Q2/ 2010	Q3/ 2010
Series Manufacturers	4.0	-0.1	-3.3	0.1	2.0	-1.9	4.3	4.4	8.5
Plant Engineering & Constr.	2.1	0.8	-1.4	-1.1	0.2	2.7	-2.2	1.4	1.7
Business Services	1.7	-1.3	-0.2	-0.8	-1.4	-0.8	-1.5	-2.9	-1.3
Total	7.9	-0.5	-4.9	-1.9	0.8	0.1	0.6	2.9	8.9

The graphic clearly illustrates the decline in results since the start of the sales crisis in October 2008, and the later recovery over the course of 2010. In addition to a strong increase in results in the Series Manufacturers division, it also shows the decrease in losses in the Business Services division. Here we expect to at least achieve balanced operating results following the drastic, two-thirds reduction in personnel at the main loss maker Xenterio GmbH. This downsizing became necessary as turnover declined by more than two thirds following the loss of several important customers due to the sales crisis.

At any rate, all companies acquired since January 2009 have reached business breakeven, and none of the earlier loss makers were in danger of insolvency during those economically difficult times. This is all the more remarkable considering that BAVARIA Industriekapital AG traditionally tends to acquire and operationally overhaul unprofitable companies, which is something that generally involves additional losses at least for while.

The following overview carries the Group operating EBITDA over to Group net income:

Reconciliation of EBITDA to the Group Net Income

	year-to-date figures in EUR million	Quarterly figures in EUR million
EBITDA of operating portfolio companies	12.4	8.9
Depreciation and Amortization	-16.0	-6.0
Interest income and expense	-4.1	-1.5
Taxes	-3.4	-1.3
Extraordinary result	-3.0	-4.5
<i>Consolidation bookings:</i>		
Dissolution of negative goodwill	13.7	4.7
Other consolidation entries	-0.4	-0.1
Group Net Income	-0.8	0.2

Group net income is much less than the operating result due to depreciation, interest expenses and taxes paid – a situation that is not offset even by the consolidation entries. What is very encouraging, however, is that BAVARIA Industriekapital AG has been generating positive annual net income since third quarter – even after accounting for extraordinary expenses from the downsizing-related social plan at Xenterio GmbH.

We believe that our performance is best reflected in the following overview showing the quarterly operating results of the profitable companies (the lower line showing the number of profitable companies in the total number of companies):

Quarterly figures (not year-to-date)

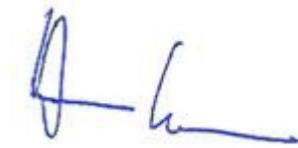
	Q3/ 2008	Q4/ 2008	Q1/ 2009	Q2/ 2009	Q3/ 2009	Q4/ 2009	Q1/ 2010	Q2/ 2010	Q3/ 2010
EBITDA in EUR million	9.7	3.3	0.8	2.1	4.2	4.5	7.3	7.2	10.6
Number (Total no. Comp.)	5 (7)	3 (7)	2 (8)	3 (9)	7 (11)	5 (11)	7 (13)	8 (14)	9 (14)

Worth highlighting is the fact that of fourteen companies, nine are once again operating profitably. Extrapolated out to a full year, the quarterly results of those nine companies of EUR 10.6 million show an annual EBITDA of EUR 42.4 million, which reflects the Group's current run rate. The market capitalisation of BAVARIA Industriekapital AG, currently some EUR 80 million, is nearly twice our annual run rate. This also explains why we continue to buy back our own shares.

Cash and cash equivalents within the BAVARIA Group totaled EUR 59.7 million as at 30 September 2010, following EUR 58.9 million in the previous quarter and EUR 47.1 million a year ago. The special financial charges that arose in Q3 involved expenses for the social

plan of Xenterio GmbH, and the payment of a purchase price installment for the TriStone Group that was acquired in July.

Finally, we want to stress that we are still very confident about the further development of BAVARIA Industriekapital AG, despite what continues to be a fragile economic environment. We also have a favourable view about the possibility of acquiring new companies at attractive terms. We welcome and will address any ideas, suggestions for improvement, and information about new transactions that you may have. Thank you for the trust and confidence that you have placed in us.



Reimar Scholz
Chief Executive Officer