

Letter to the Shareholders

Dear shareholders and business associates,

In 2017, the book value increased by 21.8% to EUR 63.7 per share. Since our IPO 12 years ago in 2006, our book value per share has increased by 23.3% p.a. The value of our total portfolio ("NAV") has developed as follows:

(EUR million)	2016	2017	Change
Financial assets (market price:	71	145	74
Cash	69	181	112
Direct Investments	235	35	-200
Total	375	361	-14

The value of our total portfolio at the end of 2017 reduced by EUR 14 million to EUR 361 million. The value of direct investments decreased by EUR 200 million in 2017, while the value of cash and financial assets increased by EUR 186 million due to sales of TriStone and BBGS. In 2017, we repurchased own shares for EUR 16.1 million at an average price of EUR 57.1, which reduced the cash balance and thus the portfolio value (NAV). The NAV per share increased by 1.6% to EUR 71 in 2017. Over the same period, the DAX rose by approximately 13%. Our high cash position of EUR 181 million hurt our performance.

Have we been too careful with our investment ratio?

Ultimately, we do not want to time the market, but choose our securities individually and decide on the purchase amount depending on the degree of confidence we have in our assessment of the value of the company. The major central banks in the US, Europe and Japan have continued to increase their money supply in 2017 through purchases of securities, resulting in heavy inflation of assets such as equities and real estate. Purchase prices for company acquisitions and stock prices were at historic highs at the end of 2017. Our investment philosophy is to protect our downside and to invest only with a substantial margin of safety. We believe that the high cash resources enable us to be ready to take advantage of buying opportunities when markets eventually reverse. If you would like to know more about our investment philosophy and current approach, we recommend our investment blog (<https://reimarscholz.blogspot.de>) for further reading.

Our largest stock positions and their development in 2017 shows the following overview:

(EUR million)	2016	2017	Increase and dividends	
Berkshire Hathaway A	11.8	12.6	0.8	6.7%
Euler Hermes Group S.A.	7.9	11.5	4.1	35.3%
Inv. AG TGV	6.3	11.2	2.0	17.5%
Ryman Healthcare	0.0	10.5	1.0	9.9%
Brederode SA	6.7	9.9	1.5	15.0%
Total portfolio	70.0	144.8	21.4	14.8%

In 2017, the performance of our securities portfolio again outperformed the DAX, our benchmark. However, it should be noted that at the end of the year we invested only EUR 145 million in equities - based on our free funds (cash and financial assets) of EUR 326 million, an investment ratio of 45%. While the DAX rose by 13.1% in 2017, the value of our portfolio increased by 14.8%. And that despite the fact that we had only EUR 70 million invested in equities at the beginning of 2017. Our five largest positions amount to EUR 56 million and account for 39% of our total financial portfolio.

Ryman Healthcare was added as an investment in October, and together with Summerset Group Holdings (in which we invested around EUR 7.7 million at the end of the year), we invested in two retirement home operators from New Zealand. The business model is characterized by high growth rates in the book value (20% p.a.) with a dividend yield of approx. 1.5%. Capital increases are not necessary and the level of debt is low. This is made possible by the generation of float, which has now reached almost the level of equity. This arises from the fact that a right of use for the apartments is sold. The pensioners have the advantage that they receive all services in the residential villages seamlessly - from unattended living to intensive care. Since the villages offer a lot to the pensioners in the form of events and various restaurant offers, the customer satisfaction is high and the waiting times are correspondingly long. The nursing home operator can resell the housing rights after seven years and benefits from the increase in value of the real estate that has occurred in the meantime. The proportion of the population over 75, which makes up the majority, will double in the coming years. The supply of residential villages remains scarce, although both providers are building new villages (Ryman also in Australia) and have secured land for the next five years. We consider such an engagement to be much easier to assess than, for example, the question of whether German car makers will still exist in this form and size in ten years' time.

Finally, it should be noted that we again donated for social purposes in the 2017 financial year. We donated EUR 100,000 each to the German Vipassana Foundation (www.dhamma.org) and the AMF Against Malaria Foundation (www.givewell.org).

BAVARIA Industries Group AG will continue to invest cautiously. We value openness and are pleased about your suggestions and suggestions for improvement. We are always grateful for transaction proposals be it in listed or unlisted companies.

Best regards



Reimar Scholz
Chief Executive Officer