



BAVARIA Industriekapital AG  
Munich

Quarterly Report as of 30.09.2007

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## Letter to shareholders

November 2007

Dear Shareholders,

Dear Business Associates,

BAVARIA Industriekapital AG is continuing on its growth track: sales revenues in the Group increased by around 41% to more than EUR 291 million in the first nine months of 2007, mainly on the back of a change in the scope of consolidation. EBITDA in operating subsidiaries rose from EUR 10.2 million to EUR 11.5 million. Portfolio companies which have been included in our portfolio for less than one year (Elfotec AG, Swisstex AG and Almec S.p.A.) and have therefore not been fully turned around as yet contributed a total of EUR -3.9 million to the result.

In the first three quarters of 2007 Group EBITDA reached EUR 10.6 million. This figure had been about EUR 20 million higher in the previous year on the back of releasing negative goodwill (non-cash relevant). Under the assumption of a stable investment portfolio we are expecting operating EBITDA of around EUR 22 million (without releasing negative goodwill). Our positive outlook is based on traditionally higher profits generated by equipment engineering companies in the fourth quarter. This is also driven by double-digit million earnings from the sale of our investment Hamba Filltec on 15 October 2007.

At the end of the quarter, net cash in the holding amounted to EUR 18.9 million (previous year EUR 22.6 million) and at Group level reached EUR 30.1 million (EUR 51.9 million as of 31 December 2006). The change in net cash of EUR -21.8 million is the result of the dividend distribution of EUR 6.6 million as well as the first-time consolidation of ALMEC S.p.A, which is posting financial liabilities of EUR -17.3 million. These are the only financial liabilities in the Group.

Companies which have been in the portfolio longer are benefiting from the turnaround activities of BAVARIA Industriekapital AG: in the first nine months of 2007 Kienle + Spiess Group generated an EBITDA of EUR 14.2 million (previous year EUR 6.1 million). EBITDA for engineering companies included in the scope of consolidation as of 30 September 2007

(Langbein & Engelbracht, SwissTex, Hamba and Hering) returned the same EBITDA figure for the first nine months as in the previous year at EUR 0.4 million. This figure was impacted by the negative EBITDA of SwissTex (EUR -1.1 million) which was acquired in December 2006. We are expecting a significant increase in the EBITDA figures reported by our equipment engineering companies given higher order completion levels in the second half of the year on the back of risen order entry. In the first nine months this figure amounted to EUR 95.3 million – an increase of 36% year-on-year. Neef IT Solutions AG reached a balanced EBITDA result in the first nine months of the year (previous year EUR 0.7 million). Reductions in headcount taking effect in Q4 are going to contribute to improved results. The newly acquired companies Elfotec AG and Almec S.p.A. returned an EBITDA loss of EUR -2.8 million. Earnings are going to increase considerably at both companies in 2008. At Elfotec AG this is going to be the result of closing the Swiss production site effective Q4 and in the case of Almec S.p.A. on rolling-out the production improvements in excess of 30% achieved in one unit throughout the entire company. The French foundry group Teksid acquired on 3 October 2007 is not included in the figures being disclosed.

In addition to reporting on the development of business we would like to take this opportunity to take a brief glance at the key success factors of our business:

#### Revenue and earnings growth

Since BAVARIA Industriekapital AG was founded in 2003 sales revenues have increased by 110% on average. At the end of 2007, the sales revenues figure is forecast to reach around EUR 440 million. New investments are only consolidated from the point of their acquisition. Our successful turnaround business is reflected in the development of the results of our investments: in all our material investments EBITDA increased by a total of EUR 63 million<sup>1</sup> compared to one year before being acquired.

#### Increase in net cash

The benchmark for a successful turnaround is the change in net cash. The development of liquid assets less all financial liabilities is the only truly objective benchmark for success. Profits reported by companies are always driven by the subjective assessment of the value of assets acquired and the amount of required provisions for a looming turnaround. Many supposedly successful turnaround organizations have boosted their performance by taking hefty charges at the point of acquisition and later realized book gains. As long as the loss of liquidity continues there has been no operating improvement. The Enron disaster involved

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<sup>1</sup> The figures posted for the companies disposed by 30 September 2007 (Alma, P&C, Steeltech) are EBITDA figures from 2006; the figures for the remaining companies (Hering, Hamba, Langbein & Engelbracht, Neef IT, K + S Group) are forecasts for 2007.

high book gains and a continuing loss of liquidity and should serve as a warning to every shareholder. Frequent changes in investment portfolios and acquisitions with negative goodwill offer additional leeway. In contrast to that, since 2004 net cash in the holding has increased from EUR 0.2 million to EUR 18.9 million as of 30 September 2007 in spite of all acquisitions. In total, the IPO only contributed EUR 4.6 million adjusted for dividend distributions to shareholders and share buy-backs.

#### Headcount development at portfolio companies

In many cases the alternative to a sale to BAVARIA is to close a distressed company, but after initial adjustments to headcount we have generally been able to increase the workforce. Since 2005 the workforce in our equipment engineering companies has increased from 319 to 337. At K + S Group and the remaining companies, headcount has only decreased slightly since 2005, down from 2,083 to 2,019. In the future we are expecting a marked increase in headcount.

#### Improved acquisition situation

The earnings lever in larger-scale acquisitions is ultimately higher than in smaller acquisitions. Input required for a turnaround is similar in every company, regardless of its size. New management has to be recruited, cost cutting potentials tapped and earnings sustainably improved with investments. Sales revenues of companies acquired in 2004 averaged only EUR 21 million, but increased to EUR 80 million in 2006 and reached EUR 150 million in 2007. This is also an expression of the reputation we have built with successful turnarounds.

#### Experienced management

We have learned from experience to focus on Group spin-offs and to fund restructuring measures mainly from reducing working capital. As a rule we enable management to participate in success, we closely monitor defined milestones and swiftly react if improvements in results are in doubt.

#### No assumption of losses

It is our policy not to install profit transfer agreements and not to accept any liability for losses in our portfolio companies. According to our philosophy, we are opposed to funding losses, because this is the only way to reinforce the understanding that a company has to face the market with its own resources. Companies receiving subsidies are not going to secure jobs in the long-term.

## Risk management

Our risk exposure to companies is limited to the price of the acquisition and the initial funding provided. We generally do not accept any guarantees or assume any liability. In addition to mandatory financial disclosures, we also closely monitor companies based on operating key figures. This enables us to react quickly if we notice any deviations. Our supervisory board is extremely active and well versed in the investment business and cooperates closely with our management board in the interest of our company.

In summary, we are of the opinion that our portfolio companies offer considerable potential to increase earnings. We can also see us continuing to grow considerably on the back of acquisitions. Our confidence is also expressed in the fact that we are going to continue to buy own shares based on the current authorization issued: effective 23 November a total of around 100,000 shares were bought back for EUR 1.3 million, about 1.5% of authorized capital.

We would like to take this opportunity to thank our employees in the Group – all 2,300 as of 30 September 2007 – and our managing directors for their successful work.

We can assure our shareholders and business associates that we have every confidence in the development of the holding company. Our thanks go out to you for the trust you have placed in us. Please let us know about any suggestions, improvements or ideas on new transactions you might have.

Faithfully yours,



Reimar Scholz  
Chief Executive Officer

## Group Key Figures

	30.09.2007	30.06.2007	31.12.2006	30.09.2006
<b>Key earnings figures in EUR million</b>				
Group turnover	291,9	193,2	332,6	207,5
EBITDA	10,6	6,1	51,3	30,4
- includes realized acquisition profits	3,2	3,2	19,2	8,0
Consolidated net income	1,8	0,9	31,5	17,9
<b>Key balance sheet figures in EUR million</b>				
Equity	56,1	55,9	61,2	47,0
Total assets	247,9	210,1	232,4	231,7
Fixed assets	58,4	47,7	56,1	61,1

## The Share

Number of shares	6.615.000
Share type	Bearer share certificates
Share capital	EUR 6.615.000
Voting rights	Each share has a vote entitlement
WKN	260555
ISIN	DE0002605557
Stock exchange code	B8A
Stock exchange segment	Entry Standard
Fiscal year	Same as calendar year
Accounting	In acc. with HGB (Commercial Code)
Designated sponsor	Concord Effekten AG
Announcements	Electronic Bundesanzeiger (German Federal Gazette)
Top price (03.01.2007)	EUR 25,00
Lowest price (26.09.2007)	EUR 12,60
Closing price (28.09.2007)	EUR 12,90
Market capitalization (28.09.2007)	EUR 85,3 million
Earnings per share	EUR 14,30 (fiscal year 2006) <sup>1)</sup>
Dividend per share	EUR 3,00 (fiscal year 2006) <sup>2)</sup>

<sup>1</sup> Before share split 1:3 of August 2007: now equal to EUR 4,77 per share

<sup>2</sup> Before share split 1:3 of August 2007: now equal to EUR 1,00 per share

## Consolidated Profit And Loss Account: 01 January – 30 September 2007

	<b>30. Sept 2007</b>		<b>30. Sept 2006</b>	
	TEUR	TEUR	TEUR	TEUR
1. Sales	291.892		207.457	
2. Increase or reduction of inventories in finished and non-finished products	9.830		9.778	
3. Other work capitalized	<u>5</u>		<u>337</u>	
		301.726		217.572
4. Other operating income		12.238		28.307
5. Cost of materials				
a) Raw materials, supplies and merchandise for resale	-160.802		-95.711	
b) Purchased services	<u>-21.949</u>		<u>-34.211</u>	
		-182.751		-129.921
6. Personnel costs				
a) Wages and salaries	-62.038		-46.871	
b) Social insurance and other social charges and benefits pensions	<u>-15.933</u>		<u>-11.845</u>	
		-77.971		-58.716
7. Depreciation on intangible assets of the fixed assets and property, plant & equipment		-8.213		-6.361
8. Other operating expenses		-42.681		-26.829
9. Other interest and similar income		1.398		516
10. Interest and similar expenses		-420		-504
11. Depreciation on financial assets and on marketable securities of the current assets		<u>-45</u>		<u>0</u>
12. Profit/loss on ordinary operations		3.282		24.065
13. Extraordinary income	0		0	
14. Extraordinary expenses	<u>0</u>		<u>0</u>	
15. Extraordinary result		0		0
16. Tax on income and earnings		-1.403		-5.346
17. Other taxes		<u>-98</u>		<u>-796</u>
<b>18. Net income</b>		<b>1.781</b>		<b>17.923</b>
19. Net profit carried forward from previous year		41.041		13.802
20. Dividends		-6.615		-2.161
21. Adjustment in reserves		-581		0
22. Profit relating to other shareholders		<u>1.731</u>		<u>-199</u>
<b>23. Consolidated profit</b>		<b><u>37.357</u></b>		<b><u>29.366</u></b>

## Consolidated Balance Sheet as of 30 September 2007

### Assets

	30. Sept 2007		30. Sept 2006	
	TEUR	TEUR	TEUR	TEUR
<b>A. Fixes assets</b>				
I. Intangible assets				
1. Patents, trademarks, licenses and similar rights	989		507	
2. Goodwill	<u>6.573</u>		<u>8.521</u>	
		7.562		9.028
II. Property, plant & equipment				
1. Land, leasehold rights and buildings incl., buildings on leased land	18.972		24.769	
2. Machinery and equipment	24.024		23.032	
3. Other equipment, plant and office equipment	2.805		2.785	
4. Advanced payments and construction-in-progress	<u>4.222</u>		<u>1.412</u>	
		50.024		51.998
III. Financial assets				
1. Shareholdings in affiliated companies	776		101	
2. Investments	9		0	
3. Other loans	<u>0</u>		<u>1</u>	
		785		103
		<b>58.371</b>		<b>61.128</b>
<b>B. Current assets</b>				
I. Inventories				
1. Raw materials and supplies	23.086		25.125	
2. Work-in-progress	28.764		26.675	
3. Finished products and merchandise	16.205		13.838	
4. Advanced payments	<u>1.783</u>		<u>762</u>	
		69.837	0,00	66.399
II. Account receivables and other assets				
1. Account receivables from trade and affiliated companies	59.950		49.503	
2. Other assets	<u>10.814</u>		<u>8.393</u>	
		70.765		57.897
III. Marketable securities				
1. Treasury stock		581		0
IV. Cash and cash equivalent		<u>47.666</u>		<u>45.403</u>
		<b>188.849</b>		<b>169.699</b>
<b>C. Prepaid expenses</b>		688		825
		<b>247.909</b>		<b>231.652</b>

## Equity and liabilities

	30. Sept 2007		30. Sept 2006	
	TEUR	TEUR	TEUR	TEUR
<b>A. Equity</b>				
I. Subscribed capital		6.615		2.205
II. Capital reserve		8.385		12.795
III. Revenue reserves		587		6
1. Restricted reserve	6		6	
2. Reserve for treasury stock	581			
IV. Difference from currency translation		974		33
V. Offsetting item for holdings of other shareholders		2.139		2.616
VII. Consolidated profit		<u>37.357</u>		<u>29.366</u>
		<b>56.057</b>		<b>47.020</b>
<b>B. Difference from consolidation of capital (acquisition profits)</b>		8.488		19.950
<b>C. Special reserve with an equity portion</b>		0		54
<b>D. Accruals</b>				
1. Accruals for pensions and similar commitments	54.643		52.488	
2. Tax reserves	5.078		9.988	
3. Other accruals	<u>27.897</u>		<u>28.653</u>	
		<b>87.618</b>		<b>91.128</b>
<b>E. Liabilities</b>				
1. Debt due to banks	17.593		2.058	
2. Advanced payments received on orders	22.629		14.756	
3. Trade payables	42.225		41.784	
4. Notes payables	0		380	
5. Other liabilities	<u>10.006</u>		<u>11.961</u>	
		<b>92.453</b>		<b>70.939</b>
<b>F. Deferred income</b>		<b>3.293</b>		<b>2.561</b>
		<u><b>247.909</b></u>		<u><b>231.652</b></u>

## Development of Group Equity

<b>TEUR</b>	<i>Subscribed capital</i>	<i>Capital reserve</i>	<i>Revenue reserves</i>	<i>Difference from currency translation</i>	<i>Offsetting item for holdings of other shareholders</i>	<i>Consolidated profit</i>	<i>Group equity</i>
<b>31. December 2006</b>	2.205	12.795	6	1.413	3.748	41.040	<b>61.207</b>
Net profit 30.09.2007						1.781	1.781
Dividend pay-out						-6.615	-6.615
Capital increase	4.410	-4.410					0
Adjustment in retained earnings			581			-581	0
Foreign currency differences				-439			-439
Shares of other partners					-1.609	1.732	123
<b>30. September 2007</b>	6.615	8.385	587	974	2.139	37.357	<b>56.057</b>

## Notes to Quarterly Report

### **Accounting and Valuation Techniques**

These consolidated financial statements have been drawn up on accordance with the valid HGB (German Commercial Code) and were not subject to the audit. The interim report has not been changed in the accounting and valuation techniques compared with the financial statements in fiscal year 2006.

### **Scope of Consolidation**

The consolidated financial statements include BAVARIA Industriekapital AG as the parent company, and affiliated companies in which BAVARIA Industriekapital AG either directly or indirectly has the majority of the voting rights or in which direct control is handled in another way. Ten subsidiaries have not been included in the consolidation, mainly consisting of shell companies without operational business. Rifometal S.p.A., Nusco/ Italy, is not consolidated, since this portion of shares is exclusively on the plan for resale.

The scope of consolidation has changed as follows in comparison to consolidated financial statements as of 31 December 2006:

- Steeltech s.a.r.l. was deconsolidated as of 01 April 2007.
- alma Holding GmbH and alma Küchen GmbH & Co. KG were sold on 13 June 2007 and were deconsolidated as of 31 May 2007.
- Bavariaring 0405 AG was sold on 14 June 2007 and was deconsolidated as of 31 May 2007.
- In April 2007, further 25% of Bavaria Chemicals GmbH, and thus of Elfotec AG and Elfotec Ltd., were acquired. The consolidation method was changed from pro-rate-consolidation to full consolidation in this interim financial statement.
- ALMEC S.p.A. was consolidated on 1 August 2007 for the first time.

## Notes to Individual Balance Sheet and P&L Items

### Goodwill from consolidation of capital

Development as of 30 September 2007 in EUR thousands

Book value 31.12.2006	Addit.	Dissol.	Final- consolidation	Book value 30.09.2007
6.696	479	-595	-7	6.573

Development as of 30 September 2006 in EUR thousands

Book value 31.12.2005	Addit.	Dissol.	Final- consolidation	Book value 30.09.2006
1.381	7.460	-320	0	8.521

### Subscribed capital

As of 30 September 2007, the nominal capital amounts to EUR 6.615.000, 00.

On 25 May 2007 the General Shareholders' Meeting passed a resolution to raise the nominal capital by 4.410.000, 00 EUR. The registration in the commercial register was completed on 26 July 2007, on this date the capital rise becomes effective.

The "contingent capital I" of up to EUR 170.500,00 from the issuance of up to 170.500 bearer share certificates (employee participation program), has been changed accordingly to EUR 511.500,00 (up to 511.500 bearer shares).

The "contingent capital II" of up to EUR 16.500,00 from the issuance of up to 16.500 bearer share certificates (convertible bonds for members of the Supervisory Board) has been changed accordingly to EUR 49.500,00 (up to 49.500 bearer shares).

## Difference from consolidation of capital (acquisition profits)

Development as of 30 September 2007 in EUR thousands

Book value 31.12.2006	Additions	Dissol.	Final- consolidation	Book value 30.06.2007
9.233	4.959	-3.185	-2.519	8.488

The EUR 2.519.000 disposal from final consolidation results from final consolidation of Steeltech as of 1 April 2007.

Development as of 30 September 2006 in EUR thousands

Book value 31.12.2005	Additions	Dissol.	Final- consolidation	Book value 30.09.2006
7.110	20.836	-7.996	0	19.950

## List of Share Ownership as of 30 September 2007

Group parent company	Proportion of capital in %	
	direct	indirect
<b>Group parent company</b>		
BAVARIA Industriekapital AG, Munich		
<b>Share ownership</b>		
Executive Consulting AG, Munich	100,00	
Hering Wärmetauscher Holding AG, Munich	95,00	
Hering AG, Gunzenhausen		90,00
Neef IT Solutions AG, Karlsruhe	78,00	
BAVARIA Maschinenbauholding AG, Munich	90,00	
Hamba Filltec GmbH & Co. KG, Neunkirchen	100,00	
BAVARIA Maschinenbau Holding II AG, Munich	90,75	
Langbein & Engelbracht GmbH, Bochum		85,31
Langbein & Engelbracht Industrial Eng.& Co., Shanghai/ China		85,31
Verwaltungsgesellschaft 0906 GmbH (former Beyss Holding GmbH), Munich	100,00	
Hamba Verwaltungsges. GmbH, Neunkirchen		90,00
Paul Weinbrenner GmbH, Weil der Stadt		100,00
Hamba Filling Technology Services GmbH, Munich		90,00
Blitz 05-316 GmbH & Co. KG, Munich	100,00	
R&E Automatisierungs GmbH, Fellbach-Schmidlen	50,00	
Kienle + Spiess GmbH, Sachsenheim		94,90
Kienle + Spiess Hungary Kft, Tokod/ Hungary		94,90
Wardstorm Ltd., Ellesmere Port/ UK		94,90
Sankey Laminations Ltd., Ellesmere Port/ UK		94,90
G.L. Scott & Co. Ltd., Ellesmere Port/ UK		94,90
Bavariaring 0906 GmbH, Munich	100,00	
SwissTex Winterthur AG, Winterthur/ Switzerland	100,00	
Force Ltd., Birmingham/ UK	75,00	
Oldenburg Ltd., Birmingham/ UK	100,00	
Bavaria Chemicals GmbH, Munich	75,00	
Bavaria Maschinenbau Ltd., Sliema/ Malta	100,00	
Elfotec AG, Mönchaldorf/ CH		75,00
Elfotec Ltd., Annacotty/ Ireland		75,00
baikap Holding 010607 GmbH, Munich	100,00	
baikap Holding 020607 GmbH, Munich	100,00	
ALMEC S.p.A. , Nusco/ Italy		100,00
Rifometal S.p.A., Nusco/ Italy		100,00
baikap Holding 030807 GmbH, Munich	100,00	
baikap Holding 040807 GmbH, Munich	100,00	

## Financial Calendar

### **April 2008:**

Individual Accounts and Group Accounts as of 31 December 2007

### **May 2008 (prospective):**

Annual Shareholder Meeting FY 31.12.2007

## Imprint

### **Issuer**

Bavaria Industriekapital AG  
Bavariaring 18  
80336 Munich

Tel: +49 (0)89 - 729 8967 - 0  
Fax: +49 (0)89 - 729 8967 - 10

info@baikap.de  
www.baikap.de

### **Editor**

Svea Tröster  
Head of Finance

svea.troester@baikap.de