Consolidated Management Report of BayWa AG for the Financial Year 2022

Note about this consolidated management report

- The order of the segments in the agriculture business unit has been changed. The Global Produce Segment is now positioned after the Agricultural Equipment Segment.
- Qualitative and comparative statements are used to describe changes in results and earnings, as well as forecast ranges. Explanation of the qualitative and comparative statements:
  slight, moderate, low ≙ 1–5%; noticeable, clear ≙ 5–10%;
  substantial, considerable ≙ 10–20%; significant ≙ 20–50%; sharp, steep, strong ≙ > 50%
- For reasons of readability, gender-specific wording and formal reference to all gender identities are not used. The selected form stands for all genders (m/f/other).
- For the first time, this consolidated management report includes disclosures that do not constitute mandatory content of the management report in accordance with the relevant legal provisions or the requirements of German Accounting Standard 20 (GAS 20). These disclosures, known as “atypical” disclosures, are not required to be included in the audit. They are therefore clearly highlighted and labelled as such in this report to distinguish them from audited management report disclosures. Examples of such atypical management report disclosures include descriptions of the key characteristics of the internal control system (ICS) and of the risk management system, which were included in the management report in accordance with Recommendation A.5 in conjunction with Principle 5 of the German Corporate Governance Code (GCGC) 2022 and can be found on pages 63 to 64.

Overview

BayWa achieved profitable growth in the financial year 2022, once again improving on the strong previous-year result. The Group posted record revenues and earnings (EBIT), and all three operating business units developed positively. This performance was primarily driven by dynamic development on international commodities exchanges and the accelerated energy transition, which was further strengthened by the war against Ukraine. In a varied and complex market environment, BayWa was able to benefit from the broad diversification of its business portfolio and participate in the food and energy security megatrends.

Despite challenging conditions, BayWa continued to grow in its international markets – and particularly in the Renewable Energies Segment – during the reporting period. BayWa mitigated high, volatile prices and supply shortfalls on commodities and energy markets through active inventory management and its high-performance supply and logistics chain, which also opened up additional trading opportunities to the company.

The energy business unit (Renewable Energies and Energy Segments) performed extremely well in the financial year 2022. Revenues rose by 72.9% to €9,832.8 million, and EBIT stood at €292.7 million (2021: €152.4 million).

The Renewable Energies Segment was affected in the financial year 2022 more than ever by climate change and urgent issues of energy security, which require the even quicker expansion of renewable energies. The segment was aided in particular by extremely dynamic solar module trade activities and rising margins on the electricity market in the financial year 2022. The sale of BayWa r.e. Bioenergy GmbH also had a positive effect on earnings. In trade activities involving photovoltaic (PV) modules, the total output of PV modules sold rose by roughly 71% to just under 3.5 gigawatt-peak (GWp). The total output of wind farms and solar parks sold climbed from 612.8 megawatts (MW) in the previous year to 797.0 MW. In the IPP (Independent Power Producer) business entity, both BayWa's own, expanded investment portfolio and energy trade activities benefited from rising electricity prices. The segment's revenues rose sharply by 82.3% to €6,489.2 million. Record EBIT was achieved in the reporting period, at €239.1 million (2021: €135.0 million).

The BayWa Group performed well in the Energy Segment in the financial year 2022, posting strong revenue growth in fuels and heat energy carriers in particular. This was chiefly due to a high level of uncertainty on the market with regard to winter supplies and further price increases on global commodities markets. As a result of this situation, both private and commercial consumers made the decision to stock up ahead of time. In the fuel market, the increased mileage in the logistics sector had a positive impact, with BayWa's active inventory management proving itself even in the face of high and volatile commodities and energy prices. Business involving the expansion of e-mobility charging infrastructure also developed very positively. All in all, the Energy Segment generated strong revenue growth of 57.1% to €3,343.6 million in the reporting period (2021: €2,128.2 million). On the earnings side, EBIT more than tripled year on year to €53.6 million.

In the agriculture business unit (Cefetra Group, Agri Trade & Service, Agricultural Equipment and Global Produce Segments), revenue in the reporting period climbed by 23.4% to €14,859.7 million. EBIT rose by 79.6% to €255.5 million.

The Cefetra Group Segment performed excellently in the financial year 2022 in spite of the volatile trade environment featuring high supply-side uncertainty and price rises on commodities markets. Lower grain availability on account of the war against Ukraine and heat waves in parts of Europe and the US led to uncertainty on commodity exchanges, which caused extreme price increases for nearly all types of grain in some cases, especially in the first half of 2022. In this segment, BayWa's earnings benefited from trade opportunities thanks to a strong ability to deliver. The higher-margin specialities business – notably Royal Ingredients – also continues to develop positively and remains the segment's earnings driver. Cefetra Group acquired a majority stake in the nut and dried fruit trader Heinrich Brüning GmbH, Hamburg, Germany, in order to further strengthen this arm of its business. Ongoing diversification in the area of sustainable products also had a positive effect on business performance. The Cefetra Group Segment's revenues increased by 22.3% to €6,111.2 million in the reporting period. EBIT rose by 53.4% from €38.8 million in the previous year to €59.5 million in the reporting period.

In the Agri Trade & Service Segment, BayWa's revenues and earnings performance was excellent in the financial year 2022. Aside from the fundamentally tense global food supply situation, the dominant factors in the Agri Trade & Service Segment in the financial year 2022 were rising prices for agricultural products and agricultural inputs alike. The war against Ukraine further strengthened already existing market-driving forces. Ensuring product availability through proactive inventory and purchasing management was a major factor in the positive development of the segment as well. As grain resources around the world have been scarce for a number of years and supply chains are under strain, the BayWa Group had already been operating on the basis of limited supply and high prices, and was positioned accordingly. In the agricultural input business, market expectations regarding possible supply shortages and price rises led in some cases to early stockpiling of fertilizer. BayWa's seed sales also rose, while sales volumes of feedstuff remained on a par with the previous year. In 2022, trade involving agricultural products (grain and oilseed) fell just short of the figure reported in the previous year. Here, BayWa benefited from trade contracts that were concluded at the end of 2021 and realised at higher exercise prices in the reporting period. All in all, revenues in the Agri Trade & Service Segment were up by 37.6% to €5,750.7 million. There was a sharp rise in EBIT compared to the previous year, of €92.4 million to €104.7 million (2021: €12.3 million).

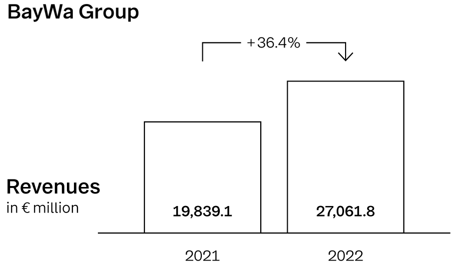
The Agricultural Equipment Segment performed extremely well in the financial year 2022, both in the core markets of Germany and Austria and in international sales regions. This was primarily due to the continued high investment appetite shown by farmers on the back of good harvest yields, as well as to year-on-year increases in the availability of new machinery. The Agricultural Equipment Segment sold a total of 5,025 new machines in the reporting period, 52 more than in the financial year 2021. It is worth noting that shortages in the supply of new machines in the previous year acted as an additional driver of business in this area. BayWa's service business also developed positively, with online trade in spare parts proving particularly dynamic. In the international business, the Dutch subsidiary Agrimec Group B.V. and CLAAS International (Canada) reported clear increases in revenues and EBIT. Overall, the Agricultural Equipment Segment again surpassed the previous year's record revenues of €1,909.0 million – this time by 8.8% – with a figure of €2,076.5 million. EBIT rose to €70.2 million in the reporting period, up from €48.6 million in the previous year.

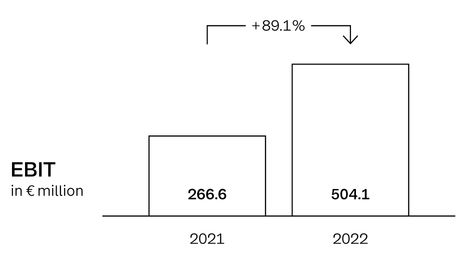
The Global Produce Segment was affected by challenging conditions in the financial year 2022. Key factors included rising inflation, higher energy costs, geopolitical uncertainty and a resulting noticeable decline in consumer spending on fruit and vegetables. Heightened logistics costs, coupled with below-average fruit and apple prices that did not follow the general inflation trend, were another issue. At the same time, the availability of goods was high in the market due to remaining stocks from the previous year's harvest. Although apple marketing volumes increased at BayWa by roughly 25%, a proportion of these volumes was sold at low prices in third countries outside of Europe to clear stocks. BayWa also recorded a decline in the sales of soft fruit, stone fruit and tropical fruit in this segment, whereas demand for vegetable fruits rose slightly. Overall, the Global Produce Segment generated revenues of €921.3 million in the reporting period, following €960.7 million in the previous year. EBIT declined to €21.1 million (2021: €42.6 million), mainly due to falling trade margins.

The building materials business unit (Building Materials Segment) posted a strong performance once again in the financial year 2022, with BayWa strengthening its position further in an overall market that was weaker in some areas. In the building materials trade, the building construction, roofing, drywall and civil engineering product ranges recorded a substantial rise in revenues thanks mainly to price increases across all product groups and persistently high demand. BayWa's unrestricted supply capacities despite shortages of materials on the market were another positive factor in this regard. Insulation materials for energy-efficient building renovation have been in particularly high demand recently. BayWa took a number of measures to continue driving forward its strategic development from a pure product trader to a provider of innovative services and solutions, including increasing its stake in Tjiko GmbH, a manufacturer of prefabricated bathroom modules. BayWa Bau Projekt GmbH was also able to make a positive contribution to business development by completing several construction projects and acquiring 15 new projects. Overall, the Building Materials Segment's revenues increased by 12.6% to €2,346.9 million in the financial year 2022. At €70.4 million, EBIT was down slightly on the previous year's high level.

In the Innovation & Digitalisation Segment, revenues fell to €10.4 million in 2022 (2021: €11.1 million). Customers were somewhat more reticent to invest in new Digital Farming applications on account of the volatile agricultural markets. A total of 39% of revenues were attributable to software licences and software maintenance contracts, with services accounting for the second-largest share (37%). Sensors, measurement systems and other hardware accounted for just under 24% of revenues. The eBusiness division benefited from elevated demand in the B2B business, with revenues generated through BayWa's eBusiness channels climbing by approximately 31.3% to €42 million. Starting in 2023, significant costs from the eBusiness division will also be reported here, along with revenues that are directly attributable to the corresponding operating segment, rather than to the Innovation & Digitalisation Segment. EBIT amounted to minus €11.4 million in the reporting period, as expected, following the figure of minus €20.2 million posted in the previous year.

BayWa Group





Total revenues at the BayWa Group increased by 36.4% to €27,061.8 million in the reporting year. EBIT improved by 89.1% to €504.1 million. Earnings before tax also saw a strong increase to €319.6 million, almost doubling compared to the previous year (2021: €160.6 million). At €239.5 million, the consolidated net result for the year rose by €110.7 million year on year following tax expenses of €80.1 million. The share of the consolidated net result for the year attributable to BayWa's shareholders increased by €97.4 million to

€168.1 million. Earnings per share stood at €4.36 following €1.63 in the previous year. The Board of Management and Supervisory Board will recommend to the Annual General Meeting a 5-cent increase in the dividend to €1.10 per share. In addition, a special dividend of 10 cents per share is to be paid this year to mark the 100th anniversary of BayWa AG.

For the current financial year, 2023, the management anticipates Group EBIT in the range of €320 million to €370 million. In view of the company's exceptionally good performance in the past financial year, the anticipated earnings development remains clearly higher than the average figures of the previous years. In light of the extremely positive recent development, and bolstered by the key megatrends and basic needs that the company serves, the management has also raised the BayWa Group's medium-term target. The key financial target of the BayWa Group is now to generate sustainable operating earnings (EBIT) in the range of €470 million to €520 million by the end of 2025.

Background to the Group

Group structure and business activities

The BayWa Group

2022	Revenues (In € million)	Employees (annual average)
Renewable Energies	6,489.2	3,754
Energy	3,343.6	1,411
Cefetra Group	6,111.2	623
Agri Trade & Service	5,750.7	3,630
Agricultural Equipment	2,076.5	3,826
Global Produce	921.3	3,151
Building Materials	2,346.9	4,661
Innovation & Digitalisation	10.4	220
Other Activities	12.0	1,017
Total	**27,061.8**	**22,293**

BayWa AG was established in 1923 and has its principal place of business in Munich. Through consistent growth and the continual expansion of its scope of services, BayWa has grown from its humble beginnings in agricultural cooperative trade activities into an international Group. In its three business units of energy, agriculture and building materials, the company offers a broad range of products and solutions to meet basic needs such as food, energy, heat and mobility.

The BayWa Group's business operations encompass activities such as planning, wholesale, retail and logistics, as well as extensive supporting services and consultancy. Its business focus is on Europe, but BayWa has also established an international trade and procurement network by maintaining important activities in the US and New Zealand and business relations from Asia to South America. Through its subsidiaries and Group companies, the BayWa Group is active in 53 countries worldwide.

The BayWa Group conducts its business in the three business units of energy, agriculture and building materials, which are divided into seven operating segments plus the Innovation & Digitalisation Segment, which is focused on development. It also has the Other Activities division, which encompasses the central management and administrative functions. Business activities are managed both directly through the parent company BayWa AG and indirectly through the subsidiaries included in the consolidated financial statements. Besides the parent company, BayWa AG, the BayWa Group comprises 540 fully consolidated Group companies. Furthermore, 26 companies were included at equity in the consolidated financial statements of BayWa AG.

BayWa

Energy

Renewable Energies
Project planning, services, independent power producer (IPP), energy trade, PV trade, energy solutions

Energy
Mobility solutions, trade in heating oil, fuels and lubricants

Agriculture

Cefetra Group
International trade in products, supply chain management

Agri Trade & Service
Collecting, trade in agricultural inputs and products, logistics

Agricultural Equipment
Trade in agricultural machinery, service and repairs

Global Produce
Trade in fruit, cultivation and marketing of selected vegetable types

Building Materials

Building Materials
Trading activities for building materials, services, system solutions

Renewable Energies Segment

The Renewable Energies Segment comprises the activities of BayWa r.e. AG, in which the Group pools material aspects of the renewable energy value chain. Founded in 2009, the subsidiary BayWa r.e. is now a globally active developer, service provider, photovoltaic (PV) wholesaler, energy trader and provider of energy solutions in the fields of renewable energies. A fund operated by the investor Energy Infrastructure Partners (EIP) has held 49% of the shares in BayWa r.e. since 2021. With a 51% stake, BayWa AG remains the majority shareholder.

BayWa r.e. pursues a three-pronged diversification strategy for its business portfolio: by country, by energy carrier and by business activity. Business activities are divided into three business divisions: Projects, Operations and Solutions.

Projects encompasses international project planning, management and the construction of wind farms and solar parks as well as the sale of finished plants. BayWa r.e. recently expanded its activities to include into offshore wind turbines in order to drive forward the growth of renewable energies worldwide even more rapidly and on a greater scale.

The Operations division comprises planning and technical services, the provision of consumables, technical and commercial management, the maintenance of plants, energy trade activities and the marketing of electricity from own plants as an independent power producer (IPP). Branches in Europe, the US and South East Asia make it possible to provide customers of BayWa r.e. with 24-hour service around the globe. In the service business, the company currently oversees facilities with a total installed output of approximately 10.2 gigawatts (GW) worldwide. In energy trade activities, which are part of the IPP business entity, BayWa r.e. markets electricity generated from renewable sources.

Solutions involves selling photovoltaic systems and components and tailored energy solutions to supply energy to commercial and industrial customers. The Renewable Energies Segment has had a strong international focus since its founding in order to ensure the greatest possible independence from the development of individual regional markets. BayWa r.e. is currently represented with its own operations in a total of 30 countries in Europe, North America, Asia-Pacific and Africa.

The bioenergy business sector, which is pooled in BayWa r.e. Bioenergy GmbH, was sold to Green Investment Group, part of Macquarie Asset Management, in the reporting period. Macquarie is one of the largest infrastructure investors in the world. The sale allows BayWa r.e. to focus even more strongly on its core strategic business of generating electricity from wind and solar energy.

Energy Segment

The Energy Segment's activities are divided into the fields of lubricants, building services, heating oil, diesel and Otto fuels, wood pellets, contracting and BayWa Mobility Solutions GmbH and BayWa Power Liquids GmbH. The geographic focus is primarily on the four German federal states of Bavaria, Baden-Württemberg, Hesse and Saxony, as well as on Austria.

The lubricant business comprises trade in the TECTROL brand and extensive applications and service packages for key customers, such as operators of biogas engines, as well as commercial customers. In addition, the Interlubes digital platform is used for selling lubricants and agricultural inputs from all major manufacturers and brands online to B2B users in the areas of commerce, industry, municipal services, transportation, agriculture and forestry.

Furthermore, BayWa Haustechnik GmbH provides installation services for heating, plumbing and ventilation across regional boundaries at 13 locations. The spectrum of services ranges from oil, gas, wood and pellet heating technology to heat pumps, solar systems, residential ventilation and sanitation technology.

In the field of heating oil and diesel and Otto fuels, BayWa supplies farmers and commercial customers – including construction sites and farms – with fuels. In future, sales of fuels will be handled under a new, standardised logistics brand, enlog. Diesel and Otto fuels, as well as AdBlue, are sold through a total of 115 Group filling stations and partner stations in Germany. In addition, BayWa supplies fuels, as well as AdBlue, to resellers and wholesalers. In Austria, further filling stations are managed by subsidiaries. The Group company GENOL Gesellschaft m.b.H. acts as a wholesale fuel supplier to cooperative filling stations.

The field of wood pellets includes selling to private consumers and commercial customers in addition to production at the subsidiary WUN Pellets GmbH. Under the independent Pellog brand, BayWa also offers logistics services for external wood pellet retailers.

In contracting, the focus is on energy solutions in the fields of biomass, CHP units and gas for the hotel sector, municipal services and the residential construction segment in southern Germany.

BayWa Mobility Solutions GmbH offers a comprehensive range of services in the fields of e-mobility for light vehicles and digital mobility. The Light Vehicle division comprises electromobility and drives forward the planning and expansion of charging infrastructure. Digital Mobility offers the whole system with filling station and charging card, related app and billing for customers and – as a white label system – also for third parties. Electric vehicle customers can now charge their vehicles at over 200,000 charging stations throughout Europe using the BayWa charging card, which covers some 95% of the charging stations in Germany. Through its Chargemondo platform for private charging solutions, BayWa Mobility Solutions GmbH offers an end-to-end configuration service from a single source, which handles everything from planning to final assembly, including registration with the power grid operator and applying for subsidies.

The Heavy Vehicle division was transferred from BayWa Mobility Solutions GmbH to BayWa Power Liquids GmbH with effect from 1 April 2022. As a wholly owned subsidiary of BayWa AG, BayWa Power Liquids GmbH positions itself as a solutions provider for climate-friendly heavy vehicle mobility and operates BayWa's network of liquefied natural gas (LNG) filling stations.

Cefetra Group Segment

In the Cefetra Group Segment, BayWa acts as a supply chain manager for agricultural products – from purchasing and logistics to distribution. It pools the activities not tied to a specific location, particularly international grain and oilseed trade activities. The main customer groups are grain and oil mills, producers of starch and feedstuff, malt houses and breweries, as well as biofuel manufacturers. Since 2021, the product range has also included dairy products such as cheese, butter, powdered milk and milk alternatives (Cefetra

Dairy). Heinrich Brüning GmbH, one of Germany's largest providers and co-packers of dried fruits and nut kernels, was acquired in 2022.

Through targeted acquisitions of specialities traders, BayWa is further expanding its business involving goods such as starch products, rice, legumes and organic products as part of its specialities strategy. In doing so, the company is diversifying its product portfolio and benefiting from markets with less intense competition compared to exchange-traded standard products. When it comes to the procurement and marketing of agricultural products, BayWa possesses a global trading network as well as inland and deep water ports.

Agri Trade & Service Segment

The focal point of business activities in the Agri Trade & Service Segment is the collecting and marketing of agricultural products and supplying agricultural customers with agricultural inputs. Due to its historically evolved structures, the agricultural business is concentrated primarily in southern Germany, although BayWa also operates in parts of northern and eastern Germany. All told, BayWa is the agricultural trading company that generates the highest sales in Germany.

It supplies conventional farms with agricultural inputs such as seed, fertilizers, crop protection and feedstuff throughout the entire agricultural year and takes responsibility for collecting and marketing the harvest. For its harvest collecting activities, BayWa maintains a network of 156 high-performance locations in its core regions, with significant transport, processing and storage capacities. This provides seamless goods delivery, quality inspection, processing, correct storage and care of agricultural products. BayWa sells products to local, regional, national and international companies in the foodstuff, wholesale and retail industries through its in-house trade departments.

It is also gradually expanding its range of products and services for organic farming and the marketing structures for organically grown products on a regional basis. A total of 106 BayWa sites are certified to trade agricultural inputs for organic agriculture. BayWa is also a member of Biokreis, the fourth-largest organic farming association in Germany, and a licensed user of the Bayerische Bio-Siegel (Bavarian organic seal). By offering a full range of products and services from seed to marketing, BayWa strives to be the most efficient partner for trade in EU organic products and organic agricultural inputs for current and new organic farms.

Another geographical focal point for this segment is the Austrian market, where BayWa maintains a comprehensive presence through its subsidiary RWA Raiffeisen Ware Austria Aktiengesellschaft (RWA), which maintains close business relations with 436 cooperative warehouses.

Agricultural Equipment Segment

In the Agricultural Equipment Segment, which is divided into the special technology and agricultural technology business sectors, BayWa sells a full line of machinery, equipment and systems, as well as special machinery for agriculture, forestry and municipal applications, in Germany and Austria. BayWa also offers comprehensive maintenance and repair services, including spare parts.

Its most important sales activities encompass the AGCO Group brands – Fendt, Massey Ferguson, Valtra and Challenger – as well as CLAAS agricultural equipment. Its customers include farms and forestry operations, as well as vineyards, fruit farmers, municipalities and commercial enterprises. Along with its bricks-and-mortar stores, BayWa also operates a variety of online platforms in this segment, mainly focusing on the sale of used machinery.

The product range includes tractors, combine harvesters and special machinery with flexible applications, such as vehicles for sweeping, cleaning and winter services, as well as mowing and sporting venue technologies. Forestry equipment comprises large machinery and equipment such as forestry tractors, chipping machinery and small appliances such as chainsaws and brush cutters, along with the necessary protective clothing.

The BayWa workshop network currently includes 279 locations and 791 mobile service vehicles, all of which ensure that BayWa remains close to its customers and is able to process service orders quickly.

In order to secure its long-term growth prospects, BayWa's Agricultural Equipment Segment is expanding into international markets and currently has presences in the Netherlands, Canada and South Africa in the form of subsidiaries or joint ventures.

Global Produce Segment

In the Global Produce Segment, BayWa covers the entire fruit and vegetable marketing value chain. All activities and investments in this segment are organised through the wholly owned subsidiary BayWa Global Produce GmbH.

In Germany, BayWa is one of the leading single sellers of dessert pome fruit to wholesalers and retailers in the food industry and a supplier of organic pome fruit. It also collects, sorts, stores, packages and provides services for fruit customers in Germany and abroad as a marketer under contract at its five sites in the Lake Constance and Neckar regions. Through its international investments, the Global Produce Segment also offers a broad product range from pome fruit through to exotic fruits.

BayWa is active in the international trade of fresh products through its New Zealand subsidiary T&G Global Limited (T&G Global), which maintains international trade relationships in the Americas, Asia, Australia and Europe. The existing sales structures of T&G Global and its affiliated companies offer the potential to open up additional sales markets, particularly in Asia. Through the marketing of dessert pome fruit between the northern and southern hemispheres, BayWa is in a position to provide trade partners with fresh agricultural products all year round, expand its product range and seize sales opportunities for German fruit on the international growth markets.

The majority stake in Dutch company TFC Holland B.V. (TFC) complements the BayWa portfolio with the addition of exotic fruit specialists, particularly in the growth market for ready-to-eat products. TFC has established international trade relations in all procurement markets for tropical fruits – mainly for avocado and mango – as well as with the European food retail industry.

Building Materials Segment

The Building Materials Segment primarily comprises building materials trade activities in southern and eastern Germany and Austria. Here, BayWa covers the entire range of products and solutions for building materials – from civil engineering, structural engineering, construction, renovations, modernisation, gardening and landscaping, to solution packages for energy efficiency and healthy building.

The BayWa Group is one of Germany's market leaders in the building materials trade, with a total of 125 sites, and also ranks among the leading suppliers in Austria, with 30 sites. In addition, BayWa serves a number of franchise partners in the building materials and retail business in Austria through its Austrian subsidiary Lagerhaus Franchise GmbH. The number of franchise locations currently totals 1,090. The range of products is primarily geared towards small and medium-sized construction companies, trades and commercial enterprises and municipalities. Private developers and homeowners are also important customers.

Healthy construction and energy efficiency are becoming increasingly important. For example, the company offers a wide range of tested low-fume building materials plus solutions for energy-efficient construction, renovation and modernisation. Thanks to its private brand lines for construction components and landscaping; for structural and chemical products, as well as insulation materials; for healthy-living building materials and cleaning agents; and for roofing accessories, BayWa is increasingly becoming an initiator of new products.

A further focal point lies in supplying specialities in fields such as wooden construction and construction timber, formwork equipment and precast concrete elements, as well as flat-roof construction. In addition, BayWa AG provides bathroom modules made from wood through its stake in the start-up Tjiko GmbH. The Tjiko bathroom module system is chiefly aimed at property developers and general contractors of large residential construction projects who wish to realise an economical and highly individualised bathroom design in the properties, which is achieved using an digital configurator tool. All interior modules are prefabricated.

In addition, BayWa works with developers on the implementation of projects in Germany. To this end, it enters into joint ventures with construction companies or property developers as a partner and primarily acts as a provider of concepts.

Innovation & Digitalisation Segment

BayWa has plotted a clear course into the digital future through the Innovation & Digitalisation Segment, which develops and markets digital products and services aimed at enhancing productivity in agriculture.

With its software products NEXT Farming PRO and NEXT Farming LIVE, the Group company FarmFacts GmbH offers farmers a future-oriented and inter-operable farm management system. It enables farmers to seize the opportunities of smart farming, irrespective of the type of farm or farm size.

In partnership with the European Space Agency (ESA), BayWa is also driving forward the use of satellite data in the agricultural sector. The goal is to optimally incorporate satellite data into agriculture processes in order to create positive effects regarding the use of resources and water, as well as for harvest yields. The Group subsidiary VISTA Geowissenschaftliche Fernerkundung GmbH processes and markets the resulting data.

Other Activities

Other Activities encompass the Group's central management and administrative functions, as well as peripheral activities.

Management, monitoring and compliance

BayWa is an Aktiengesellschaft (stock corporation) under German law with a dual management structure consisting of a Board of Management and a Supervisory Board.

As at 31 December 2022, the Board of Management consisted of four members: Prof. Klaus Josef Lutz (Chief Executive Officer, responsible for the Renewable Energies, Cefetra Group and Global Produce Segments), Andreas Helber (Chief Financial Officer), Marcus Pöllinger (member of the Board of Management, responsible for the Agri Trade & Service, Agricultural Equipment, Digital Farming, Building Materials and Energy Segments) and Reinhard Wolf (Chairman of the Board of Directors and General Director of RWA Raiffeisen Ware Austria Aktiengesellschaft).

With effect from 31 March 2023, Prof. Klaus Josef Lutz will hand over the operational management of BayWa AG to his successor and leave the Board of Management. The Supervisory Board of BayWa AG has appointed the Board of Management member Marcus Pöllinger as the new Chief Executive Officer from 1 April 2023. The Supervisory Board has also appointed Dr. Marlen Wienert, who is currently head of the Agriculture | Agricultural Equipment business division, as a member of the BayWa Management Board with effect from 1 April 2023.

The Board of Management is solely responsible for managing the Aktiengesellschaft with the primary aim of increasing its value sustainably over the long term.

The BayWa AG Supervisory Board consists of 16 members. It monitors and advises the Board of Management in its management activities and regularly discusses business development, planning, strategy and risks together with the Board of Management. In accordance with the German Codetermination Act (MitbestG), shareholder and employee representatives also sit on the Supervisory Board of BayWa AG to ensure codetermination on the basis of parity. The Supervisory Board has formed six committees in order to boost its efficiency.

Details on cooperation between the Board of Management and the Supervisory Board and on corporate governance at BayWa AG are presented in the Supervisory Board report and the corporate governance declaration in accordance with Section 289f of the German Commercial Code (HGB). The corporate governance declaration can be found in the Corporate Governance Report and is available at www.baywa.com/en/group/corporate-governance/corporate-governance.

A Group-wide code of conduct creates a uniform set of values which apply to the entire BayWa Group. Employees who wish to report potential breaches of compliance regulations are able to register their suspicions through an anonymous tip-off system in addition to existing possibilities, such as the ombudsman. Reported information is assessed and followed up in conjunction with Corporate Audit, if necessary. Corporate Compliance and Corporate Audit work together closely in internal investigations relating to compliance. There is also an extensive range of compliance controls to review and guarantee adherence to compliance principles. Corporate Compliance is managed by the Chief Compliance Officer, who reports directly to the Chief Executive Officer. Compliance Officers and Data Protection Officers are also appointed in BayWa's segments, as well as at all significant affiliated companies. They are available to employees as additional contact partners and act as multipliers.

The main task of the Corporate Compliance organisational unit is to perform preventive duties. Corporate Compliance particularly draws on training courses and an extensive range of consultancy and information services to prevent breaches of the law. Its activities are focused on antitrust law, corruption prevention, data protection, information security, customs and export control, and combating money laundering. Comprehensive frameworks that act as Group-wide rules have been developed on these issues.

The Social Compliance division was created in 2021 to oversee the implementation of the requirements of the German Corporate Due Diligence in Supply Chains Act (LkSG), which came into force at the start of the new financial year. From 1 January 2023, large companies such as BayWa AG are obliged to meet extensive reporting obligations and requirements and to identify and rectify human rights grievances in BayWa's own business activities or at its suppliers. Social Compliance works closely together with other Group functions, such as Sustainability, Purchasing, Risk and Public Affairs, to meet human rights due diligence obligations.

Due to its strong growth and international presence, BayWa r.e. set up its own compliance organisation in October 2022, which is led by the Director of Compliance at BayWa r.e. It is the first port of call for all BayWa r.e. companies regarding compliance-related issues and focuses on the topics of antitrust law, anti-corruption, preventing money laundering and conflicts of interest.

Corporate goals and strategy

BayWa's corporate strategy for 2025, "Sustainable Solutions for Life", acts as the foundation for the strategic development of the BayWa Group. The company pursues clear target criteria.

The key financial target of the BayWa Group is to sustainably generate operating earnings (EBIT) in the range of €470 million to €520 million by the end of 2025. Previously, BayWa had aimed for a target range of €400 million to €450 million. In light of the extremely positive recent development, and bolstered by key trends and the basic needs that the company serves, the medium-term target was raised this year.

BayWa also intends to make its operations more sustainable and generate over 50% of its income from sustainable business activities by 2025. At the same time, BayWa is aiming to cut its greenhouse gas emissions by at least 22% by 2025 compared to 2017 figures. The company would like to achieve climate neutrality by 2030. The introduction of internal carbon pricing is another major step towards the decarbonisation of the entire Group. Each BayWa segment receives a budget specially earmarked for climate protection measures to help them pay for the internal carbon price of €50 per tonne of carbon dioxide (CO_2). BayWa is planning to invest €19 million directly in its own decarbonisation efforts by 2025 alone in order to achieve its climate targets.

Other core elements of the strategy include the further internationalisation of the Group's business; investment in diversification and flexible structures; the digitalisation of the Group's processes, product portfolios and sales channels; and accelerating the transition from being a company that primarily focuses on trade to one that is a project manager and provider of solutions. BayWa is also committed to supporting innovative technologies and green business models.

The Group's growth ambitions are current focused on the Renewable Energies, Cefetra Group and Global Produce Segments, which are seizing their potential across a wide range of countries, project pipelines, product ranges and goods flows. BayWa is benefiting from trends such as decarbonisation and food and energy security – and the countless associated short- and long-term opportunities not linked to fluctuations in the market – across almost all of its segments. In this context, BayWa continuously analyses its business portfolio for future growth and earnings potential with the aim of ensuring and increasing the profitability of the BayWa Group's business operations on a sustained basis.

Energy business unit

Renewable Energies Segment

Rapidly accelerating climate change and urgent questions of energy security require an even faster rate of growth in renewable energies. That is why BayWa r.e. has defined a new strategic goal: "We accelerate the growth of renewable energy." With its diversified and synergetic portfolio, BayWa r.e. caters to a broad range of markets and customer segments, including the development and sale of projects in the fields of renewable energies, asset management, the generation and marketing of green electricity, the provision of tailor-made decarbonisation solutions to commercial and industrial companies and the sale of solar components on the wholesale market.

To remain at the cutting edge of development, BayWa r.e. is actively piloting and developing projects featuring innovative and new technologies such as floating photovoltaics, agrivoltaics (Agri-PV), offshore wind, battery energy storage and green hydrogen. In 2022, a hydrogen expert group was set up to support the implementation of this technology in the various BayWa r.e. business divisions.

The topic of sustainability remains a focal point for BayWa r.e. The Group has fully offset its CO_2 emissions since 2018. BayWa has also defined a Sustainability Framework 2025, which is based on ten selected Sustainable Development Goals (SDGs) of the United Nations. In 2022, BayWa r.e. published its first sustainability report for the year 2021, outlining the progress that the company has made in achieving its sustainability targets and the SDGs, and disclosing a variety of performance indicators. The report is an important basis for acquiring additional green financing to secure the ongoing growth of the company.

To pave the way for the continued growth of BayWa r.e. and prepare for the challenges emerging in the industry, the Group is focusing on strengthening resilience and achieving operational excellence as two of the key topics in its four-year corporate road map through to 2026.

The BayWa r.e. Group will realign itself strategically and concentrate on wind and solar project development worldwide, as well as on expanding the IPP (Independent Power Producer), Services and Energy Solutions business entities. The worldwide solar trading business will be sold to a new owner, allowing BayWa r.e. to invest the proceeds in the growth of its future core businesses. Furthermore, the company's realignment will also reduce complexity and therefore help the Group to achieve further efficiency gains.

In the future, the company expects significant volume growth, including the expansion of the project pipeline, the IPP portfolio and the customer base for energy solutions.

Energy Segment

In the Energy Segment, BayWa positions itself as a logistics provider with a basic supply function – particularly in rural regions – in the fields of conventional fuels, lubricants and heat energy carriers. At the core of the segment strategy is the gradual transition from traditional energy carriers to alternative sources.

In the heating business, for example, the segment is focused on expanding its business involving climate-neutral wood pellets. Against this backdrop, the logistics provider Pellog GmbH – a wholly owned BayWa AG Group company – took over the business activities of the haulage company Heyne & Naumann GmbH in Oelsnitz, Germany, on 1 January 2022 with the aim of expanding its capacities in the logistics market.

Climate-neutral, clean business activities are also the basis for the expansion of mobility solutions, with ongoing advances being made in the fields of charging infrastructure for e-mobility, LNG filling stations and digital mobility. BayWa also offers e-mobility solutions created on the basis of comprehensive fleet analysis and targeted at fleet operators. In this end-to-end service, BayWa covers everything from installation and operation to maintenance and charging infrastructure.

Building on supplying its customers with heating energy, BayWa is also working on expanding its business activities with the addition of innovative solutions, including contracting services in the fields of cooling and power consumption for multi-family homes.

In future, exports of liquid fuels will be managed under a new, standardised logistics brand, enlog. This will enable sales and logistics to become more flexible, and new sales channels to be opened up, laying the groundwork for business success in a market that is set to shrink over the coming years.

Agriculture business unit

In the field of agriculture, the Group is affirming its aim of becoming Europe's leading agricultural trade, distribution and logistics provider with global reach, thereby contributing to securing global food supplies.

BayWa aims to deepen existing customer ties and attract new customers by seizing opportunities to export to international markets; expanding the agricultural products range through the addition of specialities such as starch products, hops and legumes; and presenting new service offerings. Sustainability and traceability are integral supply chain components here. By taking these steps, BayWa will be further developing its core business on a functional and cost-efficient basis.

Cefetra Group Segment

In the Cefetra Group Segment, the 2024 Road to Ingredients strategy provides for the expansion of the product range to include processed products and the expansion of the marketing offer for organically and regionally produced agricultural goods. In line with this strategy, the Cefetra Group expanded its trade activities in the fields of tree nuts and dried fruits by acquiring a majority stake in Heinrich Brüning GmbH, which is successfully established as one of the largest providers and co-packers of dried fruit with its subsidiary Suntree GmbH, including in the organic segment. As a result, Cefetra will supply retailers directly for the first time. In addition, BayWa continues to boost its position as supply chain manager in the agricultural trade market and is diversifying its portfolio through international partnerships. These are important steps for Cefetra – already one of Europe's largest importers of grain and oilseed – in its efforts to drive forward the expansion of its specialities strategy. The goals under the 2024 Road to Ingredients strategy will be finalised during the financial year 2023. The management will complete the road map for the 2029 strategy by the end of 2023.

Agri Trade & Service Segment

In the Agri Trade & Service Segment, the location structure of the collecting and agricultural input business is undergoing continuous review. To generate greater synergy effects between the Agri Trade & Service and Agricultural Equipment Segments going forward, locations will increasingly be combined into integrated Service Center Agricultural Equipment and Machinery. In 2023, BayWa intends to modernise further locations and build new ones.

Another focus of development in terms of BayWa's German agricultural business is process optimisation in the logistics chain. To support BayWa's mission of helping people to meet their basic needs and based on a network of efficient central warehouses, a logistics concept is being established that is aimed at securing the ability to deliver goods for agriculture at all times while reducing capital tied up in the Agri Trade & Service Segment. Digital processing in logistics also has an important role to play here by supporting the successful management of the increasing complexity and pace of logistics processes. The aim here is to increase the benefit to the customer while cutting costs. Targeted diversification of the product portfolio and the expansion of the private brand business are also helping to strengthen profitability.

In sales, the offering is being geared to a greater extent towards integrated solutions, since the rise in the digitalisation of agriculture is resulting in a change in requirements. The use of digitally controlled machinery and equipment for the application of agricultural inputs often requires specially adapted varieties of seed, fertilizer or crop protection products. This is automatically leading to closer integration between service business in the Agricultural Equipment Segment and agricultural input business in the Agri Trade & Service Segment, allowing BayWa to offer its agricultural customers services and products from a single source. The range of e-commerce activities in agricultural input business is also being constantly expanded so that BayWa is able to respond quickly and flexibly to new market opportunities and customer demands.

Agricultural Equipment Segment

An important focal point of the current strategy in the Agricultural Equipment Segment is the further leveraging of synergies between the Agri Trade & Service and Agricultural Equipment Segments. By and large, both segments supply the same customer groups with different products along the value chain. The aforementioned combination of locations should also be seen in this context.

In order to increase efficiency, the company has also split its business in this area into agricultural equipment on the one hand and special technology for municipalities, industry and forestry operations on the other. Another focus is the development of cross-vendor digital interfaces. BayWa is also continuously strengthening its brand-specific sales organisations in the Agricultural Equipment Segment.

Needs-based and effective irrigation is a vital strategy for adapting to climate change and therefore an important future topic for agricultural operations. Hot and dry summers, combined with extreme rainfall events, are making active irrigation management increasingly important. In this area, BayWa aims to offer solutions to its customers on an even more targeted basis and help them secure yields without damaging the environment.

Global Produce Segment

The goals in the Global Produce Segment are to develop new, attractive product categories and ensure supply and delivery security in important areas through vertical integration. BayWa is continuously developing its trade activities in the field of fruit and vegetables in a strategic manner so as to leverage the potential of the globally growing demand for fresh products through investments and partnerships.

By relocating the Dutch subsidiary TFC Holland B.V. (TFC), which specialises in exotic fruit and vegetables, to a new, higher-performing site at the beginning of 2023, BayWa is laying the foundations for the continued expansion of its business activities in this area. The clear development of storage, ripening and processing capacities enables modern and efficient production processes. At the same time, TFC is ensuring direct access to products and further expanding its year-round avocado offerings through a long-term partnership with producers in southern Africa.

The strategy of VentureFruit, a wholly owned subsidiary of T&G Global and specialist in plant genetics and variety management, is geared toward supplying growers, traders and consumers all over the world with new types of premium fruits. Together with the research institute Plant & Food Research, the company has invested in the development of new soft fruit varieties to cater to the growing global demand. VentureFruit also unveiled its new apple variety Tutti at the Fruit Logistica 2023 trade fair in Berlin. Tutti is the world’s first hot-climate apple and will be launched on the retail market by VentureFruit and its licensees in a few years.

The BayWa project for the construction, operation and sale of innovative greenhouses was successfully wrapped up with the sale of the majority stake in the joint venture with the Al Dahra Group, Abu Dhabi, United Arab Emirates (UAE), and the associated climate-controlled greenhouse in the UAE to a specialised operator (closing on 31 July 2022). The experience gained in this field gives BayWa a significant edge when it comes to future international partnerships.

Building materials business unit

Building Materials Segment

The most important strategic focus in the Building Materials Segment at present is the continuous evolution of the segment from a pure product trader to a provider of innovative services and solutions along the entire value chain. For this reason, BayWa has invested in the bathroom module manufacturer Tjiko GmbH and the large ceramics processor Ceraflex GmbH, and is pressing ahead with the project development and implementation activities of BayWa Bau Projekt GmbH. BayWa continues to make targeted investments in systematic construction solutions and prefabrication of components to enable more efficient processes and greater productivity in the construction industry. The establishment of an ecological building materials database underscores the Building Materials Segment’s commitment to greater sustainability and climate protection in the building sector.

The strategic focus of the conventional building materials trade is on expanding the range of private brands and specialities in areas such as construction timber, among other things. The portfolio is also being increasingly centred on sustainable building materials.

Additional focal points include digitalisation and continuous measures to improve efficiency. Thanks to the successful integration of bricks-and-mortar retail with the BayWa Building Materials Online portal, BayWa now offers a comprehensive omni-channel service covering its entire sales region. The online offerings will be successively expanded to include interfaces with software used by tradespeople. Process efficiency will be enhanced through systems for automatic inventory management. Numerous regional warehouses are being combined to form a network that, with the support of high-performance logistics, will be able to secure BayWa's ability to deliver at all times.

Innovation & Digitalisation Segment

The Innovation & Digitalisation Segment is chiefly focused on the Digital Farming division, where BayWa strives to take on a leading role in Europe as an expert partner for the agricultural sector.

With its software products NEXT Farming PRO and NEXT Farming LIVE, the subsidiary FarmFacts GmbH is among the market leaders in Germany and the driving force behind smart farming at the BayWa Group. The continuous technological development of existing solutions plays a major role here. Growth opportunities are emerging in the field of smart farming, but also on international markets.

Through its subsidiary VISTA Geowissenschaftliche Fernerkundung GmbH, BayWa operates a service to predict yields for cultures such as wheat, corn and rapeseed with the help of data provided by Sentinel 2 satellites from the Corpernicus programme of the EU/ESA. VISTA also offers solutions in the field of sustainable agriculture, including for optimising the use of nitrogen in fertilizer and for irrigation.

With the BayWa Portal for agriculture, BayWa's eBusiness includes the portal platform for online trade and has a cross section function within the BayWa Group when it comes to digitalising interfaces and processes between BayWa and its customers. The focus here is on an omni-channel approach and further development into a smart digital customer platform and the digitalisation of customer-centric processes.

BayWa Venture GmbH's initiatives are symbolic of the open approach to innovation at BayWa. The company aims to find and roll out new business models and technologies for BayWa and its Group companies that make a lasting, measurable difference. The business models are rolled out through BayWa Venture Investments and BayWa Venture Start-Up Partnerships.

BayWa Venture Investments invests in international start-ups on behalf of the BayWa Group through its investment vehicle BayWa Venture GmbH. Investments usually take the form of a minority stake. The capital is primarily used by these fledgling companies to advance product development with the goal of achieving market readiness. The investments focus on selected innovations from the fields of ag tech and food tech, and in particular on sustainable agriculture and new proteins. As at 31 December 2022, the investment portfolio of BayWa Venture GmbH consisted of 11 minority stakes.

BayWa Venture Partnerships promotes innovation through collaboration and support covering the entire value chain. Start-ups receive access to BayWa's operating business, industry networks, markets and customers. The partnership ranges from brainstorming and discussing ideas together to testing, pilot projects, product and service development and sales cooperation. One working group is tasked with identifying and evaluating new biological agricultural inputs from start-ups and scrutinising them in field tests, thereby supporting the development of marketable solutions.

Based on the areas of focus of BayWa Venture GmbH, the Group also set up the New Protein Solutions business entity as part of the Agri Trade & Service Segment in 2022 and is developing new activities in the Protein Trade division (in some cases working with the start-ups) and gradually expanding them. Protein trade covers the customer-centric speciality trade in healthy, regional and sustainable products with the food industry.

Corporate financing

With its corporate financing, BayWa puts its faith in tried-and-tested, reliable partners. In doing so, it makes sure that there is sufficient diversification in terms of financing sources so as to guarantee its independence and limit risks. Increasingly, BayWa also relies on financing instruments with sustainability-related elements, with two ESG-linked bonded loans totalling €502.5 million, an ESG-linked syndicated financing agreement originally worth €1.7 billion, but since increased to €2.0 billion, and a €500.0 million green bond. BayWa's hybrid bond with a volume of €300.0 million was terminated in due time and repaid in full at the contractually agreed, first possible repayment date in October 2022. The amount was refinanced by issuing a bonded loan and increasing the syndicated financing agreement. Efficient management of working capital is vital at the BayWa Group, as it represents a net figure for current assets less current liabilities. The financing of the BayWa Group was ensured at all times in the financial year 2022 through sufficient credit lines from its financing partners.

Sustainability at BayWa

Unaudited

Sustainability strategy

Food, energy, housing, heat and mobility: as a provider of the basics, BayWa has always contributed to meeting human needs. But these basic needs can only be met in the long term if they are in harmony with the environment and human rights – global challenges such as climate change or loss of biodiversity not only significantly harm the basis for life but also BayWa's business. At the same time, BayWa's global operations mean it has a major impact on sustainable development and opportunities to influence it.

BayWa implemented a comprehensive sustainability strategy in 2021 in order to rise to the global challenges, setting the strategic course in sustainability matters for the years ahead. The sustainability strategy is based on four fields of action: value creation, environment and climate, employees, and society. Each field of action ties into relevant core issues and strategic targets. The strategy builds on the previous sustainability strategy while also providing essential new momentum. Core topics such as sustainable products and solutions, sustainable procurement, climate and energy, the circular economy, ecosystems and biodiversity, and water will determine the future strategic direction that BayWa takes when it comes to sustainability. Measurable targets and measures have already been defined for some of the core topics, with others to be developed by BayWa going forward.

BayWa AG has also been a member of the United Nations (UN) Global Compact since 2021. By joining, BayWa has underlined its commitment to upholding and promoting the ten principles set out by the UN initiative in relation to human rights, labour, the environment and anti-corruption.

Climate strategy

With its climate strategy, which forms part of the sustainability strategy, BayWa aims to help keep global warming to well below 2 degrees Celsius as part of its goal of being climate neutral by 2030 (Scope 1 and Scope 2 emissions). To achieve this, the company plans to significantly reduce its energy consumption and the greenhouse gas emissions attributable to its sites, company cars and in-house logistics activities over the next few years; source electricity from renewable energy sources only; and compensate for remaining greenhouse gas emissions by purchasing high-quality carbon credits.

Internal carbon pricing, which was introduced by BayWa in 2022, serves as an additional governance instrument to achieve the reduction in greenhouse gas emissions defined in the climate strategy. BayWa's Scope 1 and Scope 2 emissions are priced internally at €50 per tonne of CO_2 equivalents, with the resulting budget earmarked for the necessary climate action. The carbon pricing applies for the first time in 2023 and is expected to raise approximately €6.8 million.

BayWa's climate targets and progress

- Cover 100% of its electricity needs with renewable energies by the end of 2020; goal was achieved once again in 2022

Unaudited

- Reduce energy consumption by 22% by 2025 (base year 2017, in terms of EBITDA); goal was achieved once again in 2022 (minus 65%)
- Reduce greenhouse gas emissions by 22% by 2025 (base year 2017); based on preliminary figures; goal was achieved in 2022 (minus 23%)
- Build and provide 10 GW in generation capacities from renewable energies by 2025; goal was achieved in 2022 (11.9 GW)
- Climate neutrality in own operations from 2030 onwards (Scope 1 and 2)

The target achievement in the field of greenhouse gases can be explained by the sharp rise in prices due to the energy crisis and the associated cost-saving measures. BayWa is committed to maintaining this reduction on a permanent basis by taking corresponding measures within the scope of the internal carbon pricing system. It will review the ambition level of its objectives in 2023 in order to respond to changing framework conditions.

BayWa is aware of its responsibility for greenhouse gas emissions that occur in the upstream and downstream value chain (Scope 3). The company already reports on 6 of the 15 categories on an annual basis. In 2022, a Group-wide materiality analysis regarding Scope 3 emissions was conducted to identify the relevant Scope 3 categories and expand the data collection. The Group plans to define Scope 3 targets in 2023.

Protecting human rights

The BayWa Group is committed to upholding human rights and continuously implements the associated due diligence obligations set out in the German Act on Corporate Due Diligence in Supply Chains (LkSG). The Social Responsibility and Human Rights Policy Statement, published in 2022, is based on international conventions and guidelines such as the Universal Declaration of Human Rights, including the relevant rights in the International Covenant on Civil and Political Rights, the core standards of the International Labour Organization (ILO) and the principles of the UN Global Compact. Coupled with the two codes of conduct at BayWa (Code of Conduct and Supplier Code of Conduct), the Social Responsibility and Human Rights Policy Statement outlines the key principles of BayWa’s own actions and the standards to which it holds its business partners.

ESG ratings

Rating	Result
MSCI ESG	AA
ISS ESG	C+
CDP (Climate Change)	B

Additional information on sustainability targets and measures at the BayWa Group is available in the combined non-financial report, which is part of the separate Sustainability Report 2022 that is published on the website www.baywa.com/en/responsibility/at-a-glance.

Employees

The number of employees at the BayWa Group increased once again in the financial year 2022. By the end of the year, the BayWa Group employed 22,508 employees (2021: 21,468). In terms of an annual average, the number of employees rose by 1,108, or 5.2% year on year, to 22,293. The increase was fuelled by the Renewable Energies Segment (933 additional employees) and the Agri Trade & Service Segment (222 additional employees). In the Building Materials and Renewable Energies Segments, the increase in employee numbers was chiefly the result of significant segment expansion and general business development. The number of employees in the Cefetra Group and Agri Trade & Service Segments increased in the financial year 2022 as a result of acquisitions. Declining employee figures were primarily recorded in the Global Produce Segment (499 fewer employees) as a result of the sale of a grape farm in Peru, as well as in the Innovation & Digitalisation Segment (20 fewer employees). In the other segments, the number of employees remained roughly unchanged year on year.

For years, BayWa has been committed to training its own qualified personnel to combat the noticeable skills shortage, particularly in Germany. BayWa is one of the largest companies in Germany to offer trainee programmes. In 2022, 489 trainees started their career at BayWa. A total of 1,387 apprentices and trainees were employed at the BayWa Group at the end of the year. The training ratio stood at 5.7%.

Development of the average number of employees at the BayWa Group

						Change	
	2018	2019	2020	2021	**2022**	2022/21	
Renewable Energies	1,449	1,826	2,272	2,821	3,754	933	33.1%
Energy	958	986	1,017	1,359	1,411	52	3.8%
Cefetra Group	438	487	477	496	623	127	25.6%
Agri Trade & Service	3,543	3,533	3,502	3,408	3,630	222	6.5%
Agricultural Equipment	3,679	3,772	3,786	3,805	3,826	21	0.6%
Global Produce	2,768	2,788	3,997	3,650	3,151	- 499	- 13.7%
Building Materials	4,211	4,371	4,528	4,454	4,661	207	4.6%
Innovation & Digitalisation	183	198	225	240	220	- 20	- 8.3%
Other Activities	775	870	913	952	1,017	65	6.8%
BayWa Group	**18,004**	**18,831**	**20,717**	**21,185**	**22,293**	**1,108**	**5.2%**

Control system

Strategic controlling of the corporate divisions is based on value-oriented corporate governance and integrated risk management. Operational management of the corporate divisions is conducted based on targets, with earnings before interest and tax (EBIT) acting as the most important financial performance indicator. The development of financial performance indicators in the financial year 2022 is described in the Financial Report in the section “Financial performance indicators”. BayWa reports on its non-financial performance indicators in its separate Sustainability Report. There are no particularly important non-financial performance indicators requiring separate disclosure in the management report.

The value-driven management approach supports the medium- and long-term streamlining of the portfolio and the strategic orientation of capital allocation within the Group. This approach shows whether the ratio between the operating profit achieved and the risk-adjusted cost of capital is appropriate, i.e. whether the segments have earned their cost of capital. Interest on average capital invested in the segments is charged by applying the weighted average cost of capital (WACC) model. The return on invested capital (ROIC) of the segments is then measured against the respective cost of capital. There is economic profit if the return on invested capital is higher than the cost of capital specific to each segment (see also “Economic profit” section). The further development of an efficient risk management system is particularly important in safeguarding long-term economic success, especially in international business. Risk management is monitored and overseen by a Risk Board that is headed by the Chief Executive Officer. In addition, the Global Book System (GBS) coordinates trade management in grain, oilseed and co-product trade. The GBS reconciles and optimises trade and risk positions of individual product lines across the board for national and international divisions.

Research and development in the Innovation & Digitalisation Segment

The BayWa Group’s research and development activities relate to the formation and further development of the Innovation & Digitalisation Segment. The subsidiaries FarmFacts GmbH and VISTA Geowissenschaftliche Fernerkundung GmbH are responsible for the corresponding activities.

Research in Digital Farming is conducted as part of pilot projects and focuses primarily on new methods of sowing and fertilization, as well as satellite-based remote sensing services and applications for agriculture, water management and the environment. Digital Farming offers farmers new ways of optimising their operating processes and thereby allows them to work more cost-efficiently and sustainably. Under the NEXT Farming brand, the BayWa Group company FarmFacts provides a farm management system that helps farmers to manage and oversee agricultural processes and machinery using telematics. The software combines essential documentation and contract management functions, from field management and the implementation of local rules under the German Fertiliser Application Ordinance (DüV) to agricultural equipment connectivity.

The BayWa subsidiary VISTA is constantly developing solutions that use satellite data and the PROMET spatial crop growth model to help conserve resources, reduce water consumption and increase harvest yields. PROMET calculates the development of crops with tremendous precision in hourly calculation intervals. Using up-to-the-minute satellite data, the model makes it possible to derive the current condition of crops through daily readings on factors such as biomass and yield that are unaffected by cloud cover and – more importantly – are absolute. The approach helps farmers to optimise the sowing process and the use of fertilizer and water.

As at 31 December 2022, 63 employees worked in research and development (2021: 77 employees). The BayWa Group's research and development expenses totalled €1.0 million in the financial year 2022 (2021: €1.3 million). Own work capitalised with regard to new Digital Farming products amounted to some €3.2 million (2021: €4.4 million).

Financial Report

Macroeconomic conditions

The development of the global economy was characterised in the financial year 2022 by considerable impairment of the economic climate, which had already been weakened by the coronavirus pandemic. The main negative factors were the war against Ukraine, high rates of inflation, an increase in central banks' interest rates to combat inflation and a significant economic slowdown in China in the wake of the country's zero-Covid strategy (IMF, World Economic Outlook, January 2023).

In its most recent estimate, dated January 2023, the International Monetary Fund (IMF) anticipates that the global economy saw growth of around 3.4% in 2022. In industrialised economies, growth stood at around 2.7%, according to the IMF. In emerging economies, gross domestic product increased by 3.9%. In the countries of the euro zone, economic growth amounted to 3.5%. In Germany and Austria, two particularly important markets for BayWa, economic growth stood at 1.9% and 4.7%, respectively (IMF, World Economic Outlook, January 2023; WIFO – Austrian Institute of Economic Research, Economic Outlook 4/2022, December 2022).

Following record figures of over 10% in the autumn months, the annual inflation rate in the euro zone stood at 9.2% as of December 2022, according to the European statistical office Eurostat. For the first time since 2016, the European Central Bank (ECB) raised the interest rate on the main refinancing operations (MRO) to 0.5% in July in the first of a series of rate hikes that peaked for the year at 2.5% in December (Eurostat, Annual inflation down to 9.2% in the euro area, January 2023; https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.en.html).

In the current financial year, 2023, global growth is expected to weaken further. The main factors behind this trend are increasingly tight fiscal policy to contain the high rate of inflation, the persistent impairment of global economic flows as a result of the war against Ukraine and lower investment rates in emerging economies (IMF, World Economic Outlook, January 2023).

For 2023, the IMF anticipates slower global growth momentum. Nevertheless, sentiment has improved somewhat, with growth forecast to reach 2.9%. Back in October, the IMF's analysts were still predicting economic growth of just 2.7%. In emerging economies, gross domestic product is expected to increase by 4.0%. In industrialised countries, growth of 1.2% is expected. For the euro zone, the IMF is forecasting just around 0.7% in growth. In Germany, the economy is expected to experience periods of recession over the course of 2023, but should still grow by a slight 0.1% for the year as a whole. In October, the IMF was still predicting a decline of 0.3% for Germany. For Austria, the WIFO anticipates slight growth of 0.3% (IMF, World Economic Outlook, January 2023; WIFO – Austrian Institute of Economic Research, Economic Outlook 4/2022, December 2022).

The ECB's goal is to achieve price stability in the medium term for the euro zone, with an inflation rate of 2%. However, this target remains far off for the time being. As a result, the key interest rate was raised by 50 basis points to 3.5% with effect from 22 March 2023. In doing so, the ECB Governing Council is staying its monetary policy course (ECB, Combined monetary policy decisions and statement, March 2023).

Operative business development

Energy business unit

Market and industry development 2022/23

Development of renewable energies
The international economy started 2022 on a relatively optimistic note. The risks stemming from the coronavirus pandemic had subsided in many parts of the world, and the economy had grown by 6.1% in 2021 after shrinking by 3.1% in 2020 (World Bank). Although European electricity and gas prices had risen to a historic record high in winter 2021/22, things looked likely to return to normal by spring. However, falling forecasts with regard to the availability of French nuclear power plants, low hydrogen power reserves and underwhelming natural gas deliveries from Russia to Europe all indicated that challenges were on the horizon (European power volumes & prices: 2022 in review, Wood Mackenzie).

The Russian attack on Ukraine at the end of February and the political instrumentalisation of gas deliveries to Europe led to the destabilisation of regional and global energy markets. European raw material prices reached unprecedented levels in 2022, with natural gas costing €122 per megawatt-hour (MWh) on average on the Title Transfer Facility (TTF, a virtual trading point in the Netherlands). Between 2015 and 2020, the average price stood at just €16 per MWh. As a result, electricity prices rose to between €400 and €550 per MWh in many countries of the European Union (EU) in August 2022 (European power volumes & prices: 2022 in review, Wood Mackenzie).

The crisis forced European governments and institutions to enact regulations that were poorly thought-out. One example is the revenue cap that was introduced at EU level to collect "surplus profits" from "inframarginal generators" such as wind farms and solar parks, as well as nuclear power plants. On account of the varying interpretations and measures taken to implement the cap by the individual EU member states, however, it led to uncertainty among markets and investors. The developments over the course of 2022 will have a fundamental impact on the future of electricity markets in Europe, as the regulatory agencies of the EU and its member states, as well as the United Kingdom, have started redefining the regulatory framework for their respective markets.

Despite these challenges, an estimated 375 GW of photovoltaic (PV) systems and wind turbines were installed worldwide in 2022 – 33% more than the record-setting figure of 283 GW seen in 2021 (BloombergNEF, December 2022). As a result, the aggregated global installed PV and wind energy output rose to 2,188 GW.

The annual PV capacity growth of 269 GW in 2022 – 47% more than in the previous year – includes 143 GW in roof-mounted installations and 126 GW in free-standing solar parks. The Asia-Pacific region was once again the engine of global PV market growth. Capacity in the region rose by 165 GW, which corresponds to growth of 61% year on year and accounts for roughly two-thirds of global PV capacity growth in 2022. Europe, the Middle East and Africa (EMEA), along with North and South America, follow at 52 GW and 41 GW; 10 GW are not classified. China retained its regional and global leadership role by installing 126 GW in PV solar capacity in 2022. The US (24 GW), India (18 GW) and Brazil (11 GW) trailed immediately behind.

In the EMEA region, Germany led the pack, with estimated PV capacity expansion of 7.4 GW, followed by Spain (7 GW), Poland (4.3 GW) and the Netherlands (4.3 GW). Of the EMEA PV capacity, 57% was installed on roofs of commercial, industrial and private consumers. Demand for rooftop systems is expected to remain high in 2023/24 on account of high electricity prices and government subsidies, which will promote growth for solar PV wholesalers.

In 2022, the global wind energy market saw an estimated 106 GW in new capacities, which corresponds to a rise of 6% year on year. The expansion of onshore wind turbines increased by 11% year on year to a total of 93 GW and balanced out the decline in offshore construction, which stood at 13 GW in 2022 (compared to 17 GW in 2021). The Asia-Pacific region led the global market, with expansion of 63 GW, followed by 26 GW in the EMEA region and 17 GW in North and South America. China continued to build on its globally leading position by expanding its wind energy capacity by 55 GW in 2022, followed by 11 GW in the United States, 4.3 GW in Germany and 3.9 GW in the United Kingdom. Wind energy projects have longer lead times and require stricter environmental impact assessments than PV. Moreover, the modularity of the latter enables users to generate anywhere from a few kilowatts to several megawatts of electricity without negatively impacting profitability, which makes PV the technology of choice for decision makers when it comes to reducing energy costs.

The easing of pandemic-related restrictions in China, the increased resolve of Europe to accelerate the expansion of renewable energies as part of the REPowerEU programme and the introduction of the Inflation Reduction Act in the US are expected to help push the expansion of PV capacity to over 300 GW in 2023. The wind energy market will also continue on its growth trajectory, albeit at a slower pace than the PV market. Independent analysts predict that newly installed wind power capacity will stand at 109 GW in 2023. With a plethora of political measures stimulating demand for renewable energies, annual global installations are anticipated to exceed 500 GW between now and 2025. Additional growth will be possible if political decision makers and the industry succeed in overcoming the challenges in terms of approvals and the supply chain (BloombergNEF, December 2022).

Development of energy
The price of crude oil plays a key role in market development for the Energy Segment. It is a leading indicator of demand and price trends for various fossil energy carriers. After starting 2022 at around USD80 a barrel, the price of crude oil started to skyrocket once the war against Ukraine started and the associated uncertainty began spreading on global commodity markets. In March, the crude oil price reached its highest level since 2008, peaking at around USD139 per barrel for the day. Another factor driving prices was the oil price cap for Russian oil exports that the G7 members and the EU imposed with effect from December 2022. Low global oil production exerted further pressure on markets. Having already fallen short of the intended targets by a substantial margin over the course of the year, the OPEC+ oil cartel additionally decided in October 2022 to cut its crude oil production targets, which led to another clear jump in prices at short notice. The emergence of a global recession and the associated expectations of lower demand stood in contrast to this development, causing the price of crude oil to fall successively as the second half of the year continued. By the end of December, it was back where it had been at the start of 2022. At USD98.1 per barrel on average over the course of 2022, however, the price of crude oil was roughly USD28 higher than the average for the previous year (TECSON, Rohölpreis, 2022).

Based on subdued demand, the U.S. Energy Information Administration (EIA) anticipates a much lower average crude oil price of around USD84 per barrel for the current year (2023). The forecast is subject to uncertainty, particularly with regard to macroeconomic development in China and the role of Russian oil production (EIA, Short-Term Energy Outlook February, 2023). In addition to the sanctions already in place, Germany has also been abstaining from Russian oil deliveries via the Druzhba pipeline since the start of the year. At the same time, some of the imports are to be replaced with oil from Kazakhstan (GTAI, https://www.gtai.de/de/trade/kasachstan/ branchen/gruenes-licht-kasachstan-liefert-mehr-oel-nach-deutschland-946248).

In the heating sector, demand for fossil fuels is subject on the one hand to weather-related fluctuations in consumption. On the other hand, purchasing behaviour is influenced by price trends. The price of heating oil largely follows the development of crude oil prices. After starting at a comparatively high level of just under €87 per 100 litres, heating oil prices saw a clear uptick in the financial year 2022 and leapt to a record high of €204.5 per 100 litres in March 2022. In the months that followed, heating oil prices, like crude oil prices, eased by a clear margin. At an annual average of €139 per 100 litre, the price of heating oil was still clearly up on previous years (TECSON, Heizölpreise, 2022). Sales of heating oil in Germany increased by 8.2% year on year in 2022 (BAFA, Amtliche Mineralöldaten, December 2022). Fears of gas shortages motivated large-scale industrial and commercial consumers to switch to heating oil and were among the main reasons for the higher demand. All in all, though, lower consumption thanks to modern technologies, energy-efficiency renovations, milder winters and the increasing use of renewable energy sources contribute to a decline in heating oil consumption. This trend is set to continue going forward. The German Buildings Energy Act (GEG), for instance, stipulates that oil heaters may only be installed from 2026 onward as part of a hybrid system that combines oil heating with a renewable heat energy carrier. In Austria, the federal government's plan for the years 2020 to 2024 has banned the use of oil heaters in new buildings since 2020 and has prohibited the installation of new oil heating systems in existing buildings since 2021.

In 2022, the price of wood pellets also soared, at times more than tripling year on year to around €746 a tonne (for a 26-tonne bundle). The increase in prices was primarily due to a clear rise in demand, as well as higher production and transport costs (DEPI, Pelletpreis/ Wirtschaftlichkeit, February 2023; DEPV, Energiekrise beeinflusst Pelletpreis, November 2022). In addition, supply was also temporarily interrupted by supply chain problems and an EU-wide ban on wood pellet imports from Belarus and Russia that was issued in March 2022 (GTAI, https://www.gtai.de/de/trade/russland/branchen/holz-und-papier-unterliegen-ein-und-ausfuhrbeschraenkungen-819516). The consumption of wood pellets increased by 10.3% in Germany in 2022. Because the number of newly installed pellet-fired systems also continued to increase in 2022, pellet consumption growth is expected to accelerate in 2023 (DEPV, Pelletproduktion und -verbrauch in Deutschland, Zubau von Pelletfeuerungen in Deutschland, 2 March 2023). In the medium term, however, market growth should level off as a result of changes in subsidy conditions for pellet heating. Due to the amendment of the Bundesförderung für effiziente Gebäude (federal subsidy for efficient buildings – BEG) in August 2022, the Deutscher Energieholz- und Pellet-Verband (German energy wood and pellet association – DEPV) estimates that over 95% of central wood-fuelled heating systems that were previously eligible for subsidies will stop receiving subsidies on 1 January 2023, thereby making it less appealing to install wood furnace systems. Existing systems are not affected by the changes. Nevertheless, wood pellets should remain an important element of decentralised energy supplies.

Total fuel sales in Germany rose by 0.7% in 2022. Sales of Otto fuels increased by 3.5%, whereas sales of diesel fell by 0.6%. Total sales of lubricants decreased by 3.6% due to the scarce availability of base oils as a primary material in 2022 (BAFA, Amtliche Mineralöldaten, December 2022). The scarcity was mainly triggered by developments on the crude oil market and Russia's tremendous significance for the procurement of base oils. The sharp rise in fuel prices stood in contrast to lower mileage in the previous year on account of lockdowns (Federal Ministry for Digital and Transport, Verkehr in Zahlen, 2022/2023). Other important factors include vehicle stock and the development of the economy as a whole. Given the anticipated slight decline in economic performance in Germany, sales of oil-based fuels should fall slightly. A structural reduction in demand for fuels and lubricants can be expected in general in the years ahead, with the German federal government planning to have at least 15 million electric cars on the road by 2030 (German federal government, 2021 coalition agreement). By contrast, the move will result in tremendous opportunities for the expansion of charging infrastructure. The use of liquefied natural gas (LNG) in the transport sector, especially in heavy-goods vehicles, also offers enormous potential (Gas e. V., Bio-LNG im Schwerlastverkehr).

Business performance

Renewable Energies Segment

The Renewable Energies Segment saw very positive development in 2022. Plant sales achieved a total output of 797.0 MW in the reporting year, with turnkey energy plants accounting for a share of roughly 97%. In 2021, that figure stood at around 74% of a total completed project output of 612.8 MW. Alongside the construction of turnkey wind farms and solar parks, total output also includes the sale of ready-to-build project rights and general contracting services such as planning, procurement and construction services.

The Wind Projects business entity sold six wind farms with a total output of 59.8 MW (2021: 119.8 MW) in the national markets of France (19.1 MW), Australia (18.2 MW), Italy (18.0 MW) and Germany (4.5 MW). In the case of one particular project in France, only 49% was sold to an external buyer. The remaining 51% of the wind farm, as well as three others, was transferred to the portfolio held by the IPP (Independent Power Producer) business entity (75.6 MW in total). The BayWa r.e. Group will assume responsibility for the commercial and technical management of the lion's share of these turbines and wind farms. In addition, a first milestone for embarking on offshore project planning was reached when the BayWa r.e. Group, together with two partners, was awarded the contract for a floating offshore wind farm with a total output of 960 MW as part of a tender procedure by Crown Estate Scotland. During the construction of a 95 MW wind farm in the US, site-related uncertainties led to a halt in some aspects of construction work and, in turn, to significant delays and cost increases. As a consequence, the book value of the wind farm under construction was subject to a write-down. After completion, the wind farm is to be operated by BayWa r.e.

The Solar Projects business entity sold 16 free-standing solar parks and four floating solar parks with a total output of 704.7 MW (2021: 394.0 MW), as well as four sets of project rights for the construction of free-standing solar parks (26.4 MW) and battery storage systems (208 MW 416 MWh). Of the total solar output, 270.5 MW were attributable to the US, 202.44 MW to the Netherlands, 115.0 MW to Spain and 110.1 MW to the United Kingdom. In addition, three projects that had been brought into operation with a total of 43.0 MW were transferred to the IPP business entity.

The IPP (Independent Power Producer) business entity operates selected solar parks and wind farms and successfully completed its second full financial year in 2022. Energy trade activities are also part of the IPP business entity. In 2022, the portfolio was increased by seven parks. As a result, 26 wind farms and solar parks in Europe, North America and Australia with a total output of roughly 0.8 GW were part of the operating portfolio at the end of the year. Both the portfolio and the energy trade activities benefited from the high electricity prices. However, the increased volatility in energy prices also led to higher procurement prices in energy trading.

The Services business entity recorded a rise in total plant capacity under its management around the world of over 5% to more than 10.2 GW in 2022 (2021: 9.7 GW). This growth was rounded out by successful photovoltaic (PV) repowering sales in Germany, Italy and France. Supply-chain-related delays in the commissioning of renewable energy systems, as well as delays in the start dates of repowering projects, made business difficult in the Services business entity.

In trade activities involving photovoltaic (PV) components, the total output of PV modules sold rose by roughly 71% to just under 3.5 gigawatt-peak (GWp). The inverter and assembly system product groups each saw a significant increase of around 60% and 110%, respectively. Business involving storage products grew by roughly 140% year on year. The growth is primarily attributable to the continued high demand for renewable energies and good product availability at solar trading companies despite adverse conditions. Revenues of just under €480 million were processed in these product areas through the web stores established in national markets, which corresponds to an increase of approximately 100% year on year. Overall, the lion’s share of solar trade revenues was generated in Europe, the Middle East and Africa (74%), followed by the Americas (23%) and Asia (3%).

In 2022, the Energy Solutions business entity was able to expand its project pipeline through successful sales activities, both in Europe and South East Asia, and execute a large number of roof-mounted, carport and free-standing projects. As a result, it succeeded in further establishing itself as an international developer of integrated solutions in the fields of renewable energies for businesses.

Revenues in the Renewable Energies Segment rose by 82.3% to €6,489.2 million in the financial year 2022. At €239.1 million, EBIT climbed to a new record and exceeded the previous record of €135.0 million, which was set in 2021, by around 77%. The improvement in the operating result is primarily attributable to strong growth in solar trade activities. The IPP business entity also exceeded the previous year’s result by a clear margin. The improvement in earnings in the portfolio resulted both from the newly acquired solar parks and wind farms and from the higher electricity prices, as in energy trading. In addition, the sale of BayWa r.e. Bioenergy GmbH had a positive effect on earnings in the Renewable Energies Segment.

The coronavirus pandemic had a less significant effect on the BayWa r.e. Group in the reporting year than in previous years. Although there were still supply bottlenecks and delays in approval processes, for instance, the former had less to do with the pandemic than with the continued disruption in supply chains.

Energy Segment
The Energy Segment saw positive development in the reporting period. Demand for fuels and heat energy carriers was solid despite high prices. The war against Ukraine, as well as the associated high level of uncertainty regarding the supply in winter, and further price hikes on global commodities markets led some private and commercial consumers to stock up in advance. In this situation, BayWa's active inventory management paid off.

As a result, the Group was able to meet the high demand (particularly for wood pellets) without virtually any limitations. To continue meeting the demand for solid fuels going forward, BayWa is further expanding its storage and distribution capacities and opened an additional wood pellet warehouse in Schlacht, near Glonn, in the third quarter. With 680 square metres of storage space, the warehouse has room for up to 3,000 tonnes of wood pellets for delivery to private customers in a radius of 50 kilometres. BayWa now maintains 16 pellet warehouses of its own, with a total capacity of 73,000 tonnes of wood pellets. BayWa expects wood pellets to remain a key component of the energy mix.

The company also strengthened its logistics capacities in the reporting period. In January 2022, the BayWa subsidiary Pellog GmbH took over the business activities of Heyne & Naumann GmbH, a haulage company based in Oelsnitz, Germany. The acquisition helps to ensure the company's access to valuable service and logistics resources in the competitive logistics market. In September 2022, BayWa announced a long-term, exclusive partnership with Danpower GmbH, Potsdam, Germany, for its pellet plant in Heidegrund, Germany. BayWa will provide raw materials and manage pellet sales for the plant in Heidegrund in order to make sure that customers receive products and services in the long term. All in all, customers placed smaller orders on account of the high prices, on the hope that prices would fall. As a result, sales of wood pellets were down 8.6% year on year in the reporting period.

In heating oil trade, BayWa recorded a 2.1% decline in sales overall. While demand in Germany was almost on a par with the previous year, demand in Austria fell to a greater extent. The decline was primarily attributable to the Austrian federal government's plan for the years 2020 to 2024, which has banned oil heaters in new buildings since 2020 and has prohibited new oil heating systems in existing buildings since 2021.

By contrast, the fuels business recorded an additional boost in demand, especially prior to the end of the temporary fuel tax cut on 31 August 2022. Increased mileage for engines run on Otto fuels likewise had a positive effect, whereas mileage was down by a clear margin in the comparable period in 2021 due to the applicable lockdown rules. All in all, fuel sales volume was 7.1% higher year on year.

In April 2022, the new subsidiary BayWa Power Liquids GmbH commenced operation. The wholly owned subsidiary of BayWa AG positions itself as a solutions provider for eco-friendly heavy vehicle mobility and operates BayWa's network of LNG filling stations, which currently has 11 locations and was transferred from BayWa Mobility Solutions GmbH to BayWa Power Liquids GmbH in April. Through the BayWa filling station card, customers also have access to additional LNG stations run by partners.

In lubricants, the scarce availability of base oils as an input led to a clear increase in product prices for motor, hydraulic and gear oils. At the same time, higher energy costs led to temporary AdBlue production stops, especially in the fourth quarter of 2022. Overall, sales of lubricants and operating resources fell by 9.3% year on year. By ensuring that customer needs were met at all times, BayWa succeeded in compensating in earnings terms for declines in sales in these product groups.

The subsidiary BayWa Mobility Solutions GmbH continued driving forward the expansion of charging infrastructure for electromobility in the reporting period. Roughly 300 charging parks with an average of six charging points were built, bringing the total number of charging points up to 2,100 (including 1,800 quick charging points). Thanks to a partnership with SMATRICS EnBW, which was launched in spring, the reach of the BayWa charging cards in Austria has now been expanded by about 400 quick charging points. The new Chargemondo platform for the operation of private charging solutions was launched back on 1 January 2022. Since February 2022, www.chargemondo.de has also been marketing GHG quotas (greenhouse gas reduction quotas). GHG trading allows participants to offer the CO_2 they save by using an electric vehicle on the emissions market. As a next move, BayWa Mobility Solutions GmbH plans to extend its GHG quota trading service to commercial clients. The non-strategic home charging infrastructure business was sold to Werner Pletz GmbH in December 2022.

Building services benefited substantially in the financial year from the increased demand for new heating solutions. In particular, upgrades for existing heating systems in single- and multi-family homes, as well as the switch to heat pumps, proved to be earnings drivers.

All in all, the Energy Segment generated strong revenue growth of 57.1% to €3,343.6 million in the reporting period (2021: €2,128.2 million). That growth is primarily attributable to the rise in prices. On the earnings side, EBIT more than tripled year on year to €53.6 million.

Agriculture business unit

Market and industry development 2022/23

Development of grain and oilseed

Global balance of grain (excluding rice)	Grain year			Change	
in millions of tonnes	2020/21	2021/22	**2022/23**	2021/22 compared to 2020/21	2022/23 compared to 2021/22
Production					
World	2,215.7	2,280.0	2,227.7	2.9%	- 2.3%
thereof: wheat	774.5	779.3	781.3	0.6%	0.3%
thereof: coarse grain	1,441.2	1,500.7	1,446.4	4.1%	- 3.6%
Consumption					
World	2,238.5	2,282.7	2,246.8	2.0%	- 1.6%
thereof: wheat	782.7	792.5	789.7	1.3%	- 0.4%
thereof: coarse grain	1,455.8	1,490.2	1,457.1	2.4%	- 2.2%
Inventory changes					
World	- 22.8	- 2.7	- 19.1		
thereof: wheat	- 8.2	- 13.2	- 8.4		
thereof: coarse grain	- 14.6	10.5	- 10.7		

European balance of grain (excluding rice)	Grain year			Change	
in millions of tonnes	2020/21	2021/22	**2022/23**	2021/22 compared to 2020/21	2022/23 compared to 2021/22
Production					
EU	282.1	292.6	270.3	3.7%	- 7.6%
thereof: Germany	43.3	42.4	43.3	- 2.1%	2.1%
Consumption					
EU	264.2	268.1	262.0	1.5%	- 2.3%
thereof: Germany	42.9	39.0	41.2	- 9.1%	5.6%
Inventory changes					
EU	17.9	24.5	8.3		
thereof: Germany	0.4	3.4	2.1		

Sources: USDA, Grain: World Markets and Trade, January 2023, pp. 20, 26; DRV, Jahresbericht Agrarwirtschaft 2022, p. 10; BLE, Getreideverbrauch Deutschland, Inlandsverwendung insgesamt

Global agricultural markets are characterised by a narrow corridor between production volume and demand. In recent years, however, supply has often failed to meet demand. At the same time, demand is expected to rise continuously as the world's population keeps growing between now and 2050. The consequences of climate change will also play a role, with securing global food supplies constituting a major challenge. The war against Ukraine has further exacerbated the situation, and the consequences will have a significant effect on agricultural markets in the business periods ahead (BayWa, own estimates).

The most important indicator of how the plant-based product market is developing is the grain market. In the grain year 2021/22, global consumption increased by 2.0%, causing inventories to decrease by 2.7 million tonnes. The European Union harvested around 3.7% more grain in the harvest year 2021/22 than in the previous year, and consumption outperformed the previous figure by a clear margin (USDA, Grain: World Markets and Trade, January 2023, pp. 20, 26). In Germany, the harvest was 2.1% smaller in the harvest year 2021/22 than in the previous year on account of unusually dry weather conditions in many regions and the associated decline in hectare yields.

The financial year 2022 saw a clear rise in global market prices for grain due to the aforementioned decline in global grain stocks, as well as anticipated weaker harvests in key producer countries and lower exports from Ukraine. General uncertainty with regard to global supply trends also played a role (DBV, Situationsbericht 2022/23, p. 192). Starting from a low for the year of just under €261 per tonne in early February 2022, the price of wheat leapt to an annual high of around €438 per tonne on the MATIF commodity futures exchange by May 2022. In the second half of the year, wheat prices hovered around a somewhat lower, yet still high level of €350 per tonne until November. By the end of 2022, wheat was trading on the MATIF at around €309 per tonne. At an average of 143.7 points (2021: 125.7 points), the grain price index of the Food and Agriculture Organization of the United Nations (FAO) exceeded the level seen in the past ten years by a clear margin in 2022 (FAO Food Price Index, January 2023).

According to the latest forecasts from the U.S. Department of Agriculture (USDA), global grain production is likely to be 2.3% lower year on year in the grain year 2022/23. Global consumption is expected to fall by 1.6%. With consumption once again outpacing production on the whole, a reduction of wheat and coarse grain inventories appears likely, meaning that prices should be higher in 2023 than in previous years. The European Union is expected to harvest roughly 7.6% less grain in the grain year 2022/23, according to projections (USDA, Grain: World Markets and Trade, January 2023, pp. 20, 26). The lower grain harvest is attributable to an unusually dry summer in parts of the EU, which led to lower yields per hectare (DBV, Situationsbericht 2022/23, p. 190). By contrast, the grain harvest in Germany rose by 2.1% year on year to around 43.3 million tonnes, bringing it back to the level seen between 2016 and 2021 on the heels of a poor harvest year in 2021/22. The increase was fuelled by a larger amount of land under cultivation and a slight uptick in yields per hectare. However, grain maize harvest losses on account of heat and dry conditions reduced the grain harvest (DBV, Situationsbericht 2022/23, p. 191; DRV: Jahresbericht Agrarwirtschaft 2022, p. 10). The FAO and OECD anticipate high prices for all types of grain in the years ahead (DBV, Situationsbericht 2022/23, p. 193).

Global soya meal harvest volume fell slightly by 0.5% in the marketing year 2021/22 to stand at 247 million tonnes (World Markets and Trade, January 2023, p. 11). Soya meal accounts for around 70% of all oilseed meal. After hitting a low for the year of roughly €380 per tonne in January 2022, prices for soya meal hovered at a higher level of around €450 to €550 per tonne in the subsequent months in the wake of a general rise in commodity and agricultural prices. Following a slight downward trend in autumn, a clear deterioration in harvest prospects in Argentina led to a renewed rise in prices on the Chicago Board of Trade (CBoT) commodity futures exchange in December. Soya meal finished the year at a price of around €493 per tonne.

In the marketing year 2022/23, global soya production (soya meal) is expected to rise by 4.2% to 257 million tonnes, due mainly to anticipated record soya harvests in Brazil and China (USDA, Oilseeds: World Markets and Trade, January 2023, p. 10 et seq.).

Development of fruit cultivation

At roughly 1.33 million tonnes, the fruit harvest in Germany was 3% higher year on year in 2022, according to estimates by Agrarmarkt Informations-Gesellschaft mbH (AMI). The total tree fruit harvest in Germany stood at 1.17 million tonnes in 2022, equating to an increase of around 4% compared to the previous year. Higher har vest volumes for apples, sweet cherries, sour cherries, plums and prune plums stood in contrast to lower harvest volumes for fruits such as pears or mirabelles. At 44,500 tonnes, the soft fruit harvest was roughly 2% lower year on year, mainly due to factors limiting the cultivation and growth of blackcurrants (DBV, Situationsbericht 2022/23, p. 205). The apple harvest volume increased by 6.6% year on year in 2022 to stand at around 1.1 million tonnes and exceeded the multi-year average for 2012 to 2021 by 10.3% on account of good fruit setting in spring and the good weather conditions, which resulted in less disease and pest infestation (Destatis, press release, 9 January 2023, Apple yield in 2022 by 10.3% above average of the last ten years). At roughly 12.2 million, the apple harvest volume achieved in the member states of the EU in 2022 was up slightly on the previous year's level of 12.0 million, according to preliminary figures (World Apple and Pear Association – WAPA, EU 27 apple production by country, November 2022).

Owing to lower demand and higher inventory levels than in previous years, apple prices in Germany were below the five-year average throughout 2022. As marketing of the new harvest kicked off in August, prices stabilised at a low level of between 60 and 63 cents per kilogramme. By contrast, average apple prices in the EU remained above the five-year average, except for between April and August 2022. Consumer sentiment in Europe, and in Germany in particular, was dampened by exploding energy costs and high inflation. Inventories therefore continued to increase month after month, despite low imports from overseas, resulting in a conflict between efforts to clear out stocks and the new harvest. Extensive quantities of inventories from previous harvests remained in stock well into September, which negatively impacted the fresh produce market through October and were partially sold off to industrial producers (DG Agri Dashboard Apples, 17 November 2022). According to preliminary figures, the EU had 4.4 million tonnes of apples in stock as at 1 December – a decrease of 9% year on year, and 4% less than the average for the past three years. Brisk exports to countries outside Europe made it possible to sell 18% more apples in November than in 2021. Prices for stable qualities are very likely to pick up in 2023 (Agrarmarkt Informations-Gesellschaft mbH – AMI).

In the southern hemisphere, the harvest volume of apples declined by 6.7% year on year to approximately 4.9 million tonnes in the harvest year 2021/22, falling short of the original expectations by a clear margin. At 502,000 tonnes, New Zealand – BayWa's most important non-European country of origin for fruit – recorded its smallest apple harvest since 2013/14. Adverse climatic growth conditions led not only to lower harvest volumes, but also to poorer fruit quality. The country also saw an extensive shortage of harvest workers on account of the pandemic-related restrictions on travel to New Zealand. Based on the current status of fruit development, the World Apple and Pear Association (WAPA) forecasts that the apple harvest in the southern hemisphere will increase by just under 6% to 5.1 million tonnes in the harvest year 2022/23. All countries except Australia look likely to benefit from higher harvest volumes. In New Zealand, the harvest volume is expected to increase by just under 7% (WAPA, Southern Hemisphere Apple and Pear Crop Forecast, February 2023), mainly due to the opening of New Zealand's borders to the outside world and the associated return of foreign workers. In the wake of the natural disaster caused by the floods that have occurred in New Zealand since mid-February 2023 and have affected T&G Global's cultivation regions, among many others, the above forecast may fail to fully materialise. However, it is not yet possible to make a credible assessment.

Development of agricultural inputs

Prices of agricultural inputs rose by a clear margin year on year, especially in the first half of 2022. Fertilizer prices were 99% higher on average than in the previous year (Destatis, Index of purchase prices of the means of agricultural production, Genesis 61221-0001). Sales fell by around 7% due to higher prices for all types of fertilizer, including nitrogen, phosphate, potash and calcium fertilizers (Destatis, Domestic sales of fertilisers, Genesis 42321-0003). Business involving fertilizers depends on many factors, such as weather conditions and regulations such as the German Fertiliser Application Ordinance (DüV), as well as the energy price. Producing mineral fertilizers is particularly energy intensive, and the sharp rise in prices on energy markets that began in the final months of 2021 and gained further momentum as a result of the war against Ukraine have made the fabrication of mineral fertilizers so much more expensive that some manufacturers have scaled back their production by a clear margin or have even temporarily halted their activities altogether. That development led to a shortage of mineral fertilizers on the western European market in 2022 (Jahresbericht Agrarwirtschaft 2022, p. 18). In the final months of 2022, prices started to fall again on account of lower gas prices and adequate supply on the market. This trend could result in a slight increase in demand among farmers, especially for nitrogen fertilizers. The German Fertiliser Application Ordinance (DüV) is likely to have the opposite effect. As a consequence of the amendments to the DüV in 2020, Germany's federal states had until November 2022 to update their lists of nitrate-contaminated areas ("red areas") (https://www.bmel.de/DE/themen/

landwirtschaft/pflanzenbau/ackerbau/neuausweisung-belasteter-gebiete.html). The number of red areas is expected to rise, further restricting the use of fertilizers and leading to another drop in fertilizer sales in 2023.

Sales of crop protection products decreased by around 7.7% in 2022 (DRV, Jahresbericht Agrarwirtschaft 2022, pp. 18–19). Strained supply chains led to overall product scarcity on the market. Average crop protection prices increased by around 14%, placing them well above the level seen in the previous year (Destatis, Index of purchase prices of the means of agricultural production, Genesis 61221-0001). The use of crop protection products depends first and foremost on weather conditions and their consequences, such as crop diseases and pest infestations. Assuming largely unchanged conditions such as cultivation structure, weather conditions and prices, the use of crop protection is expected to continue decreasing structurally in 2023 due to social and political factors. The European Commission and the German federal government, for instance, both want to further reduce the use of crop protection products. In mid-2022, the Commission published a proposal for a new EU crop protection use regulation (Sustainable Use Regulation – SUR). The regulation calls for a 50% reduction by 2030 and a total ban in all nature reserves (DRV, Jahresbericht Agrarwirtschaft 2022, p. 19).

The seed market is mainly influenced by the development of land under cultivation for grain, corn and rapeseed. All in all, land available for cultivation in Germany was slightly higher than in the previous year in 2022 (Destatis, Field crops and grassland, acreage, 2022, 23 January 2023). As a result, seed sales in the industry are likely to have also seen stable or slightly rising development in 2022. Seed prices increased by 17.5% year on year in 2022 (Destatis, Index of purchase prices of the means of agricultural production, Genesis 61221-0001). Assuming largely constant areas under cultivation and normal weather conditions, seed sales in 2023 should be on a par with the previous year.

Feedstuff production fell by 4.4% nationwide in the marketing year 2021/22 to 22.86 million tonnes of mixed feed. By animal species, roughly 9.06 million tonnes were attributable to pigfeed, a decrease of 7.7% year on year. The clear rise in agricultural input costs and stricter regulatory requirements stood in contrast to slaughter animal prices that were not fully sufficient to cover costs. The 4.3% decline in cattle feed to 6.84 tonnes is mainly attributable to sufficient levels of basic feedstuff from the 2021 harvest. By contrast, production volumes of poultry feed (6.37 million tonnes) as well as horse feed and other mixed feed (0.59 million tonnes) were roughly on a par with the previous year (DRV, Jahresbericht Agrarwirtschaft 2022, p. 29 et seq.). At the end of 2022, feedstuff prices were 38.1% higher than the previous year's level (Destatis, Index of purchase prices of the means of agricultural production 2022, Genesis 61221-0001). In pig farming, rising agricultural input prices, the persistent spread of animal diseases such as African swine fever and lower consumer demand have started leading to a clear reduction in stocks in the short to medium term. According to the Federal Statistical Office of Germany, the number of pigs fell by 10.2% year on year to 21.3 million animals as at 3 November 2022. Cattle stocks are likely to remain relatively constant in the near future, with a slight increase generally forecast for poultry. However, the latest outbreaks of avian influenza and the associated bans on the reintroduction of poultry have led to a decline in feedstuff sales. Against the backdrop of an overall reduction in animal stocks, slightly negative market development can be expected in 2023 (DRV, Jahresbericht Agrarwirtschaft 2022, p. 31).

Development of agricultural equipment

The economic situation of German farmers saw clear improvement in the marketing year 2021/22 compared to the previous year, especially at crop and dairy farms. On average, earnings were roughly 49% higher year on year at professionally run farms. The increase is primarily attributable to short-term price hikes and therefore higher producer prices on account of global supply shortfalls rather than improved competitiveness. In the current year, 2022/23, producer prices are expected to be more stable for most agricultural products, which is likely to lead to lower earnings year on year in the marketing year 2022/23 that are nevertheless above the long-term average (DBV, Situationsbericht 2022/23, p. 170 et seq.).

At the same time, the economic barometer for agriculture published by the German Farmers' Association (Deutscher Bauernverband – DBV), which measures sentiment in the agricultural sector, indicated clear improvement at the start of the year. The index climbed by 8.8 points year on year to 14.9, a level last seen in mid-2021. However, the sentiment indicator remains a snapshot, according to the DBV, and mainly reflects the previous year's improved earnings (DBV, Konjunktur- und Investitionsbarometer Agrar, January 2023).

Agricultural equipment manufacturers' revenues were robust. According to estimates by the VDMA (German Mechanical Engineering Industry Association), the industry's revenues increased by 18% to €12 billion in 2022, thereby setting a new record. Nevertheless, agricultural machinery trading was tense in 2022 on account of shortages and logistics bottlenecks that are gradually easing (VDMA Agricultural Machinery Association, press release 27 February 2023, Landtechnikindustrie setzt erstmals mehr als 12 Milliarden Euro um).

At 34%, the general propensity of farmers to make investments was slightly lower in the first half of 2023 than in the previous year (37%). However, the planned investment volume for the first six months of 2023, at €5.8 billion, is clearly higher than in the same period of the previous year (first six months of 2022: €5.0 billion). Farmers are focusing on investments in renewable energies and land purchases. By contrast, machinery, equipment and farm buildings are planned less frequently and are generally stagnant in terms of volume (DBV, Konjunktur- und Investitionsbarometer Agrar, first and second quarter of 2023, pp. 5–6).

Business performance

Cefetra Group Segment
In the Cefetra Group Segment, BayWa acts as a supply chain manager for agricultural products – from purchasing and logistics to distribution. The main customer groups are grain and oil mills, producers of starch and feedstuff, malt houses and breweries, as well as makers of baked goods, biofuel and spirits.

In 2022, the Cefetra Group's trading environment was characterised by tremendous supply insecurity. Lower grain availability on account of the war against Ukraine and heat waves in parts of Europe and the US led to uncertainty on commodity exchanges, which caused extreme price increases for nearly all types of grain in some cases, especially in the first half of 2022. Prices of wheat, corn and rapeseed saw increases of between 40% and 60% at times in the first five months of the reporting year. After Ukraine and Russia agreed on a grain export deal, prices began to fall from June onward. Nevertheless, the commodity exchanges remained volatile and posted above-average prices. The Cefetra Group was able to benefit greatly from the trade opportunities resulting from these conditions in the reporting period.

The Cefetra Group Segment's grain and oilseed handling volume fell by around 13% to €16.2 million in the financial year 2022. This development was due to weaker demand for feedstuff, especially in the Benelux countries, and to the limited volume of exports from Ukraine. In addition, trade activities were negatively impacted by higher logistics costs. Despite the tense market situation, the Cefetra Group continued being able to make deliveries thanks to a broad supplier network and access to numerous procurement markets. To strengthen its sales region within the traditional feedstuff and grain trade business, especially in the United Kingdom and Ireland, the Cefetra Group acquired two granaries in Scotland for around €8.3 million in the reporting period. These grain processing and storage facilities – which also dry, clean and analyse grain – give the Cefetra Group access to the infrastructure it needs to be active in the most important grain-growing regions of Scotland, allowing Cefetra to expand its customer portfolio and become a key supplier for whisky producers.

Expansion and product diversification of the portfolio in the higher-margin specialities business have evolved into the primary drivers of earnings in the Cefetra Group Segment in recent years. The subsidiary Royal Ingredients Group B.V. has seen the strongest growth in earnings, thanks in particular to the expansion of sales and distribution activities in the US. The ventures established in 2021 – including the Sedaco trading centre in Dubai and Cefetra Dairy, which extends the range of specialities to include dairy products and alternatives – are developing according to plan. Cefetra Dairy succeeded in already generating a positive earnings contribution in the reporting year. In the second quarter of 2022, the Cefetra Group further expand its specialities business by taking over a majority stake in the nut and dried fruit trader Heinrich Brüning GmbH, registered in Hamburg, Germany.

To support the BayWa Group's sustainability efforts, the transport logistics activities of the subsidiary Cefetra B.V. in the Netherlands were converted to fossil-free diesel fuel with effect from 1 January 2022. As a result, the carbon footprint attributable to logistics at the subsidiary Cefetra B.V. is now 80% to 90% lower, bringing it one giant step closer to achieving the Group's target of being climate neutral by 2030.

Driven by market factors, the Cefetra Group Segment's revenues increased by 22.3% in the reporting year to stand at €6,111.2, following €4,996.3 million in the previous year. EBIT rose by 53.4% from €38.8 million in the previous year to €59.5 million in the reporting period, thanks primarily to the expansion of the higher-margin specialities business and further product diversification in sustainable products, as well as high volatility and price increases in the commodities business.

Agri Trade & Service Segment

The Agri Trade & Service Segment comprises the agricultural input business, the collecting of agricultural products and grain and oilseed trade activities, primarily in Germany and Austria. Aside from the fundamentally tense global food supply situation, the dominant factors in the Agri Trade & Service Segment in the financial year 2022 were rising prices for agricultural products and agricultural inputs alike. The war against Ukraine further strengthened already existing market-driving forces. Nevertheless, it was possible for BayWa to increase EBIT despite a generally difficult market situation overall and outperform its guidance by a clear margin. Product availability was a major factor in the Group's financial success and was able to be ensured through proactive inventory and purchasing management. As grain resources around the world have been scarce for a number of years and supply chains are under strain, the BayWa Group had already been operating on the basis of limited supply and high prices before the war against Ukraine, and was positioned accordingly.

In the agricultural input business, the BayWa Group's sales of fertilizers rose by around 1.1% year on year to stand at 2.3 million tonnes in the reporting period. Agricultural customers' concerns about supply bottlenecks and additional price hikes led in some cases to early stockpiling for the fertilizer season 2023. Forward-looking purchasing and high fertilizer prices on the whole led to above-average trade margins. As in the fertilizer market, agricultural customers found themselves confronted with higher prices and supply issues when it came to crop protection products. Hot and humid weather in southern Germany also led to increased demand for fungicides. Thanks to an extensive supplier network, BayWa was able to keep its customers supplied with crop protection products, expand its market share and increase income by a clear margin. In the seed business, the expansion of the product portfolio to include high-margin exclusive varieties (oleaginous fruits) and private brands is having a positive effect. BayWa's seed sales increased by 1.7%. In terms of feedstuff, BayWa managed to keep its sales volume on a par with the previous year, thanks largely to positive development in complementary ranges, especially private brands.

In trade involving agricultural products (grain and oilseed), trading volume almost matched the previous year, coming in at 8.2 million tonnes in 2022. While grain volume saw a rise of 3.3%, oilseed volume fell by 16.5% due to catch-up effects from 2020 and anticipatory effects from 2022 that manifested themselves in 2021. Harvest collection figures for the grain year 2022/23 at the BayWa Group are roughly on a par with 2021/22, with only corn falling short of the very good previous year. The grain maize harvest saw losses due to heat and dry conditions. Intelligent trading portfolio management in the face of volatile prices that nevertheless increased on the whole enabled the company to participate in market trends and generate above-average margins in product trading. What is more, the optimisation of trade management and distribution processes in domestic grain trading had a positive effect in the reporting period. As a result, the contracts concluded in 2021 were reflected in earnings in the reporting year and made a major contribution to the positive performance.

All in all, revenues in the Agri Trade & Service Segment were up by 37.6% to €5,750.7 million. There was a sharp rise in EBIT compared to the previous year, of €92.4 million to €104.7 million (2021: €12.3 million).

Agricultural Equipment Segment

The Agricultural Equipment Segment performed extremely well in the financial year 2022, exceeding the previous year's earnings. The cautious forecast at the start of the year – especially for new machinery sales – failed to materialise, and the segment succeeded in raising its sales figures.

This positive development was chiefly due to farmers' ongoing willingness to invest due to good harvest yields and the availability of new machinery thanks to manufacturers' successive handling of the production backlog caused by component shortages and the Covid lockdown in 2021. The situation resulted in additional opportunities to serve customers at short notice, particularly in the first half of the year. It was also possible to process and invoice the order backlog from 2021. The Agricultural Equipment Segment sold a total of 5,025 new machines in the reporting period, 52 more than in the financial year 2021. Agricultural machinery price increases announced by manufacturers are additionally likely to have led to anticipatory effects. Likewise, the "Investitionsprogramm Landwirtschaft" (investment programme for agriculture; also known as "Bauern-milliarde" – farmers' billion) had a supportive effect. At 1,724 tractors, sales figures were lower in the used equipment business (2021: 2,119 tractors). In the previous year, the used equipment business had benefited from a short supply of new machinery.

The service business saw brisk demand for servicing and spare parts in the financial year 2022. This positive development was attributable to a variety of factors, including the above-average registration figures in past years. In addition, BayWa succeeded in meeting demand despite the pandemic and largely compensating for higher costs by raising prices. Beyond that, BayWa increased revenues in online trade by just under 25% by expanding product ranges.

Along with its core business in Germany and Austria, BayWa Agricultural Equipment's international business at the Dutch subsidiary Agrimec Group B.V. and CLAAS International (Canada) also reported clear increases in revenues and EBIT. In addition, the subsidiary CLAAS International opened its sixth location – in Medicine Hat, Alberta – in the first quarter of 2022.

One important strategic focal point in the reporting year involved leveraging synergies in the Agri Trade & Service and Agricultural Equipment Segments by building new integrated Service Center Agricultural Equipment and Machinery and consolidating existing ones to provide both segments' customer groups, which are largely identical, with comprehensive service along the value chain. As a result, two new Agricultural Equipment service centres opened in the reporting period: in Gaden (near Abensberg) and in Großostheim (near Aschaffenburg), both in Germany. In Nürtingen, Germany, construction of a new combined location began in June.

Overall, the Agricultural Equipment Segment again surpassed the previous year's record revenues of €1,909.0 million – this time by 8.8% – with a figure of €2,076.5 million. EBIT rose to €70.2 million in the reporting period, up from €48.6 million in the previous year.

Global Produce Segment

The Global Produce Segment, which covers the entire fruit and vegetable marketing value chain, was influenced by difficult overall conditions in the financial year 2022. Key factors included rising inflation, higher energy costs, geopolitical uncertainty and a resulting noticeable decline in consumer spending on fruit and vegetables. At the same time, the availability of goods was high in the market due to remaining stocks from the previous year's harvest. Because this development led to noticeable price pressure, it was not possible to pass the higher energy and logistics costs in the Global Produce Segment onto retailers. As a result, they had an adverse effect on trade margins in the segment.

At the New Zealand subsidiary T&G Global Limited (T&G Global), unfavourable growing conditions due to the La Niña weather pattern, as well as a pandemic-related shortage of harvest workers, acted as a further specific cause of lower marketing volumes. In addition, the export business encountered sluggish demand in target markets such as China, where trade was negatively influenced by the country's zero-Covid policy, along with interruptions in the supply chain.

Europe saw a clear change in consumer behaviour compared to the early days of the coronavius pandemic, with consumers spending less on fruit and vegetables in particular as a result of the sharp rise in energy costs. Against this backdrop, German producers, wholesalers and retailers were forced to offer discounts and focus on less expensive products from local regions.

In addition, the general costs and price increases fuelled a trend towards substituting more affordable regional products for premium fruit varieties on European markets. The trend was mainly apparent with regard to the marketing of exotic fruits and was therefore reflected in the business performance of TFC Holland B.V. (TFC). Moreover, logistics bottlenecks led to higher costs, since it sometimes became necessary to stock up capacities at much higher prices on the spot market.

The above factors resulted in a clear decline in trade margins in the Global Produce Segment, even though apple marketing volumes increased by around 8%. However, it should be noted that part of this high marketing volume was sold at low prices in third countries outside of Europe in order to clear stocks. Furthermore, the segment recorded a nearly 48% drop in soft and stone fruit sales. By contrast, sales of tropical fruit and vegetable fruits rose by just under 3% and roughly 8%, respectively.

The sale of the majority stake in the climate-controlled greenhouse in the United Arab Emirates (UAE) to Pure Harvest Smart Farms, a local fruit and vegetable producer, closed on 31 July 2022, resulting in a positive earnings effect of around €3 million. The climate-controlled greenhouse in Al Ain was designed from the start to be a pilot project with the aim of testing a new business model for a sustainable global system of supplying food. BayWa intends to use the experience it has gained to continue participating in infrastructure projects of this nature going forward.

In December 2022, the modernisation and expansion of the organic packaging station at the German fruit location in Ravensburg was also completed. With a new sorting facility and three additional packaging lines, BayWa is strengthening its organic marketing activities and further expanding its plastic-free packaging capacities.

Overall, the Global Produce Segment generated revenues of €921.3 million in the reporting period, following €960.7 million in the previous year. EBIT decreased by €21.5 million year on year in 2022 to stand at €21.1 million (2021: €42.6 million). The decline was attributable to cost increases throughout the supply chain. The higher procurement costs for exotic fruits had a particularly negative impact here. Since it was not possible to pass the expense on to customers, trade margins were much lower in the reporting period.

Building materials business unit

Market and industry development 2022/23

Development of building materials
The German construction sector faced a difficult environment in 2022. A positive trend in the industry's indicators during the first quarter of the year was followed by a pronounced downturn from April onwards. International supply chain problems, the war in Ukraine, which led to a further hike in already high building materials prices, rising inflation and the upturn in interest rates had an increasingly negative effect on the construction industry in Germany in the reporting period.

Overall, the German construction sector saw a nominal rise in revenues of around 12% year on year. Adjusted for price increases, however, this amounted to a decline of roughly 5%. Along with supply chain problems, advancing energy prices also pushed up the cost of building materials. Although the supply chain situation eased and most producer prices for building materials fell in the second half of the year, producer prices for a large number of building materials were above the previous year's level at the end of 2022 (HDB, press release of 22 December 2022, p. 3). For example, bitumen recorded a year-on-year increase of around 7% in December 2022, while cement was up by almost 27% and asphalt mix by almost 31% (Federal Statistical Office of Germany, Baustatistischer Rundschreibendienst, 20 January 2023). These developments are affecting all three sectors of the construction industry: residential, commercial and public.

Residential construction was hit by a decline of around 4% in real terms in 2022, predominantly due to higher prices for building materials. In addition, the initially unclear rules on future KfW subsidies for energy-efficient new builds and the renovation of housing stock caused significant unease among market players, prompting them to hold back with building contracts. The interest rate turnaround in the course of 2022 has put an end to the historically low mortgage rates that were a key driver of new housing construction in recent years. As a consequence, construction loans have become much more expensive. During the 12 months of 2022, the interest rate for mortgages of ten years or longer more than tripled to over 4% (HDB, press release of 22 December 2022, p. 2).

Commercial construction saw a fall in revenues of around 5% in 2022 (after adjustment for price changes). As in the previous years, there was a drop in the number of permits for new buildings such as factories and workshops. In the commercial segments, soaring gas and oil prices are leading to more investment in sources of green energy than in new construction projects (HDB, press release of 22 December 2022, p. 3).

Revenues from public-sector construction also decreased in 2022 due to higher building costs, falling by 6% in real terms. Planned investments came up against rocketing construction prices, meaning that many projects were not implemented (HDB, press release of 22 December 2022, p. 4). The German federal government failed to achieve its investment targets in areas such as infrastructure (ZDB, press release of 6 December 2022, p. 6).

According to the ifo Institute's economic survey from November 2022, the construction industry is also being held back by the shortage of skilled labour, with 38% of companies citing this factor as a hindrance to their production activities. There is a lack of skilled construction workers and, above all, of construction engineers (HDB, press release of 22 December 2022).

Although the German construction sector began 2023 with a historically high order backlog, its revenues are expected to decline by between 6% and 7% in real terms due to persistently high inflation and the increased cost of construction loans (HDB, www.bauindustrie.de, 18 January 2023; ZDB, press release of 6 December 2022, p. 2). As the year progresses, the capacities built up in recent years will no longer be utilised, which could lead to competitive pressure among companies (ZDB, press release of 6 December 2022, p. 2).

Sustained high inflation, spiralling mortgage rates and the related rise in the cost of construction loans (ZDB, press release of 6 December 2022, pp. 2–3) are likely to thwart investment in new housing projects in 2023. Of the 400,000 new residential units planned by the German government each year, no more than 242,000 are expected to be completed in 2023 (Handelsblatt.de, Mehr Wohnungen ab 2024?, 18 January 2023). Demand for renovation work and the return of special depreciation arrangements for the construction of rental apartments should have a positive effect (ZDB, press release of 6 December 2022, p. 4). However, this will not compensate for the expected fall in investment in new builds (HDB, www.bauindustrie.de, 18 January 2023; ZDB, press release of 6 December 2022, p. 4).

In the commercial sector, revenues are predicted to decrease by between 4% and 6% in real terms in 2023 (HDB, www.bauindustrie.de, 18 January 2023; ZDB, press release of 6 December 2022, p. 5). Although rising investments – including those by Deutsche Bahn – are likely to boost activity, the hike in construction prices caused by factors such as high borrowing costs will have a sustained negative effect on demand in the commercial sector. As a consequence, revenues are forecast to drop in real terms in 2023 (ZDB, press release of 6 December 2022, p. 5).

The outlook for public-sector construction depends on the extent to which the upturn in interest rates and soaring government debt lead to the consolidation of public finances being prioritised and to investments being postponed (HDB, press release of 22 December 2022, p. 4). Revenues in this sector are expected to fall by between 4.5% and 5% in real terms in 2023 (ZDB, press release of 6 December 2022, p. 6; HDB, www.bauindustrie.de, 18 January 2023).

Business performance

Building Materials Segment

BayWa recorded a strong financial year in its Building Materials Segment in 2022. Stable construction activity and favourable weather conditions in the spring allowed an early start to the season in the reporting period, and ensured high demand on the relevant markets in building materials trade activities. Above all, the building construction, roofing, drywall and civil engineering segments reported a substantial rise in revenues thanks mainly to price increases across all product groups and persistently high demand. The German federal government's ambitious climate targets mean that renovation is becoming an increasingly important area, as shown primarily by the growing demand for insulation materials in the reporting period.

BayWa responded to the limited availability of goods due to the energy crisis with efficient use of warehouse infrastructure, good inventory management and a diversified and stable supplier network. As a result, BayWa was able to deliver products almost without interruption and successfully generated higher trade margins thanks to its competitive advantage, despite the temporary low availability of products on the market. The specialisation in civil engineering and broadband that was rolled out in the reporting year also helped make this possible. Thanks to its specialisation and geographical diversity, the Building Materials Segment was able to anticipate market developments at an early stage and secure the availability of products, having previously introduced sale and product range specialisations in wooden construction, formwork equipment, prefabricated components, metal roofing, flat roofing, building components and pallets.

BayWa Bau Projekt GmbH was also able to make a positive contribution to business development. The reporting period saw the completion of two projects: Novum in Burgkirchen and Lanzenhaarer Weg in Sauerlach, both in Germany. It was possible to market all the residential units in the latter development during the reporting year. Fifteen new projects were acquired for the project pipeline in 2022.

Furthermore, BayWa increased its investment in Tjiko GmbH, a manufacturer of industrially prefabricated wood bathroom modules. The new stake of 67% made BayWa the majority shareholder and enabled it to fully consolidate Tjiko GmbH's business with retroactive effect from 1 January 2022.

One of BayWa's private brands, Valut, repositioned itself on the market in 2022 by relaunching its website www.valut.de. The new internet presence of the roofing materials provider makes planning and purchasing roof products easier thanks to the addition of user-friendly special functions that sharpen Valut's brand profile – and once again set BayWa apart from its competitors.

As part of efforts to position the company as an integrated multi-specialist, BayWa has made further progress in linking online and stationary sales channels. Initial customer systems have also been digitally connected to BayWa's inventory management system, which simplifies the wholesale ordering process.

Overall, the Building Materials Segment's revenues increased by 12.6% to €2,346.9 million in 2022, mainly due to price effects. EBIT fell slightly year on year to €70.4 million, primarily as a result of lower sales of building materials and higher investments in the expansion of BayWa's private brands.

Innovation & Digitalisation Segment

Market and industry development 2022/23

Digital applications for smart farming and precision farming, up to and including trading platforms, are playing an ever greater role in supporting day-to-day work processes and in planning and managing operations in agriculture.

According to a representative survey of 500 German farmers in March 2022 by the digital association Bitkom (Branchenverband der deutschen Informations- und Telekommunikationsbranche e. V.), 79% of farms are already using Digital Farming applications. The most common ones are GPS-controlled agricultural machines, which are deployed by more than half of German farms. At the time of the survey, one in six farms also had concrete plans to invest in Digital Farming applications in the next 12 months. The survey identified particularly significant potential in applications for the site-specific distribution of fertilizers and crop protection products, which are currently only used by 30% and 23% of farms respectively. Satellite data and algorithms help calculate figures such as specific fertilizer requirements, thereby promoting the conservation of resources and increasing harvest yields, to name just two benefits. Moreover, most of the farmers questioned believe that digital technologies and processes can make an important contribution to improving efficiency in agricultural production while also protecting the environment and the climate (Bitkom e. V., Die Digitalisierung der Landwirtschaft, May 2022).

The general shift of retail sales to digital channels has continued in recent years. Yet in 2022 online retailers were unable to match the high sales achieved in the previous year. Following a strong start to the year with double-digit growth rates, the online retail sector experienced an abrupt downturn into negative territory when the war against Ukraine broke out. The rest of 2022 was marked by noticeably muted consumer spending. According to Bundesverband E-Commerce und Versandhandel Deutschland e.V. (German e-commerce and distance selling trade association – bevh), revenues from interactive retail declined by 5.2% overall to €102.7 billion (2021: €108.3 billion). bevh expects e-commerce to grow by around 4.8% in the financial year 2023 (bevh, Umsätze im E-Commerce mit Waren und Dienstleistungen erneut über 100 Mrd. Euro, January 2023).

The B2B e-commerce segment, which mainly comprises digital business models of manufacturers and wholesalers, is much larger. This market environment is also seeing the significance of online shops and marketplaces increase every year. According to B2B-Marktmonitor 2022, a joint study by ECC KÖLN (a subsidiary of IFH KÖLN – Institut für Handelsforschung e. V.) in cooperation with Adobe, Creditreform and Intershop, B2B e-commerce revenues in Germany's wholesale sector alone amounted to around €591 billion in 2022 (2021: €493 billion). This total also includes conventional digital platforms that are used to share information, place orders and create invoices. Professional B2B online shops and marketplaces are becoming a more and more prominent feature in the wholesale sector, with revenues on these channels growing by an average of 25.7%

between 2012 and 2021 to roughly €209 billion. An estimated €280 billion was generated through B2B e-commerce in 2022, equating to a 16.5% share of total wholesale revenues. ECC's experts predict that this segment will remain an important growth driver in the years ahead (ECC KÖLN with Adobe, Creditreform and Intershop, B2B-Marktmonitor, October 2022).

Business performance

The Innovation & Digitalisation Segment pools all activities of the BayWa Group in its Digital Farming and eBusiness divisions. Digital Farming mainly includes the NEXT Farming PRO and NEXT Farming LIVE software products, as well as analyses, advisory services and hardware components from FarmFacts GmbH. Added to this are satellite-based products for site-specific cultivation from the Group company VISTA Geowissenschaftliche Fernerkundung GmbH, which are also marketed via FarmFacts GmbH. The eBusiness division covers nearly all of BayWa's online sales activities. Acting as a service provider for the operating segments, it is responsible for the availability and enhancement of the online channels. The costs incurred are not matched against revenues and earnings, since the latter are attributed to the operating segment that is home to the relevant product sold. Starting in 2023, the main costs arising from the eBusiness division will be allocated directly to the corresponding operating segments. In addition, general expenses for the technical advancement of the eBusiness division will be reported under Other Activities in future.

In the financial year 2022, the Digital Farming division was not quite able to match the revenues of the previous year. The volatility and unease on agricultural markets made farmers reluctant to invest in new software. Software licences and software maintenance contracts accounted for 40% of revenues, followed by services (37%) such as soil sampling and satellite-based products for site-specific cultivation, including analyses and advice. Sensors, measurement systems for soil analysis programmes and other hardware contributed just under 23% of revenues.

The eBusiness division benefited from higher demand in B2B business and recorded tremendous growth across almost all ranges. Revenues generated through BayWa's eBusiness channels rose by almost 52% in the reporting year thanks to the continuous expansion of online systems and technical developments, as well as an extended product range.

All in all, revenues in the Innovation & Digitalisation Segment fell to €10.4 million in 2022 (2021: €11.1 million), excluding online revenues through eBusiness channels, which are attributed to the corresponding segment. EBIT amounted to minus €11.4 million in the reporting period, as expected, following the figure of minus €20.2 million posted in the previous year. In 2021, impairments on property, plant and equipment, and intangible assets, such as discontinued IT applications, led to higher negative EBIT, which was not repeated in the reporting year. Cost reduction measures were also successfully implemented in 2022.

Development of Other Activities in 2022

At €12.0 million, the Other Activities Segment's revenues in the reporting year were on a similar level to the previous year (2021: €10.9 million). EBIT resulting from Other Activities consists of the Group's administration costs, as well as consolidation effects; in 2022, it came to minus €103.1 million, following minus €81.1 million in the previous year. The decline in earnings compared to 2021 is primarily due to an increase in D&O insurance premiums, as well as higher personnel costs as a result of the greater number of employees and higher bonus payments. Additional costs were also incurred for the Group-wide renewal of the digital inventory management system, the expansion of IT security and the dismantling of company buildings.

Assets, financial position and earnings position of the BayWa Group

Assets position

Composition of assets

In € million	2018	2019	2020	2021	**2022**	Change 2022/21
Non-current assets	2,476.9	3,090.5	3,538.9	3,771.3	4,390.9	16.4%
thereof: land and buildings	827.2	1,377.1	1,456.4	1,481.3	1,580.4	6.7%
thereof: technical facilities and machinery	342.9	411.3	642.4	753.4	1,102.7	46.4%
thereof: investments	204.5	218.3	194.0	254.9	229.0	- 10.2%
Non-current asset ratio (in %)	33.0	35.2	39.5	32.0	33.8	–
Current assets [1]	5,034.6	5,691.4	5,411.1	8,000.1	8,585.5	7.3%
thereof: inventories	2,909.5	3,286.4	2,939.2	4,213.0	4,756.8	12.9%
thereof: assets from derivatives	220.1	145.7	457.4	1,049.1	611.2	- 41.7%
Current asset ratio (in %)	67.0	64.8	60.5	68.0	66.2	–
Total assets	**7,511.5**	**8,781.9**	**8,950.0**	**11,771.4**	**12,976.4**	**10.2%**

1 Including non-current assets held for sale/disposal groups

The BayWa Group's total assets stood at €12,976.4 million as at 31 December 2022, up by €1,205.0 million, or 10.2%, on the previous year's figure. The increase is attributable to both non-current and current assets, with the main drivers being inventories and property, plant and equipment, along with current receivables and other assets.

Non-current assets rose from €3,771.3 million at the beginning of the financial year to €4,390.9 million as at 31 December 2022. This corresponds to growth of €619.6 million or 16.4%.

The largest increase (€505.5 million in total) was recorded in property, plant and equipment and relates to land (up €99.1 million) and in particular technical facilities and machinery (up €349.3 million). This reflects repair and maintenance investments, as well as the reclassification of wind farms and solar parks from inventories. If these installations are transferred to the IPP business entity in the Renewable Energies Segment after completion, corresponding additions are made to land and technical facilities. There was also a rise in prepayments and assets under construction of €48.1 million.

Other items that saw increases are participating interests recognised at equity (up €36.1 million; due to acquisitions) and intangible assets (up €24.8 million). A key factor here is the goodwill resulting from the companies purchased in the financial year 2022. Finally, deferred tax assets were also up year on year, climbing by €42.3 million.

The opposite trend was shown by investments, which were €25.9 million lower than at the end of the previous year. The decline is attributable in particular to the fair value measurement of the shares in Raiffeisen Bank International, Vienna, Austria (minus €40.5 million), but was partially offset by the rise in the number of shares in affiliated companies and the increase in other loans.

Current assets grew by €590.4 million, or 7.4%, year on year, totalling €8,569.1 million as at 31 December 2022. The first main driver of this growth is inventories (up €543.8 million), and especially the €715.8 million rise in the volume of inventories as a result of price increases in the financial year 2022, which was somewhat compensated for by the €274.3 million decrease in unfinished goods. This decline is due in particular to projects in the Renewable Energies Segment that were still in progress at the end of 2021 and completed in the financial year 2022. The projects in question were either sold or transferred to the IPP business entity. The second main driver is other current receivables and other current financial assets (plus €481.4 million), with the largest increase being recorded in trade receivables – primarily due to the price trends seen on the energy and commodity markets in the reporting year. Other current non-financial assets are also higher than in the previous year (up €152.0 million). The only significant offsetting effects are from cash and cash equivalents (minus €177.3 million) and assets from derivatives (minus €437.9 million); the latter chiefly reflects the offsetting of assets and liabilities in energy trading in the Renewable Energies Segment since the financial year

2022. The decline in cash and cash equivalents is mainly attributable to the use of all cash – where possible – to reduce financial liabilities within the scope of cash management at the BayWa Group.

The BayWa Group places an emphasis on ensuring matching maturities in the financing of assets. Current liabilities of €5,570.3 million in total – consisting of short-term debt, trade payables, financial and non-financial liabilities, tax, other liabilities along with current provisions and liabilities from disposal groups – were offset by current assets and assets held for sale/disposal groups of €8,585.5 million. There was roughly 169% coverage for non-current assets amounting to €4,390.9 million through equity and long-term borrowing of €7,406.1 million. Ensuring matched maturities in financing is an important quality criterion for the financing partners of BayWa in the context of raising funds.

Financial position

Financial management

The aim of financial management within the BayWa Group is to provide the cash and cash equivalents required for the purpose of conducting regular business at all times. This task includes hedging against interest rate risk, currency risk and merchandise-related market risks by using suitable derivative instruments.

Currency futures and swaps are used selectively to hedge receivables and liabilities denominated in a foreign currency. These currency futures and swaps serve exclusively to hedge existing and future receivables and liabilities from underlyings in the purchase and sale of merchandise within the scope of customary business operations. Hedging transactions in the BayWa Group are designed to reduce the risks associated with fluctuating exchange rates. The volume of open positions arising from the respective underlyings and the resulting cash flows forms the basis for FX hedges. Terms reflect those of the underlyings.

Within the BayWa Group, financial management has been set up as a service centre for the operating business sections and not as a profit centre in its own right. In accordance with this conservative approach to providing services, the use of fungible financial products to generate original profit contribution in financial operations has been waived. In particular, there are no speculative risk positions in our financial operations.

Day-to-day financial management is focused on liquidity management through cash pooling within the whole Group for the same-day provision of liquidity. At the same time, incoming payments and bank balances are used to reduce financial liabilities. Corporate Treasury uses suitable IT systems and appropriate treasury management software for this purpose.

The procurement of funds is organised centrally, with the exception of the activities in New Zealand, the Netherlands, Austria and eastern Europe. Corporate Treasury is responsible for the centralised monitoring of Group-wide financial exposures.

Financial management is subject to requirements imposed by an internal control system, which includes the documentation of transactions, a hierarchy of approval and resolution procedures, the principle of dual control as well as the segregation of Treasury front, middle and back offices.

To strengthen its financial profile, the BayWa Group changed its financing strategy in the financial year 2021 and took out a sustainable syndicated loan in the amount of €1.7 billion in September of that year, which was increased to €2.0 billion in 2022. The conditions for the loan are linked to the sustainability rating of the agency MSCI. An increase in the present rating from AA to AAA reduces the current interest margin. A downgrade increases the interest margin. The new credit line must be used by September 2024 and can be extended twice for one year in each instance. The new syndicated loan replaces the bilateral and unsecured credit lines extended by the participating banks that were payable on a daily basis. At all times, lines of financing were available in an amount sufficient to ensure the business operations of the BayWa Group. By contrast, investments in property, plant and equipment, as well as acquisitions, will continue to be financed from equity and from the proceeds of long-term capital market transactions and other long-term loans. These include issued bonded loans (for the terms and conditions, please refer to Note C.14 of the Notes to the Consolidated Financial Statements), a corporate bond issued in June 2019 (coupon of 3.125%, listed on the Luxembourg Stock Exchange, ISIN XS2002496409, denomination per unit of €1,000, term ends 26 June 2024). The hybrid bond with a volume of €300.0 million issued in October 2017 (ISIN XS1695284114) was terminated in due time and repaid in full at the contractually agreed, first possible repayment date in October 2022. The capital market measures therefore diversify the refinancing portfolio.

In addition, the project companies in the Renewable Energies Segment have access to separate non-recourse financing (without the lenders having access to the BayWa Group's assets and cash flows).

The management of working capital is a focal point at BayWa and comprises the optimisation of working capital as a net figure for current assets less current liabilities.

Interest rate risks inherent in short-term debt are covered by BayWa in the context of its risk management through the use of simple derivative instruments. Long-term interest rates were hedged naturally by issuing bonded loans in 2022, 2021, 2018, 2015 and 2014, as both fixed-interest and variable-interest rate tranches were issued and the interest rate risk was reduced as a result. The fixed coupon of the hybrid bond that was issued led to an increase in the hedge ratio by means of natural hedging.

Around 50% of the total borrowing portfolio is to be secured against interest rate risk through the respective hedging instruments. This partial hedging takes account of the strong, seasonally induced fluctuations in financing requirements.

BayWa evolved from the cooperative sector, with which it remains closely connected through its shareholder structure, as well as through the congruent regional interests of the cooperative banking sector and commerce. Along with its integration into the cooperative financial association, the broad transnational diversification of the bank portfolio and the financial instruments, in particular, lower the financing risk within the BayWa Group.

Capital structure

In € million	2018	2019	2020	2021	**2022**	Change 2022/21
Equity	1,389.1	1,339.0	1,153.6	1,816.1	1,909.0	5.1%
Equity ratio (in %)	18.5	15.1	12.9	15.4	14.7	–
Short-term borrowing [1]	4,047.7	4,377.1	4,865.7	5,323.9	5,570.3	4.6%
Long-term borrowing	2,074.7	3,131.5	2,930.7	4,631.4	5,497.1	18.7%
Debt	6,122.4	7,508.6	7,796.4	9,955.3	11,067.4	11.2%
Debt ratio (in %)	81.5	84.9	87.1	84.6	85.3	–
Total capital (equity plus debt)	**7,511.5**	**8,847.6**	**8,950.0**	**11,771.4**	**12,976.4**	**10.2%**

1 Including liabilities from disposal groups

The BayWa Group's total assets stood at €12,976.4 million as at 31 December 2022 and were therefore €1,205.0 million, or 10.2%, higher than the previous year's figure. The main factors behind this growth are long-term and short-term borrowing, which rose by €1,112.1 million year on year. In addition, equity increased by €92.9 million, or 5.1%, on account of several partially contrasting effects. At €293.3 million, the repayment of the hybrid capital lowered the amount of equity, while the consolidated net result for the year of €239.5 million and the €116.8 million decline in the negative measurement effect from pension and severance pay obligations (recognised in equity) as a result of the upturn in the interest environment following years of low rates contributed to an increase in equity. The latter consists of the €116.4 million change in the fair value of pension and severance pay obligations that was recognised in the financial year 2022, as well as consolidation effects of €0.4 million. The profits from power purchase agreements in energy trade activities in the Renewable Energies Segment that were recognised in equity in the financial year 2022 also had a positive effect on equity in the amount of €119.6 million.

Capital management

The capital structure of the Group is made up of debt and equity. The equity ratio was 14.7% (2021: 15.4%) of total equity at the end of the reporting period. In order to provide a relevant metric, BayWa's capital management uses an adjusted equity ratio. The adjustments concern the reserve recognised for actuarial gains and losses from provisions for pensions and severance pay (including minority interests) of minus €167.7 million

(2021: minus €284.5 million). The reason for this is that this reserve results from a change of parameters not within the company's control when calculating personnel provisions. Adjusted for this effect, the adjusted equity ratio stands at 16.0% (2021: 17.8%). The information as defined in Section 160 para. 1 item 2 of the German Stock Corporation Act (AktG) for treasury shares is included in the Notes to the Consolidated Financial Statements.

For trading companies such as the BayWa Group, a fixed equity ratio is only of limited relevance as a key business figure. In particular, the change in current assets with the storage of inventories in the form of agricultural commodities, as well as the acquisition of project licences and the recognition of wind farms and solar parks under construction in the Renewable Energies Segment, has a direct influence on the balance sheet total – and therefore also on the equity ratio – but actually forms the basis for trading activities in the subsequent year. As a result, the BayWa Group uses equity-to-fixed-assets ratio II as a target in its capital management process. Equity and long-term borrowing should cover at least 90% of non-current assets. As at 31 December 2022, the equity-to-fixed-assets ratio was approximately 169% (2021: 171%).

The debt ratio rose to 85.3% in the financial year 2022 (2021: 84.6%). At the BayWa Group, short-term borrowing is used exclusively to finance short-term funds tied up in working capital. The status of short-term borrowing disclosed at year-end regularly reflects the highest level of utilisation on account of the warehousing of commodities in the agricultural division and/or unfinished products in the Renewable Energies Segment. Short-term borrowing was up by €246.4 million year on year to €5,570.3 million. Along with other current provisions (up €96.4 million) and other current financial and non-financial liabilities (up €154.0 million), the increase relates in particular to the €479.4 million rise in trade payables and liabilities from inter-Group business relationships as a result of the price trends seen on the energy and commodity markets in the reporting year. The change in short-term borrowing is also attributable to short-term debt, which climbed by €251.4 million compared to the previous year to stand at €1,718.7 million. By contrast, there was a sharp decline in liabilities from derivatives, especially from commodity futures, FX and interest rate hedging transactions (down €788.1 million to €364.2 million); this chiefly reflects the offsetting of assets and liabilities in energy trading in the Renewable Energies Segment since the financial year 2022.

Long-term borrowing also grew in the financial year 2022, rising by €865.7 million to €5,497.1 million. The main drivers of this growth are long-term debt (up €842.8 million), primarily due to the increased utilisation of the syndicated loan in the total amount of €1,360.0 million (2021: €935.0 million), and the issuing of a further bonded loan of €152.5 million in the financial year 2022. They contrast with a decline in non-current pension provisions by €185.0 million to €519.8 million owing to higher actuarial interest rates.

Gearing

The BayWa Group's management assesses and manages the capital structure in regular intervals via factors such as the key indicators "Adjusted net debt/adjusted equity" and "Adjusted net debt/EBITDA".

Calculating adjusted net debt involves deducting cash and cash equivalents from short-term and long-term debt at banks. Non-recourse financing arrangements are also deducted despite them carrying interest. They pertain to loans extended to project companies in the Renewable Energies Segment that are solely based on project cash flow instead of the BayWa Group's credit rating. Lenders have no access whatsoever to the BayWa Group's assets and cash flows outside each project company. EBITDA generated by the project companies during the reporting year came to €12.4 million (2021: €33.0 million). Grain inventories for immediate use are also deducted. These inventories could be converted into cash and cash equivalents as soon as they are recognised due to their highly liquid and current nature as well as their daily prices listed on international markets and stock exchanges. Any price risk is fully eliminated by a physical asset for sale, either through concluding a sales agreement with a highly solvent business partner or through a forward contract on the stock exchange. On account of the highly liquid nature of these inventories, the BayWa Group deems it to be appropriate to deduct them as cash and cash equivalents when calculating net debt and the related financial key figures.

In € million	**31/12/2022**	31/12/2021
Long-term and short-term debt at banks	5,278.8	4,184.6
Less cash and cash equivalents	- 221.8	- 399.1
Net debt	**5,057.0**	**3,785.5**
Less non-recourse financing	- 418.2	- 396.2
Less inventories for immediate use	- 1,208.5	- 1,099.1
Adjusted net debt	**3,430.4**	**2,290.1**
EBITDA	858.8	552.8
Adjusted equity	2,076.7	2,100.6
Adjusted net debt/adjusted equity (in %)	**165.2**	**109.0**
Adjusted net debt/EBITDA	**4.0**	**4.1**

Given the different business models between the BayWa Group's primary trading business and project development, which mainly takes place in the area of renewable energies, gearing is subject to differences in recognition, reporting and review, depending on the business activity. The use of the borrowed funds differs in the two fields of business. Furthermore, borrowing as part of project development is accrued over a longer period of time before the corresponding inflows result from the sale of the projects. Both aspects are taken into account in the calculation of adjusted net debt for trade business. The Renewable Energies Segment's financial liabilities, cash and cash equivalents, and EBITDA generated in the financial year are deducted in the process. The value of the key indicator "Adjusted net debt/EBITDA" should lie between 3.0 and 4.5 for the BayWa Group trade activities and is determined using the following approach:

In € million	**31/12/2022**	31/12/2021
Long-term and short-term debt at banks	3,246.2	2,469.8
Less cash and cash equivalents	- 86.8	- 238.6
Net debt	**3,159.3**	**2,231.2**
Less non-recourse financing	–	–
Less inventories for immediate use	- 1,208.5	- 1,099.1
Adjusted net debt	**1,950.8**	**1,132.1**
EBITDA	**494.5**	**353.8**
Adjusted net debt/EBITDA	**3.9**	**3.2**

Cash flow statement and development of cash and cash equivalents

In € million	2018	2019	2020	2021	**2022**
Cash flow from operating activities	- 452.2	- 24.9	675.9	- 583.6	- 337.2
Cash flow from investment activities	- 243.0	- 149.4	- 251.5	- 197.2	- 293.2
Cash flow from financing activities	710.8	282.6	- 482.6	1,009.0	451.5
Cash and cash equivalents at the end of the period [1]	120.6	229.7	168.4	399.1	221.8

1 Including inflow/outflow of funds due to changes in the group of consolidated companies and in exchange rates in the amount of €1.6 million

The cash flow from operating activities came to minus €337.2 million in the financial year 2022, a year-on-year increase of €246.4 million. Based on cash earnings that were €204.6 million higher than in the previous year, this rise was mainly due to a much lower year-on-year increase in inventories, trade receivables and other assets not allocable to investment and financing activities in the total amount of €1,086.2 million. Offsetting this is higher cash outflow of €76.2 million as a result of the decrease in trade payables and other liabilities not allocable to investment and financing activities.

Cash flow from investment activities saw a cash outflow of €293.2 million for the reporting year. As a result, cash outflows for investment activities rose year on year by €96.0 million. Payments for company acquisitions came to €91.1 million (2021: €70.8 million). In the financial year 2022, investments of €379.1 million were made in intangible assets, property, plant and equipment, and investments (2021: €239.0 million), which were offset by incoming payments from the disposal of intangible assets, property, plant and equipment, and investments of €106.0 million (2021: €108.6 million).

The cash flow from financing activities came to €451.5 million in the financial year 2022, a year-on-year decrease of €557.5 million. Cash inflows resulted from the raising of loans in the amount of €1,643.5 million. By contrast, interest payments (€188.6 million) and dividend payments at BayWa AG and its subsidiaries (totalling €82.4 million), and in particular repayments of loans (€516.8 million) and the repayment of the hybrid capital in due time (€300.0 million), resulted in cash outflows.

In an overall analysis of the cash flow from operating activities, investment and financing activities, and in consideration of changes to the group of consolidated companies and changes in foreign exchange rates, cash inflow from operating and financing activities was more than compensated for by cash outflow from investment activities. As a result, cash and cash equivalents at the end of the reporting period came to €221.8 million, which was €177.3 million lower than in the previous year.

Financial base and capital requirements

The BayWa Group's financial base is replenished by funds from the short-term debt for working capital and by funds from operating activities. Investment financing and the ongoing financing of operations have a considerable impact on the capital requirements of BayWa AG, as do the repayment of debt and ongoing interest payments. The overall view of liquidity and debt is determined through the calculation of adjusted net liquidity or net debt and used for internal financial management as well as for external communication with financial investors and analysts. Net liquidity and net debt is derived from the sum total of cash and cash equivalents less bank debt and outstanding loans, as reported in the balance sheet.

Along with the syndicated loan and short-term borrowing, the company also finances itself by way of a multi-currency Commercial Paper Programme, which received its most recent top-up of €500.0 million in 2017, taking it to a total volume of €1,000.0 million. At the end of the reporting period, securities had been issued in euros in the amount of €641.7 million (2021: €720.0 million) with an average weighted residual term of 54 days (2021: 86 days). At the end of the reporting period, €145.8 million (2021: €129.7 million) in receivables had been financed at their nominal value from the ongoing Asset-Backed Securitisation (ABS) Programme.

In December 2022, BayWa AG issued a sustainable bonded loan in the amount of €152.5 million. The purpose of this bonded loan was to partly refinance the hybrid loan terminated in October 2022. The conditions for the loan are linked to the sustainability rating of the agency MSCI. An increase in the present rating from AA to AAA reduces the current interest margin. A downgrade increases the interest margin. The bonded loan has an average term of 4.1 years.

Investments

In the financial year 2022, the BayWa Group invested a total of €618.4 million (2021: €375.8 million) in intangible assets (€86.7 million) and property, plant and equipment (€531.7 million), taking into account the acquisitions made. The investments made in the financial year were primarily for the purpose of repair and maintenance of technical facilities and machinery, buildings, facilities (in construction) and office fixtures and fittings, as modern locations and seamlessly operating facilities are a precondition for efficient logistics processes. The investments in property, plant and equipment also include investments in wind farms and solar parks to expand the IPP portfolio in the Renewable Energies Segment.

Real estate no longer used for operations was sold off wherever appropriate in the financial year 2022. The proceeds accruing from these transactions are used to reduce debt or to finance the Group's growth.

Excluding company acquisitions, roughly 28.5% of total investments in non-current assets at the BayWa Group were accounted for by the Renewable Energies segment. In addition, the Agri Trade & Service Segment accounted for 20.2% of the investments, the Global Produce Segment for 18.2% and the Building Materials

Segment for 10.5%. The remaining 22.6% of the investments were distributed among Other Activities and the Agricultural Equipment, Cefetra Group, Energy and Innovation & Digitalisation Segments.

Earnings position

In € million	2018	2019	2020	2021	**2022**	Change 2022/21
Revenues	16,625.7	17,059.0	16,464.7	19,839.1	27,061.8	36.4%
EBITDA	315.3	403.0	464.8	552.8	858.8	55.4%
EBITDA margin (in %)	1.9	2.3	2.8	2.8	3.2	–
EBIT	172.4	188.4	211.6	266.6	504.1	89.1%
EBIT margin (in %)	1.0	1.1	1.3	1.3	1.9	–
EBT	92.6	79.2	107.6	160.6	319.6	99.0%
Consolidated net result for the year	**54.9**	**65.1**	**59.5**	**128.8**	**239.5**	**85.9%**

The revenues of the BayWa Group increased by a clear margin of 36.4%, or €7,222.7 million, to €27,061.8 million in the financial year 2022. This increase is due to the sustained positive development in all operating business units, specifically to higher revenues in the Renewable Energies (up €2,929.2 million to €6,489.2 million), Agri Trade & Service (up €1,572.0 million to €5,750.7 million), Energy (up €1,215.4 million to €3,343.6 million) and Cefetra Group Segments (up €1,114.9 million to €6,111.2 million). Revenues also increased in the Building Materials (up €262.7 million to €2,346.9 million) and Agricultural Equipment Segments (up €167.5 million to €2,076.5 million). On the other hand, revenues in the Global Produce Segment fell by €39.4 million to €921.3 million. In the Innovation & Digitalisation (down €0.7 million to €10.4 million) and Other Activities Segments (up €1.1 million to €12.0 million), revenues were on a par with the previous year.

Other operating income increased year on year by €88.7 million to €492.9 million. This development was mainly due to higher income from the release of provisions in the amount of €66.2 million (2021: €21.0 million) and foreign exchange gains of €212.7 million (2021: €178.9 million), which were offset by foreign exchange losses of €219.8 million (recognised under other operating expenses). Most of the increase in the income from the release of provisions pertained to a project in the United Kingdom in the Renewable Energies Segment. Because the relevant authorities did not issue the necessary building permit, it was not possible to carry out the project as originally planned. Provisions of €30.3 million therefore had to be released. In parallel, capitalised project rights of €29.3 million were written off. At €111.1 million, other income was also higher than the figure of €83.4 million in the previous year.

In the financial year 2022, the BayWa Group reported an increase in inventories of €370.4 million (2021: €928.8 million), which was chiefly attributable to incomplete wind farms and solar parks in the fields of renewable energies.

The BayWa Group’s cost of materials increased by €6,124.1 million to €24,581.2 million in the reporting year as a result of the increase in revenues and due to the higher energy and raw material prices, as well as higher prices overall. Taking into account the higher revenues and the increase in the cost of materials, gross profit rose by €645.8 million to €3,377.1 million in the financial year 2022, corresponding to an increase of 23.6%.

Personnel expenses climbed year on year by €189.1 million to €1,509.5 million. This was mainly due to the company acquisitions in the financial year 2022 and the sustained growth in the Renewable Energies Segment.

At €1,072.0 million, other operating expenses were up by €217.0 million on the previous year’s figure of €855.0 million in the financial year 2022. Other operating expenses primarily consisted of expenses due to foreign exchange losses of €219.8 million (2021: €182.8 million), fleet maintenance expenses of €88.1 million (2021: €69.1 million); maintenance expenses of €87.4 million (2021: €79.0 million) and other expenses due to general sales and other costs in the amount of €162.9 million (2021: €111.2 million).

Earnings before interest, tax, depreciation and amortisation (EBITDA) rose by €306.0 million, or 55.4%, to €858.8 million in the financial year 2022 (2021: €552.8 million).

At €354.7 million, amortisation and depreciation at the BayWa Group was €68.5 million higher in the financial year 2022 than in the previous year (€286.2 million). This increase was mainly due to the necessary impairment loss recognised on a wind farm in the Renewable Energies Segment. During the construction of the turbine in the US with an output of 95 megawatts (MW), site-related uncertainties led to a halt in construction work and, in turn, to significant delays and cost increases, which resulted in an impairment loss of €55.6 million. All in all, the BayWa Group's earnings before interest and tax (EBIT) rose by €237.5 million, or 89.1%, to €504.1 million in the financial year 2022.

The financial result comprises income from participating interests, which is allocated to EBITDA and EBIT, and net interest. At €63.3 million, income from participating interests was clearly higher in the reporting year than the minus €3.0 million seen in the previous year. This development was due to the €24.5 million increase in the equity result to €14.2 million and to the €41.8 million rise in other income from shareholdings to €49.1 million. The latter is mainly because of the sale of the Bioenergy portfolio in the Renewable Energies Segment. Net interest fell by €78.5 million to minus €184.5 million in the financial year 2022. This decrease was driven by the €80.4 million rise in interest expenses to minus €202.1 million due to higher interest rates in the financial year 2022. By contrast, interest income, at €17.6 million, was on a par with the previous year's figure of €15.7 million.

The BayWa Group's earnings before tax (EBT) increased by €159.0 million year on year, or 99.0%, to €319.6 million thanks to improvements in earnings in the operating segments Agri Trade & Service (up €76.9 million), Renewable Energies (up €66.1 million), Energy (up €35.3 million), Agricultural Equipment (up €16.2 million), Cefetra Group (up €13.1 million) and Innovation & Digitalisation (up €8.6 million). Earnings fell in the operating segments Global Produce (down €22.9 million) and Building Materials (down €10.3 million). The earnings in Other Activities, along with the consolidation effects presented in the transition, also fell by a total of €24.0 million.

Income tax expense for the BayWa Group came to €80.1 million in the financial year 2022 (2021: €31.8 million), which corresponds to a tax rate of 25.1% (2021: 19.8%). After deducting income tax expense, the BayWa Group generated a consolidated net result of €239.5 million for the financial year 2022, corresponding to an increase of €110.7 million, or 85.9%, compared to the previous year.

The share of profit due to shareholders of the parent company stood at €168.1 million (2021: €70.7 million). Earnings per share (EPS), calculated from the portion of the result attributable to the shareholders of the parent company in relation to the average number of shares outstanding of 35,644,609 (dividend-bearing shares less treasury shares), stood at €4.36 in the financial year 2022 and were therefore significantly above the value of €1.63 in the previous year.

At the end of the reporting period, BayWa AG had significant order volumes that had yet to be fulfilled in the Agricultural Equipment Segment, with an order backlog of €625.7 million on 31 December 2022 (2021: 378.0 million). Of this total, €561.4 million (2021: €309.6 million) was attributable to new machinery, and €53.9 million (2021: €56.4 million) to indoor equipment (farm and animal equipment). This strong increase is the result of significantly lower invoices in sales as a result of the tight delivery situation and the expiry of existing manufacturer conditions. The favourable producer prices at the end of the financial year also served as an investment incentive for farmers. Price increases of up to 20% are included in the higher volume as well.

Financial performance indicators

BayWa orients the short-term management of its corporate divisions with the development of key earnings indicators EBITDA, EBIT and EBT. EBIT acts as the most important financial performance indicator. Key earnings indicators for the segments of the BayWa Group developed as follows in the financial year 2022:

Key financial earnings figures

	Earnings before interest, tax, depreciation and amortisation (EBITDA)			Earnings before interest and tax (EBIT)			Earnings before tax (EBT)		
In € million **2022**		change (absolute)	change (in %)		change (absolute)	change (in %)		change (absolute)	change (in %)
Renewable Energies	364.3	165.4	83.2	239.1	104.1	77.1	161.2	66.1	69.5
Energy	71.3	38.4	> 100.0	53.6	36.2	> 100.0	51.9	35.3	> 100.0
Cefetra Group	81.0	32.5	67.0	59.5	20.7	53.4	46.8	13.1	38.9
Agri Trade & Service	156.2	96.9	> 100.0	104.7	92.4	> 100.0	72.0	76.9	> 100.0
Agricultural Equipment	93.8	21.6	29.9	70.2	21.6	44.4	54.5	16.2	42.3
Global Produce	56.4	- 20.1	- 26.3	21.1	- 21.5	- 50.5	10.4	- 22.9	- 68.8
Building Materials	105.7	1.7	1.6	70.4	- 2.8	- 3.8	49.0	- 10.3	- 17.4
Innovation & Digitalisation	- 5.6	- 2.2	- 64.7	- 11.4	8.8	- 43.6	- 12.3	8.6	41.1

The difference in the contributions from each segment to the total earnings of the BayWa Group in all three key earnings indicators, EBITDA, EBIT and EBT, is calculated from the earnings contribution of the Other Activities Segment as well as on the basis of economic influence factors at Group level. BayWa does not perform any entrepreneurial management in the Other Activities Segment, as this segment encompasses peripheral activities that are of secondary importance in the BayWa Group. Group-wide economic influence factors are circumstances not attributable to the operational management of the segments.

Medium- to long-term portfolio optimisation of the BayWa Group is carried out through value-oriented management. Using economic profit as a basis, this system calculates the surplus return on invested capital (ROIC) of the business units or segments by means of their risk-weighted costs of capital.

Economic profit

In € million **2022**	Renewable Energies	Energy	Cefetra Group	Agri Trade & Service	Agricultural Equipment	Global Produce	Building Materials
Net operating profit	239.1	53.6	59.5	104.7	70.2	21.1	70.4
Average invested capital [1]	2,820.7	115.6	711.9	1,581.0	699.0	444.3	802.9
ROIC (in %)	8.48	46.4	8.36	6.62	10.04	4.74	8.77
Weighted average cost of capital (WACC) (in %)	6.63	7.20	6.30	5.90	7.80	6.20	7.00
Difference (ROIC less WACC) (in %)	2.85	39.20	2.06	0.72	2.24	- 1.46	1.77
Economic profit by segment	**52.0**	**45.3**	**14.6**	**11.4**	**15.6**	**- 6.5**	**14.2**

1 Intangible assets + property, plant and equipment + net working capital

In the financial year 2022, the Renewable Energies, Energy, Cefetra Group, Agri Trade & Service, Agricultural Equipment and Building Materials Segments generated a positive economic profit despite a rising costs of capital (in other words, a positive net result after respective capital costs). Thanks to ongoing positive business development and the strong international project business, the Renewable Energies Segment was able to significantly increase its economic profit to €52.0 million in the financial year 2022 (2021: €28.5 million). The Energy (€45.3 million, 2021: €13.0 million) and the Agri Trade & Service Segments (€11.4 million, 2021: minus €43.9 million) also recorded a clear increase in economic profit on account of rising prices for fossil energy carriers and agricultural products. The Agricultural Equipment (€15.6 million, 2021: €6.1 million) and Cefetra Group Segments (€14.6 million, 2021: €12.0 million) likewise succeeded in increasing their economic profit in the financial year 2022. By contrast, the Global Produce (minus €6.5 million, 2021: €19.1 million) and Building Materials Segments (€14.2 million, 2021: €38.9 million) reported a decline in economic profit. In the Building Materials Segment, the decrease was due to weaker earnings, adjusted for price changes, in the wake of macroeconomic supply chain problems and higher energy prices.

Comparison of forecast business development with actual business development

Segment	Indicator	Forecast [1]	Actual [1]
Renewable Energies	EBIT	significant increase	sharp increase
Energy	EBIT	clear decrease	sharp increase
Cefetra Group	EBIT	significant increase	sharp increase
Agri Trade & Service	EBIT	significant increase	sharp increase
Agricultural Equipment	EBIT	significant decrease	significant increase
Global Produce	EBIT	clear decrease	sharp decrease
Building Materials	EBIT	substantial decrease	slight decrease
Group	**EBIT**	**substantial increase**	**sharp increase**

1 Explanation of the qualitative and comparative statements:
slight, moderate, low ≙ 1–5%; noticeable, clear ≙ 5–10%; substantial, considerable ≙ 10–20%; significant ≙ 20–50%;
sharp, steep, strong ≙ > 50%

General statement on the business situation of the Group and explanation of projections/deviation from planned targets

The BayWa Group recorded excellent development in the financial year 2022. All three business units and almost all segments developed much better than originally assumed. BayWa benefited from its diversified business model with a broad range of products and solutions for meeting basic human needs. Growth in BayWa's international markets, especially in the Renewable Energies Segment, continued to accelerate. BayWa mitigated high, volatile prices and supply shortfalls on commodities and energy markets – which were further exacerbated by the war against Ukraine – through active, forward-looking inventory management and its high-performance supply and logistics chain, which also opened up additional trading opportunities to the company.

The Renewable Energies, Energy, Cefetra Group and Agri Trade & Service Segments consistently recorded strong EBIT growth, in part far above 50%, thereby developing better than expected. This performance was primarily driven by dynamic development on international commodities exchanges and the accelerated energy transition, which received a further boost from the war against Ukraine. Business in the Building Materials Segment was also positive and exceeded the expectations at the beginning of 2022. Earnings only fell slightly below the high level of the previous year. Only the Global Produce Segment fell short of the original projection for 2022 overall. Rising inflation rates, higher energy costs and geopolitical uncertainties led to noticeable reluctance to buy here. Because vegetable and fruit prices were below average, trade margins decreased year on year, which led to a sharper decline in earnings before interest and tax than initially expected.

At Group level, the aforementioned developments resulted in clear outperformance of the Group forecast that had been prepared for the 2022 reporting year. In the consolidated financial statements for the financial year 2021, the management of BayWa AG had predicted a substantial increase (10–20%) in earnings before interest and tax compared to the previous year (€266.6 million). Given the positive developments in the first half of 2022 (see ad hoc release dated 25 July 2022), the Board of Management raised the Group forecast to full-year earnings before interest and tax (EBIT) in the range of €400 million to €450 million. Based on continued above-average developments in the third quarter of 2022, the Board of Management raised expectations again to full-year earnings before interest and tax (EBIT) in the range of €475 million to €525 million (see ad hoc release dated 25 October 2022). Overall, BayWa generated earnings before interest and tax of €504.1 million, a sharp increase of 89.1%.

Outlook

The following qualitative-comparative statements are used to describe changes in results and earnings, as well as forecast ranges:

Range of the change	Qualitative-comparative statement
1–5%	slight, moderate, low
5–10%	noticeable, clear
10–20%	substantial, considerable
20–50%	significant
> 50%	sharp, steep, strong

Outlook for the BayWa Group

Thanks in part to a number of positive market factors, 2022 was the most successful financial year to date in the history of the BayWa Group. Developments are expected to return to normal in a number of areas in the current business period. Prospects for the BayWa Group nevertheless continue to be positive. BayWa's diversified business model is characterised by a high degree of resilience and benefits from the key megatrends of food and energy security. As a result, the company has opportunities in its business areas, both in the short and the long term.

For the current financial year, 2023, the management anticipates Group EBIT in the range of €320 million to €370 million. In view of the company's exceptionally good performance in the past financial year, the anticipated earnings development remains clearly higher than the average figures of the previous years. The key financial target of the BayWa Group is to generate sustainable operating earnings (EBIT) in the range of €470 million to €520 million by the end of 2025. Previously, BayWa had aimed for a target range of €400 million to €450 million. In light of the extremely positive recent development, and bolstered by key trends and the basic needs that the company serves, the medium-term target has been raised.

Across all segments, the company expects clearly positive results. While income will be lower in most segments compared to the previous year, it will still outperform the long-term average. In the agriculture business unit, producer prices are expected to recover. While the jump in fertilizer prices due to the energy crisis is not expected to recur in this form, worldwide grain inventories remain low. As a result, higher-than-average prices can continue to be expected. Farmers are reinvesting their solid income, which should benefit BayWa doubly. Developments in the Global Produce Segment will be influenced by uncertainty surrounding harvests in core markets in 2023. A deviation from the original forecast has to be expected given the floods that occurred in New Zealand in mid-February 2023 as a result of a massive tropical storm. As things stand, the latest events in New Zealand are expected to entail a slight decrease overall in marketing volumes in the Global Produce Segment. However, it is not possible to make a final assessment at the present time. Adjusted for the one-off income from the sale of the climate-controlled greenhouse in Al Ain, earnings (EBIT) are currently expected to decrease slightly year on year. In the energy business unit, the trend and the demand for renewable energies remain unbroken. However, plans are for BayWa r.e. to transfer a higher proportion of the projects to its own portfolio of the IPP (Independent Power Producer) business entity. Despite ensuring higher cash flows in the future, it will be associated with a somewhat lower share of earnings in the current financial year, since the electricity income will be generated over multiple periods, in contrast to immediate sale proceeds. Oil prices are expected to remain volatile and will offer good sales prospects for the Energy Segment, both in trading and for alternative energy sources. Thanks to the high volume of incoming orders in the Building Materials Segment and the broad range energy-efficient building materials, the segment is unlikely to face any major challenges in 2023.

This outlook is based on the assumption that the coronavirus pandemic will no longer trigger any new negative economic effects in the remainder of 2023. Additional risks are associated with the political uncertainty regarding a further escalation of the war against Ukraine, which could possibly lead to distortions in the markets for commodities and agricultural products.

Outlook for the Renewable Energies Segment

The Renewable Energies Segment will continue on its growth course in the international markets in 2023. The realisation and transfer of projects with a total capacity of about 2.1 GW in total that are either finished or under construction is planned in the Solar Projects and Wind Projects business entities for the financial year 2023.

In the Wind Projects business entity, new projects with a volume of around 0.8 GW are to be realised in the financial year 2023 (external sales and transfer of power plants in operation and under construction to the IPP (Independent Power Producer) business entity). The majority of them will be realised in the US, followed by Europe – especially in the national markets of Germany, Italy, the UK and other European countries. The expansion of activities in the Benelux countries, Greece, Spain and South Korea is also expected to result in rising positive earnings contributions from project sales in these countries in the years ahead.

In the Solar Projects business entity, the external sale of projects and project rights, as well as the transfer of power plants in operation and under construction to the IPP business entity with a total output of around 1.3 GW, is planned in the financial year 2023. The focus will most likely be on the markets in the Netherlands, Spain, Italy and the UK. Although international supply chain issues persist, the overall environment should have a positive impact on the further business development of this global business entity, given the continued increase in demand for electricity, a favourable political environment and the steady growth in the number of regions with grid parity for solar installations.

The IPP business entity's portfolio will expand further and is expected to reach about 3 GW in the medium term. The portfolio is comprised exclusively of projects that are developed and constructed in the Wind Projects and Solar Projects business entities. The future expansion of the portfolio will focus primarily on parks in Europe with legally guaranteed tariffs or a power purchase agreement (PPA). In energy trading, sales and earnings are expected to decrease over the medium term because of falling electricity prices. That being said, improving the risk-return ratio of the direct marketing portfolio continues to be the goal. Expanding the activities in select European markets is also planned, especially with PPA and hedging solutions for internal and external customers.

The multi-year trend of negative price development for technical management services continued in 2022. However, signs of stabilisation are now apparent for the first time. Operational management will focus in the years ahead on streamlining and automating processes in the Services business entity, along with concentrating on customers with high portfolio growth potential. The internally developed range of software services will focus on the portfolio management software "Aristoteles". This software is currently being used successfully by the IPP business division for portfolio management within the Group. "Aristoteles" will also be marketed externally in the future.

In the Solar Trade business entity, trading in photovoltaic (PV) components will continue to benefit from rising demand for new system solutions. Persistently high, yet slightly falling margins compared to 2022 are expected this year due to general price developments and the entry of competitors into particularly attractive markets. High electricity prices, as well as ambitious government PV expansion targets and subsidy programmes, are expected to result in increased demand in all regions. The expansion of e-mobility in the commercial and residential segments, as well as a generally higher demand for electricity, will generate further opportunities for growth. The effects of climate change once again highlight the need for a transformation of the energy sector, which is contributing to increased acceptance of renewable energies and the development of the solar trade. To further strengthen the position of the solar trade worldwide, acquisitions are also planned for the years ahead. At the beginning of 2023, Solar Systems GmbH and Solar-Planit Software GmbH were spun off from BayWa r.e. Solar Energy Systems GmbH, with the intent of systematically driving their growth. A solar trade company in Latvia was acquired at the start of February 2023 to improve access to customers in promising markets in the Baltic states. A new company will also founded in Greece in the spring of 2023 in order to enter the solar trade market there. To account for the increase in revenues, corresponding growth in the number of employees is planned at all operating companies, especially those in Europe. The planned new companies will result in further employee growth.

The Energy Solutions business entity will continue to support companies with a focus on the core markets of Germany, Spain and Italy, as well as new markets such as the Netherlands and Poland, as part of the PV own-use model. The Energy Solutions business entity anticipates a rise in business volume in light of the emerging markets in the Asia-Pacific region (APAC), especially in Thailand, Malaysia, Vietnam, Singapore and Indonesia, where a significant share of the supply chains of multinational corporations are based. Energy Solutions also sees great potential for a positive business development in both self-consumption models and corporate PPAs as a result of ambitious climate targets, such as those pursued by the European Union, as well as the entry into force of the German CSR Directive Implementation Act (CSR-RUG). With a focus on developing and building on long-term business relationships with major customers, the Energy Solutions portfolio will be expanded to include additional modules such as storage solutions, PV carports and electricity supply solutions.

Earnings before interest and tax (EBIT) in the financial year 2023 are expected to decrease slightly year on year. This earnings outlook is based on the accelerated transfer of solar and wind projects to the IPP business entity. As a result, margins from sales to external investors will be replaced in the financial year 2023 by long-term earnings from electricity generation. Beyond that, 2022 saw special items such as the sale of BayWa r.e. Bioenergy GmbH and Schradenbiogas GmbH.

Following the decision of the BayWa r.e. AG Supervisory Board on 1 March 2023, the company intends to sell the international solar trade business. The planned transaction is the result of the strategic realignment of BayWa r.e. AG, which will focus on international project business and further expansion as an independent power producer (IPP) going forward.

Outlook for the Energy Segment

In the Energy Segment, BayWa management expects a decline in contributions to earnings in light of weaker momentum in the market and the record results achieved in the previous year. The gradual transition from conventional to climate-friendly energy sources is being pursued consistently and systematically. This includes implementing new, innovative concepts to meet basic energy, heat and mobility needs.

In the heating business, wood pellets continue to exert tremendous appeal in Germany as a carbon-neutral fuel. At the same time, the crisis-driven price volatility recorded in the previous year is unlikely to recur in 2023, thus resulting in lower trading margins for BayWa. This stands in contrast to growth in sales through the establishment of new sales outlets and the expansion of e-commerce trade, which, based on current plans at least, will not be able to compensate for the decline in margins on the earnings side. Although the market as a whole continues to face difficult supply conditions, BayWa will maintain its ability to supply its customers in the current financial year thanks to increased storage capacities and additional volumes from its cooperation with the Heidegrund plant.

In trade with heating oil, lower income is expected in the current year than in the previous year. This is due to declining price levels and reduced price volatility, as well as slightly weaker sales stemming from crisis-related anticipatory effects in 2022. The launch of the new neutral logistics brand enlog will have a major positive impact, especially in the medium term. Launched on 1 January 2023, all existing brand and sales channels will in future be supplied in a uniform manner under the enlog brand. In addition, the neutral brand will enable the company to operate as a logistics service provider for other entities on the market. The entire tanker fleet should feature the new logo by late autumn 2023.

In trade activities involving conventional fuels, stable development is expected in the segments of relevance to BayWa, which include agriculture and construction as well as heavy vehicles.

BayWa Power Liquids GmbH has been responsible for the Heavy Vehicle division since 2022 and operates BayWa's LNG filling station network. On the one hand, the supply of conventional liquefied natural gas (LNG) is expected to be difficult in the short term, accompanied by high price levels. On the other hand, BayWa has also been purchasing bio-LNG, a particularly low-emission and climate-friendly fuel, through Verbio AG since February 2023. Over the course of the year, all of the 11 current LNG filling stations are to start receiving 100% bio-LNG. Using bio-LNG in heavy vehicles currently offers tremendous opportunities, thanks to high premiums for the resulting CO_2 savings, among other factors. In addition, the company is forging ahead with its move into hydrogen-based mobility by acquiring a stake in Hy2B Wasserstoff GmbH. Starting in mid-2023, production of green hydrogen will begin in the model region of Pfeffenhausen, near Landshut, Germany. As part of this project, BayWa will be responsible for the logistical and commercial operation of a hydrogen filling station in Hofolding, Germany, and will also organise greenhouse gas quota trading.

In the lubricants and operating resource business, the difficult supply situation, especially for base oils, remains a decisive factor. Business development will therefore largely depend in the current financial year on the availability of raw materials and functioning supply chains. One positive factor is the ongoing expansion of digitalisation and e-commerce trading activities, especially the online wholesale business of Interlubes GmbH.

In the Energy Segment, BayWa Mobility Solutions GmbH will reap the benefits of the increasing electrification of the transport sector in the current financial year. Driven by attractive market and funding conditions, project business in the Light Vehicle division in particular (i.e. the expansion of electromobility charging infrastructure for third parties) will continue to grow.

In the area of heat contracting, business volume is expected to increase, driven by a greater number of tenders from public sector customers relating to plant technology for heating supplies (heating systems, heating plants, district heating networks). Besides this, BayWa will also invest in the construction of its own plants and operate them independently.

Thanks to the faster pace at which the transition to renewable energies is taking place, the field of building services will continue to benefit from strong demand for refurbishments – especially in the area of heating – in the financial year 2023. By contrast, demand in the new housing sector is likely to decline because of rising interest rates and costs and a persistent shortage of skilled workers.

All in all, the Energy Segment will be marked by a weakening of market growth in the financial year 2023 following a record year in 2022. Drawing on its basic supply function in the fields of conventional fuels and lubricants as well as heat energy carriers, the expansion of the renewable energies business will therefore accelerate further. Assuming lower trading margins as market prices return to normal levels, EBIT generated by the Energy Segment is expected to show a sharp decline compared to its exceptionally strong performance in 2022. Nevertheless, it will still continue to deliver a clearly positive business performance.

Outlook for the Cefetra Group Segment

In the Cefetra Group Segment, BayWa currently expects business to return to normal, which will mean lower levels of volatility but also reduced margin potential. Nevertheless, the pressure on the markets remains higher than average due to geopolitical tensions and disruptions to supply chains and trade relationships. The current environment therefore harbours opportunities for BayWa based on a conservative business outlook.

In the grain and oilseed trade, the trading volume of standard products should be on a par with the previous year. The Cefetra Group will continue to capitalise on its strong market position as one of the largest European importers of grain and oilseed meal through its global trading network. One factor hampering this development is the decline in livestock numbers, which in turn triggers lower demand. In particular, the European pig farmer customer base will continue to shrink in the years ahead – a process that will be accelerated by high feedstuff prices. BayWa's goal is to maintain its current market share in this traditional business.

In the specialities business, the company likewise expects to see a certain slowdown in momentum, which is also due to deteriorating consumer sentiment. At the same time, BayWa is in a position to continue growing both organically and inorganically in this area. For example, the business of the nut and dried fruit importer Heinrich Brüning GmbH, which was acquired in the second quarter of 2022, will be accounted for on a full-year basis for the first time.

All in all, EBIT in the Cefetra Group Segment is expected to see a substantial decline in 2023. Over the long term, however, income development will remain well above average thanks to BayWa's strong market position and a targeted specialities strategy.

Outlook for the Agri Trade & Service Segment

The Agri Trade & Service Segment is in a positive position going into 2023. In BayWa's regions, the harvest is expected to be average, with above-average price levels in both product trading and the agricultural input business. The development of the war against Ukraine and its potential impact on the agricultural sector remains a major factor of uncertainty.

In product trading (grain trading and collection business), solid development is expected in the first half of 2023, as promising sales contracts for the current reporting period were already concluded in 2022. Due to the tight global supply balance, price levels are expected to remain elevated compared to the multi-year average. Trade prices are expected to be lower than the exceptionally high level recorded in the previous year, which was characterised by extremely high spikes in prices caused by the war against Ukraine. For the harvest year 2023, an average collection level can be expected in Germany at this stage, assuming there are no fundamental changes to the distribution of crops and an average growing season in the first half of 2023. Moreover, organic farming will continue to grow.

In the agricultural input business, environmental regulations limiting quantities and areas are leading to a steady, structural decline in the fertilizer trade. In addition, farmers in BayWa's sales regions stockpiled more fertilizer in 2022 ahead of the new season. These anticipatory effects are likely to diminish sales. Moreover, prices are likely to decline. Falling gas prices, along with an unexpectedly reliable supply on the global markets despite the war against Ukraine, could result in downward pressure on prices. This will lead to lower trading margins year on year, especially for fertilizers containing nitrogen. Sales of crop protection products are expected to remain at last year's level, subject to normal weather conditions. However, public pressure is driving down the use of crop protection products. In addition to conventional fertilizers and plant protection products, there is also a wide range of what are known as biologicals, i.e. biostimulants, biological crop protection products and microorganisms. Biologicals are in use and increasingly in demand in both organic and conventional farming to help farmers and growers comply with tighter regulations. BayWa is well placed in this area and looks set to strengthen its sales of this product range in the future.

Assuming normal weather conditions, sales of seed are expected to remain stable. Specific environmental regulations, such as requirements for crop diversification within the scope of greening activities, are having a positive effect on the sale of seed for catch crops and resulting in higher demand for higher-margin speciality products. In addition, the relaunch of the private brand "Planterra" is expected to have a positive impact on business development.

The market situation for feedstuff is likely to remain tense. The main causes are declining livestock numbers in the medium to long term – especially in pork production – and high feedstuff grain prices. Both are likely to have a continued negative effect on demand for compound feedstuff in Germany. Following the acquisition of a compound feedstuff company in Serbia, the Austrian Group company RWA Raiffeisen Ware Austria AG should benefit increasingly from the relocation of animal stocks to south eastern Europe.

All in all, management anticipates a sharp decline in earnings (EBIT) in the Agri Trade & Service Segment in 2023 compared to the exceptionally strong performance achieved in the previous year. At the same time, the sustained above-average prices in both product trading and the agricultural input business mean that a strong result is expected – one that is significantly above the average income level recorded in the years prior to 2022.

Outlook for the Agricultural Equipment Segment

The outlook for the Agricultural Equipment Segment remains positive for 2023. Farmers' propensity to invest is undiminished thanks to persistently high producer prices and is also being positively influenced by additional federal funding from the "Investitionsprogramm Landwirtschaft" (investment programme for agriculture) of the German Federal Ministry of Food and Agriculture until 2024.

The Agricultural Equipment Segment started off in the German agricultural equipment market with a significantly higher order backlog than in the previous year, which indicates excellent prospects for the first half of 2023. The situation could become more challenging in the second half of the year, given that the momentum of the previous year could weaken. In addition, Agritechnica – the world's largest exhibition for agricultural machinery – will be held in November 2023 for the first time since the pandemic. It can be expected that potential buyers will wait until after the exhibition before deciding to make purchases. What is more, the extent to which price increases by manufacturers will be implemented and accepted on the market remains to be seen. This could lead to a decline in demand over the course of 2023. By contrast, uncertainty with regard to manufacturers' ability to produce and deliver is likely to ease further.

In the service business, stable development coupled with high workshop utilisation is expected. The increasing shortage of skilled workers and the sustained rise in costs for energy, IT, insurance and personnel are likely to have a negative impact.

BayWa continuously invests in the modernisation of its locations to both meet the increasing demands of its agricultural customers and compensate for cost increases through efficiency gains. For example, construction or refurbishment projects are planned at several locations in 2023. However, their completion could be held up by the substantial rise in construction costs.

In international business, the Dutch Group subsidiary Agrimec B.V. is expected to continue its robust development. The company also began 2023 with a very high order backlog and is recording strong workshop utilisation. Risks result from the reduced number of livestock farmers and contractors in the Netherlands and the shortage of skilled workers.

At CLAAS, the order backlog was significantly higher at the start of 2023 than in the previous year, which has a positive effect on the outlook. What is more, further growth is expected as a result of the increase in the CLAAS market share for tractors and the expansion of its after-sales business.

The Agricultural Equipment Segment's EBIT is expected to decline significantly year on year due to a potential economic downturn and rising overall costs.

Outlook for the Global Produce Segment

Developments in the Global Produce Segment will be influenced by uncertainty surrounding harvests in core markets in 2023. The BayWa Group's total marketing volume of pome fruit, soft and stone fruit, tropical fruit and vegetable fruit is expected to fall year on year in 2023. Higher sales volumes are unlikely due to the negative impact of a tropical cyclone in New Zealand and the sale of the climate-controlled greenhouse in Al Ain (UAE) in July 2022.

While a deviation from the original forecast has to be expected given the floods that occurred in New Zealand in mid-February 2023 as a result of a massive tropical storm, it is not possible to make a final assessment at the present time. According to an initial stock analysis, the damage in the affected cultivation regions of the BayWa subsidiary T&G Global is not structural in nature, but instead hampers the seasonal harvest. The cultivation region around Hawke's Bay has been worst hit by the floods. Although harvest losses are anticipated here, it may be possible to partially compensate for them through higher prices if – as expected – overall supply declines. Other important cultivation regions, such as Gisborne and Nelson, have recorded no or only minor damage for the time being.

At the same time, the availability of labour – which was very limited during the pandemic – should improve in 2023, thus making the harvesting process easier despite the damage caused by the cyclone. Furthermore, some easing is expected with regard to logistical bottlenecks and in international trade flows. The sales situation in the UK and Europe remains tense on account of demand. Rising costs, especially in terms of wages, will weigh on earnings. This is offset by stabilisation in the fruit vegetable business and the expansion of activities in the Pacific islands.

The 2022/23 harvest in Germany was better than in the previous year. Optimal weather conditions boosted harvest volumes in BayWa's collection regions. Having completed the modernisation and expansion of the organic packaging station at the German fruit location in Ravensburg, the German subsidiary BayWa Obst can also build on improved processes in the marketing of organic products and increase capacities for plastic-free packaging, which will make it easier to push through price increases in the market. However, the increase in the minimum wage, as well as higher energy, agricultural input and logistics costs and subdued consumer sentiment, will pose major challenges in 2023.

In the tropical fruit business, BayWa expects the relocation of its Dutch subsidiary TFC Holland B.V. (TFC) in January 2023 to enhance product quality thanks to the deployment of state-of-the-art storage and ripening technologies. The verticalisation strategy, which aims to keep value chains as short as possible and provide direct access to goods in the countries of origin for key products such as avocados and mangoes, will be continued. Moreover, an accounting profit is expected from the sale of the old site. From an operating point of view, sales volumes and prices are expected to stabilise, and margins are expected to improve thanks to a greater focus on products. However, the cost of purchasing goods and a scarcity of logistics capacities remain a major challenge.

As things stand, the latest events in New Zealand are expected to entail a slight decrease overall in marketing volumes in the Global Produce Segment. Adjusted for the one-off income from the sale of the climate-controlled greenhouse in Al Ain, BayWa therefore expects a slight year-on-year decrease in earnings (EBIT) in the Global Produce Segment. This outlook is subject to the proviso that storm damage in New Zealand does not lead to any further harvest losses.

Outlook for the Building Materials Segment

For the Building Materials Segment, BayWa expects more difficult conditions in 2023. A potential increase in the cost of financing construction, above-average adjustments to collective bargaining agreements as well as the noticeable shortage of skilled workers are likely to slow the industry down further. On the other hand, BayWa expects the reintroduction of subsidy schemes for the construction of new buildings – such as the “Klimafreundlicher Neubau” (climate friendly construction) subsidy programme from KfW, which was introduced in March 2023 – to boost the Building Materials Segment. Taking into account these general conditions, which are still subject to uncertainty at this time, a decline in sales from building materials trade activities is expected to affect the Building Materials Segment.

The favourable weather conditions and the existing order backlog should help the Building Materials Segment get off to a good start in the financial year 2023. In addition, the energy crisis is likely to increase demand for energy-efficient refurbishment and retrofitting in residential buildings. The subsidy schemes for the modernisation of existing buildings will have a favourable impact. BayWa is expected to benefit from this, given its wide-ranging product portfolio. The establishment of an ecological building materials database underscores the Building Materials Segment’s growing commitment to greater sustainability and climate protection in the building sector. The building materials database is designed to record carbon emissions generated by building materials – starting with the manufacturing process and ending at the BayWa warehouse. The building materials database will constitute the basis on which the carbon emissions generated by buildings are assessed and will act as a foundation for customer advisory services.

In BayWa Bau Projekt GmbH’s project business, a high order backlog will ensure at least stable business development in 2023. Several current construction projects will be completed in 2023, with building scheduled to start on number of already approved projects in the months ahead. What is more, 15 new construction projects were acquired in 2022, which also suggests a promising income development for 2024 and 2025. The current uncertain situation facing many smaller project companies is opening up opportunities for BayWa to strengthen its market position even further.

The stakes in the bathroom module manufacturer Tjiko GmbH and the large ceramics processor Ceraflex GmbH will be increased further and are expected to make a positive contribution to earnings. The BayWa Building Materials Online portal is also expected to continue growing. In particular, the ability to connect with the software used by customers in the building trades is likely to have a beneficial effect.

EBIT in the Building Materials Segment is expected to be significantly lower in 2023 than the high level recorded in the previous year. The main reasons for this are the development of building material prices, which no longer leave as much room for mark-ups, as well as a declining propensity to buy on the part of prospective property buyers due to high interest rates. Moreover, inflation-related adjustments to collective bargaining agreements will have to be made, which will lead to higher costs in the segment.

Outlook for the Innovation & Digitalisation Segment

The Innovation & Digitalisation Segment develops Digital Farming solutions. A consistent focus on expanding its core software business, including the two software products NEXT Farming LIVE and NEXT Farming PRO, is planned for 2023. In the medium term, the elements of the desktop and cloud software, along with their hardware and services, will be merged into one cloud-based solution under the name NEXT Farming.

In operational terms, BayWa anticipates organic sales growth of around 10% in the current financial year. The projected growth in revenues is based primarily on the expectation of higher software revenues following the changeover to a subscription pricing model (subscription fee).

The Innovation & Digitalisation Segment's negative EBIT, which ranged in the negative lower double-digit millions in the financial year just ended, is expected to improve sharply. The reason for the increase in EBIT is the direct classification of the main costs incurred in the eBusiness division to the relevant operating segments from 2023 onwards. General expenses for the technical advancement of the eBusiness division will be reported under Other Activities in future. In addition, the cost savings made in the previous year will take full effect in the financial year 2023.

Other Activities

Other Activities encompass the BayWa Group's central management and administrative functions, as well as its peripheral activities. Overall, the negative EBIT from Other Activities is expected to increase slightly in 2023. This development is primarily due to higher expenses for special bonuses and extra advertising campaigns, as well as additional costs for the Group-wide upgrade of the digital merchandise management system and the expansion of IT security. In addition, the reclassification of general expenses incurred for the technical development of the eBusiness division to Other Activities will have a negative impact.

Opportunity and Risk Report

Principles of opportunity and risk management

The management of opportunities and risks is an ongoing area of entrepreneurial activity which is necessary to ensure the long-term success of the company and is closely aligned with the long-term strategy and medium-term planning of the BayWa Group. BayWa makes use of opportunities that arise in the context of its business activities. Internationalisation also allows BayWa to tap into new business opportunities, which in turn reduces its dependence on the individual country markets and their risks. The identification of entrepreneurial opportunities, the safeguarding of the assets and the enhancing of enterprise value therefore necessitate an opportunity and risk management system. The systematic development of existing and new systems with a built-in early warning component makes an indispensable contribution to further strengthening and consistently building up a Group-wide opportunity and risk culture.

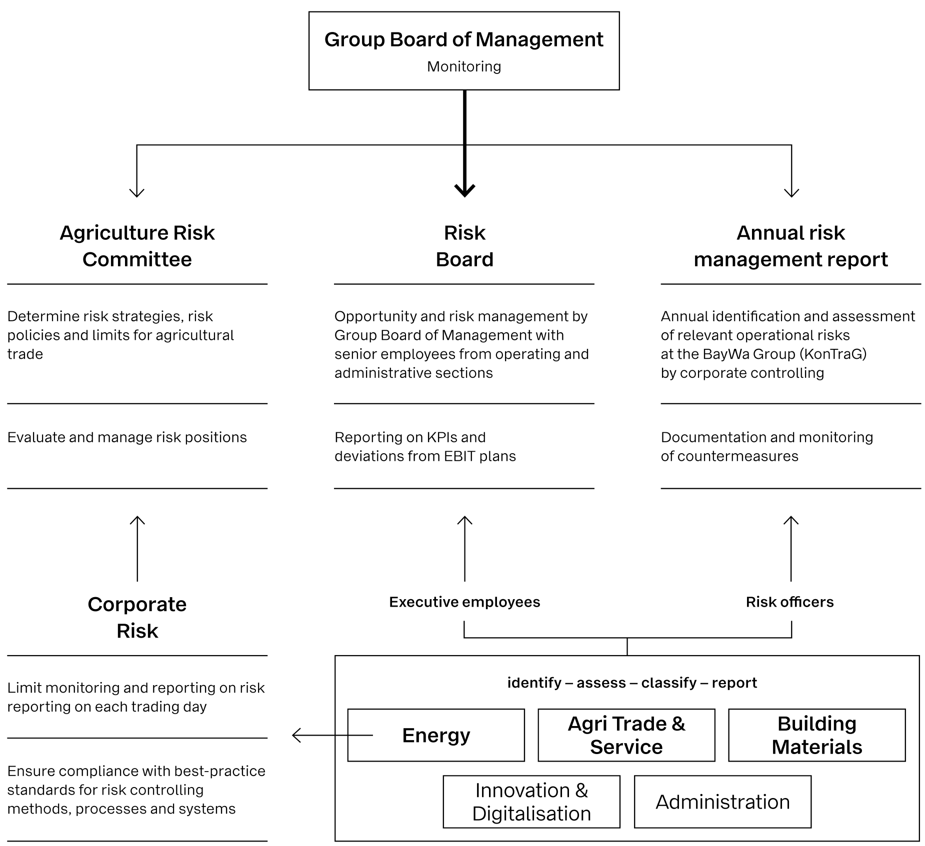
The principles underlying the system set in place within BayWa Group to identify and monitor risks specific to the business have been described in a risk management manual approved by the Board of Management. In addition, the Internal Audit Department regularly audits the internal risk management system which supports the processes. ISO certifications for the standardisation of workflows and for risk avoidance, as well as the conclusion of insurance policies, supplement the Group's management of risk.

Moreover, in its corporate policy and ethical principles, as well as the Code of Conduct, the BayWa Group has established binding goals and a code of conduct which have been defined throughout the Group. They regulate individual employee actions when applying the corporate values, as well as their fair and responsible conduct towards suppliers, customers and colleagues.

In 2021, a process for integrating sustainability risks into the risk management system was launched. The Corporate Risk, Corporate Sustainability and Corporate Controlling departments are working across divisions to integrate sustainability topics into risk management. In the course of updating the risk management report in 2021, climate-related risks were systematically identified and presented in the risk management system for the first time. Guidelines and a methodology for a uniform Group-wide assessment standard based on the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations were developed in the financial year 2022. Risk officers can use them to identify, assess and report climate risks in their respective business divisions. This methodology will be expanded in the next few years to include other sustainability risks. Human rights risks were surveyed for the first time in the reporting year 2022.

Corporate Sustainability and Corporate Risk hold several workshops for risk officers each year to provide them with training and actively support them in applying the methodology at the operational level. The workshops will be refined in the years ahead with the aid of internal feedback sessions and user experience, with the objective of establishing a professionally sound and user-friendly process. In addition, the methodology is reviewed and updated yearly to reflect changes in external reporting standards and regulations. The risk officers are also requested to indicate specific measures to reduce sustainability risks. The resulting potential opportunities and identified sustainability risks are analysed by Corporate Sustainability and Corporate Risk and subsequently presented to the Strategic Sustainability Board.

Structure of opportunity and risk management within the BayWa Group



At the BayWa Group, opportunity and risk management is an integral component of the planning and management and control processes. A comprehensive risk management system based on the German Control and Transparency in Business Act (KonTraG) records and monitors both the development of the Group and any existing weak points on an ongoing basis. The risk management system covers all divisions and is included as a key component of reporting. A particularly important task of risk management is to ensure that risks to the Group as a going concern are identified and kept to a minimum. This enables the management of the Group to react swiftly and effectively. All business divisions of the Group have risk officers and risk reporting officers who are responsible for implementing the reporting process.

A key component of opportunity and risk management is the Risk Board. Presided over by the Chief Executive Officer, the Risk Board, which consists of operations managers and support staff, meets regularly to discuss and assess operating opportunities and risks. Minuted meetings are used to develop an understanding of the opportunities and risks and form the basis of the measure of risk applied to operational decisions.

The Agriculture Risk Committee is part of Risk Governance and acts as the highest decision-making body for trading activities concerning agricultural commodities and fertilizers. It is composed of members of the Board of Management among others and meets quarterly and on an ad hoc basis. The Committee decides on risk guidelines and limit systems for the agricultural trade activities and, where necessary, implements risk-controlling and mitigating measures. A form of risk management that is independent of trading was established at both the level of the Corporate Risk organisational unit and in the individual agriculture trading companies to ensure that the provisions of the Agriculture Risk Committee are implemented in full, including adherence to limits. The risk officers' responsibility in the trading companies covers all risk processes within the company, including limit monitoring and reporting.
Independent risk committees have been set up for trading activities involving electricity transactions at BayWa r.e. Energy Trading GmbH (BET) and for the electricity-generating holdings of BayWa r.e. Group (IPP). These are composed of the functions responsible for trading, portfolio and risk management, as well as the member of the Executive Board of BayWa r.e. AG in charge of these functions. The two risk committees perform similar tasks to those of the Agriculture Risk Committee. A risk management unit at BET, which is independent of trading, and the risk management unit at IPP ensure that the requirements laid down by the risk committees are implemented in full. They are also responsible for the risk processes, including the monitoring of limits and reporting. Issues of relevance to risk are regularly coordinated with Corporate Risk.

The Corporate Risk organisational unit's tasks are to execute risk controlling for agricultural trade activities and to operate and develop the risk management system to monitor risks on each trading day. In addition, the unit also serves as a Group-wide competence centre to ensure compliance with best practices in relation to risk controlling methods, processes and systems in commodities trading as well as to guarantee adherence to financial market regulations on commodity derivatives.

Risk management process within the BayWa Group

In the Group-wide risk reporting process, risks are classified into categories, and estimates are made as to their probability of occurrence and potential financial impact. The risk management system is based on individual observations, supported by the relevant management processes, and forms an integral part of the core activities. It starts with strategic planning and proceeds through to procurement, sales and distribution and, finally, to the management of counterparty risk. As an extension of the planning process that takes place in the segments and in procurement, sales organisations and centralised functions, the risk management system serves to detect and assess potential divergences from expected developments. In addition to identifying and assessing key developments influencing business, this system facilitates the prioritisation and implementation of activities.

The risk reports, which are regularly prepared by the business sections, are a cornerstone of the risk management system. These reports are consolidated into the annual risk management report by the Corporate Controlling department and are subject to evaluation by the Board of Management and by the heads of the segments. This includes all individual risks that could have an impact on the business activities of the BayWa Group, assigned to one of the seven risk categories – compliance risks, risks pertaining to organisational structure and workflow, operating risks, market risks, financial risks, legal risks and strategic risks – and their respective subcategories. The significance of each individual risk results from the potential impact on the assets, financial position and earnings of the BayWa Group in the event that the risk materialises, weighted by the likelihood of that risk materialising. The product of these two values is referred to as the expected value of damages. The expected value of damages per risk category is calculated by adding the expected value of damages of all subcategories assigned to the risk category. Their expected value of damages are formed by the sum of the expected value of damages of all individual risks contained. The sum of the expected value of damages form the basis for the classification of the risk categories in the BayWa Group.

For the trade activities with agricultural commodities and fertilizers, a further risk management system is in place that encompasses the relevant business activities of BayWa AG, BayWa Agrarhandel GmbH, Grainli GmbH & Co. KG and the Cefetra Group. The Minimum Requirements for Risk Management (MaRisk) published by the German Financial Supervisory Authority (BaFin) serve as the benchmark for this risk management system. MaRisk includes arrangements governing the identification, assessment, management and monitoring of all material risk types (market risk, counterparty risk, liquidity risk, operational risk). BayWa adapted the standards established in the financial services sector and leading trading companies for its agricultural trade activities due to the flexible and practical framework of the material regulations. Appropriate and effective risk management pursuant to MaRisk comprises in particular the formulation of strategies and the establishment of internal control procedures in consideration of the risk-bearing capacity. The internal control system (ICS) consists in particular of:

- Arrangements governing the organisational structure and workflow
- Processes for identifying, evaluating, managing, monitoring and reporting risks (risk management and control processes)
- The establishment of a risk controlling function

In order to manage market risks on each trading day, the positions, including the spreads (underlying risks), are determined and monitored for the associated agricultural trading companies. Value-oriented procedures, in addition to the volume limits, serve to ensure that the positions are managed in a manner that is appropriate for the risks. These procedures include the regular mark-to-market valuation (on at least a monthly basis) of pending agricultural transactions of German agricultural trade units and the determination of the trading results derived from this, as well as the portfolio-based value-at-risk procedure for the liquid products of all agricultural trade units. The trading positions, as well as the risks they pose, are reported to the operating business sections and the local risk management officers on a daily basis, as well as to the Board of Management in the form of the Risk Board.

These control mechanisms are supported by a standardised IT system solution for risk management which has been in place for a number of years and has been certified by an external auditor.

Trading and risk positions are continually coordinated and optimised in the respective business divisions. The Global Book System (GBS) is designed for the individual product lines in the trading of grain, oilseed and co-products and is used in the overall coordination of trade management. Fundamental market analyses are performed within the scope of the market research activities to estimate the global supply and demand situation. An additional focus is placed on implementing quantitative portfolio and risk analysis procedures, the results of which are discussed in weekly meetings with the trading departments. Given the volatility in agricultural markets, BayWa works with specialists in the area of algorithm-controlled trading strategies in order to limit the effects of fluctuations in the market triggered by high frequency trading on BayWa's positions.

For trading activities involving electricity transactions, an independent risk management system has been set up at BayWa r.e. Energy Trading GmbH (BET). MaRisk also serves as a benchmark for the structure of this risk management system, although the standards have been modified to fit BET's electricity trading. The monitoring and management of market risk at BET is based on the daily monitoring of the relevant electricity positions in the futures and short-term markets. Outstanding futures market positions are limited by value at risk (maximum loss limit). The monitoring and management of BET's counterparty risks is based on the daily limiting and monitoring of the value of delivered and as yet unpaid electricity volumes per trading partner, as well as contracted and as yet undelivered electricity volumes per trading partner. Liquidity risks that arise from margin payments of stock exchange transactions are also limited and monitored daily.

For the BayWa r.e. Group's electricity-generating holdings (IPP), a risk management system that is closely interlinked with BET through a joint ETRM system, among other things, has been set up. The market risk positions are calculated on the basis of each plant's expected annual output. They are differentiated by market region and relate to those investments whose positions can be adequately hedged on the futures markets. In this context, regulatory conditions such as the levy on of excessive profits pursuant to the German Electricity Price Brake Act (StromPBG) and similar provisions in other countries are taken into account. Regulatory developments are continuously monitored by Energy Policy & Markets and Legal & Compliance, both at headquarters and locally, and their impact is discussed with management, as well as with the trading and risk management divisions. Market price developments on the futures markets are monitored continually. Decisions on hedging measures and concepts are made at the level of the BayWa r.e. AG Executive Board, in coordination with the company's Supervisory Board. Material risks arising from electricity market activities are reported to the Executive Board by the Risk Board.

Identification of opportunities within the BayWa Group

A dynamic market environment also gives rise to opportunities. The BayWa Group continuously monitors both macroeconomic trends, and the development of industry-specific and general environments and structures. These include government regulations, suppliers, customers and other stakeholders, as well as competitors. The identification of opportunities is integrated into the BayWa Group's strategy and planning processes. The focus of the product and service portfolio is permanently reviewed based on these analyses. The identified opportunities are predominantly implemented on a decentralised basis in the segments.

Classification of risks and opportunities within the BayWa Group

The seven risk categories within the BayWa Group are divided into several sub-categories. The risks in these subcategories are classified as low, noticeable, considerable, significant or substantial on the basis of the theoretical expected value of damages. The theoretical expected value of damages is the amount that would result in the very unlikely event that all of the individual risks in a sub-category materialise at the same time. Risks are classified by considering the risk reduction measures (net view). The significance of the opportunities for the BayWa Group are assessed by way of a qualitative classification into material or immaterial. The following table provides a general overview of all risks and opportunities and depicts their significance for the BayWa Group in the financial year 2023.

		Risks		Opportunities	
		Risk classification	Y/y change	Opportunity classification	Y/y change
Market risks and opportunities					
	Sales market	significant	increased	material	constant
	Procurement	significant	constant	material	increased
	Competition	noticeable	reduced	immaterial	constant
	Image	noticeable	constant	immaterial	constant
	Price	substantial	constant	material	constant
	Loss of customers	low	constant	/	/
Operating risks and opportunities					
	Sales	noticeable	constant	material	constant
	Environmental impact	significant	constant	immaterial	constant
	Production	considerable	increased	immaterial	constant
	Inventory	noticeable	constant	material	constant
	Product quality	considerable	constant	immaterial	constant
	Case of damage	considerable	reduced	/	/
	Project	considerable	constant	material	increased
Risks and opportunities of the organisational structure and workflow					
	IT	significant	increased	immaterial	constant
	Quality	substantial	constant	immaterial	constant
	Personnel	significant	constant	immaterial	constant
	Organisation	considerable	constant	immaterial	constant
Financial risks and opportunities					
	Financial market	considerable	constant	immaterial	constant
	Group companies	considerable	constant	immaterial	constant
	Default on receivables	considerable	constant	/	/
	Interest	noticeable	increased	immaterial	reduced
	Liquidity	noticeable	constant	immaterial	reduced
	Currency	considerable	constant	immaterial	constant
	Taxes	considerable	increased	/	/
Strategic risks and opportunities					
	Corporate strategy	noticeable	constant	immaterial	constant
	Investments	low	reduced	immaterial	constant
	Acquisitions and disposals	low	constant	material	increased
	Market development	significant	increased	immaterial	constant
	Innovation and technology	considerable	constant	material	constant
Legal risks and opportunities					
	Contracts	considerable	constant	/	/
	Changes in legislation	significant	constant	immaterial	constant
	Liability and insurance	noticeable	constant	/	/
	Violations of the law	considerable	constant	/	/
Compliance risks and opportunities					
	Corruption/fraud	noticeable	reduced	/	/
	Product safety/standards	low	constant	/	/
	Data protection	low	constant	/	/
	Compliance with laws and guidelines	substantial	constant	/	/
	Social risks	low	/		
	Ecological risks	low	/		

Risk classification (potential implications on earnings) according to expected value of damages		Assessment of the opportunities
low =	≤ €1.0 million	Qualitative classification / Categorisation into “material” and “immaterial”
noticeable =	≤ €2.5 million	
considerable =	≤ €5.0 million	
significant =	≤ €10.0 million	
substantial =	> €10.0 million	

Overall, at the time of the risk inventory carried out at the end of 2022 the BayWa Group was not exposed to any risks that could endanger its existence as a going concern.

Composition of the risk and opportunities categories within the BayWa Group

Material individual risks with an expected value of damages in excess of €1 million are described below.

Compliance risks

Group companies are and will continue to be faced with legal disputes and proceedings in relation to their operating business activities. For example, these can result from breaches of compliance regulations by individual employees. This may lead, among other things, to individual Group companies having to pay compensation or financial penalties or being imposed with other civil or criminal sanctions. Reputational damage can also occur as a result. These risks are continuously monitored by corresponding specialist areas of the Group.

The issuing of what are known as preference certificates represents a compliance risk for BayWa, as it leads to the reduction of import duties in the recipient country and can result in large penalty payments and the levying of other benefits if issued without authorisation. Civil law compensation claims by the customer for subsequently collected import duties are also possible. BayWa has introduced a range of processes and measures to help reduce this risk and achieve a 100% return rate. These include, among others, customer- and employee-specific communication measures, digital IT connections between the preferred tool and SAP, and centralised test processes.

Antitrust law violations also pose a compliance risk. Vertical and horizontal collusion can lead to significant fines, penalties and loss of reputation. Abuse of a dominant position in the market, corruption and money laundering offences also represent similar risks. To counter this risk, BayWa implements training workshops and online training courses, the elaboration and introduction of appropriate guidelines and Virtual Risk Solutions (VRS), audit controls, mandatory audits of cooperation agreements to be concluded, audits of association memberships and training of compliance officers on all relevant topics. The training sessions take place using a special academy platform. In addition, regular business partner audits are executed.

In trade activities involving photovoltaic components, the Belgian customs authorities are investigating imports of solar modules from the Luxembourg branch in 2017 and 2018 in light of a new legal requirement by the European Commission which stipulates that anti-dumping and anti-subsidy duties must be applied to solar modules originating in Taiwan or Malaysia. Although the investigation has not yet been finalised by the Belgian customs authorities, it is possible that anti-dumping duties will have to be paid with retrospective effect. BayWa r.e. is working with suppliers to advance the investigation.

Operating risks and opportunities

The material operating risks include product-related risks as well as risks that may arise from environmental effects.

Climate change and an increase in the frequency of extreme weather events such as drought, heavy rain or severe frost have an impact on the agricultural sector and can cause damage to crops or, in some cases, crop failures. In this context, annual fluctuations in production resulting from potential adverse weather conditions in important cultivation regions stand in contrast to a relatively constant growth in global demand for agricultural products. The volatility of prices for agricultural commodities leads to both price risks and opportunities to profit from price changes. To minimise the risks of harvest fluctuations, the market is continuously monitored, and the company’s own position is analysed in weekly meetings and adjusted in line with harvest expectations.

With regard to fruit and vegetable cultivation, potential risks from natural weather events such as hail, flooding and drought are mitigated by taking appropriate measures such as using hail netting to cover crops. These risks are also partially covered by insurance policies.

For the Cefetra Group, the contamination of products and deviations from product specifications are some of the most significant quality risks. In addition, warming can cause a deterioration in product quality. The Cefetra Group faces such risks and is responding to them with a series of measures, such as the conclusion of contractual agreements, GMP+ and GTP certifications and compliance audits. Insurance is also taken out against loss of quality, and employees are given training on how to achieve the right product quality. The Cefetra Group is additionally sets up monitoring programmes with the aim of improving quality control and appoints quality assurance officers. All of these measures are set out in a quality manual, which contains clear guidelines for quality standards and procedures. Quality controls are carried out by independent inspectors and laboratories when goods leave a port or arrive at their destination. If a harmful substance is discovered, all parties are informed immediately and steps are taken to ensure that the goods do not reach the market. Customer complaints are documented and investigated. To protect the environment and comply with occupational health and safety regulations, Cefetra Group companies have implemented procedures for all locations where Cefetra employees are deployed.

Certain operating risks, such as product recalls, are insured only to a limited extent after weighing up the cost-benefit ratio of doing so. On account of the increasing launch of private brands, discussions with the business sectors (risk owners) on the extent to which risks should be assigned to the insurer in the event of a product recall or other similar incidents will be held within the Group at regular intervals in the future.

Market risks and opportunities

General economic factors have an influence on consumer behaviour and investment patterns in BayWa's core markets. In the agricultural industry in particular, there is a trend towards ever larger agricultural operations that are conducting their business more professionally, particularly with regard to the customer structure. These environmental factors exert less of an influence on BayWa's business activities than on other companies. The BayWa Group's business model is largely geared to satisfying fundamental human requirements, such as the need for food, energy, shelter, heating and mobility. Accordingly, the impact of cyclical swings in demand are likely to be less strong than in other sectors. As a result, BayWa is even able to turn certain opportunities arising in times of crisis to its advantage through, for instance, the identification and acquisition of suitable companies with a view to building up or expanding existing or new areas of business. However, BayWa is unable to fully decouple itself from severe setbacks to international economic development that result from, for example, slumps in global commodity prices.

At the Cefetra Group, a portion of the margins is also generated through position trading and spreads, such as inter-product spreads and time spreads. The Cefetra Group is inherently exposed to commodity risks, such as spread/premium risk, inter-commodity risk and time-spread risk. The company is able to hedge its positions through futures contracts, which entails the possibility of changes in value during the term of the future with a corresponding impact on earnings. Cefetra has put in place various measures to mitigate the corresponding risks, with the most important risks from the net goods position being recorded and monitored centrally at the head office in Rotterdam, Netherlands. Daily checks are performed to see whether traders' positions are within the specified position limits. Managing directors, trade managers and risk managers also monitor spreads such as time spreads and intra-commodity risks on a continuous basis in order to be able to respond quickly to changes. A mark-to-market calculation of the gains and losses, as well as a review of the development of the main risks, is performed every two weeks. A trading meeting attended by trade managers, traders and risk managers, as well as internal market analysts, is held each week to discuss the market situation, the risks, the positions and the spreads. Besides net goods limits, premium limits are also used as required. They are monitored and reviewed on a daily basis. In the event that the limits are exceeded, the responsible trade manager and traders are contacted and requested to abide by the limits within one working day. Data analytics for position management are performed using the Tradesparent software solution. The value-at-risk method is used throughout the whole of the BayWa Group and is monitored by the risk management department on a daily basis.

The BayWa Group uses a portfolio-based value-at-risk procedure to measure and manage the risk arising from open positions (inventory and commodity futures). The value-at-risk (VaR) aims to quantify the negative changes in the value of a portfolio, which – with a certain degree of probability (95%) – will not be exceeded over a defined time period (five trading days). The VaR calculated as at 31 December 2022 was €4.8 million for grain, oilseed and co-products, €2.2 million for fertilizers and €2.2 million for BayWa r.e. Energy Trading GmbH's electricity futures.

An additional risk occurring in the agricultural sector consists of animal diseases or unusual events resulting in spot market losses, which may lead to lower demand in the short term. Increased competitive pressure or larger market volumes can also lead to sales volumes running counter to original plans.

In today's globalised economy, companies face particular procurement risks in supply chains. For example, country-specific regulations, different logistics and transport routes, as well as production difficulties caused by a lack of parts and a shortage of skilled labour, can make just-in-time delivery difficult or even impossible. Added to this are country-specific sanctions or armed conflicts that limit the availability of goods and may lead to supply bottlenecks. BayWa is affected by this risk in the Agricultural Equipment Segment. Measures to avoid this risk include active procurement and inventory management with early ordering of required product volumes, such as through securing construction sites, and taking longer delivery times in sales activities into consideration. Product management maintains close contact with suppliers, continuously analyses media reports, collects information on supply chains (EU/non-EU/elsewhere) and evaluates it to ensure the success of this approach. Documentation is done through newsletters and mail correspondence within the sector.

A deteriorated public sector financial situation leads to a decline in demand for building materials and, as a result, to a loss in revenues and gross profit. BayWa is also exposed to this risk. In order to identify potential risk, building permit statistics are evaluated with data on public-sector clients while also monitoring the development of public tenders. The corresponding findings are taken into account in preliminary planning discussions and the building materials sales and distribution strategy.

Extreme market hardening (e.g. in the area of cyber and D&O insurance), major loss events or a higher frequency of claims on the part of BayWa may result in a shortfall in contribution margins for insurers. Consequently, the insurance premium is no longer sufficient for the insurer due to the development of claims and increased claims settlement costs caused by inflation, and the insurer is forced to restructure the contract. This may lead to an increase in premiums, the exclusion of insured hazards, higher deductibles, a reduction in the amounts covered/limits or the termination of the insurance contract by the insurer. To reduce its own risk, BayWa continuously identifies and takes measures to prevent and minimise losses, such as securing outdoor facilities with intruder alarm systems.

Financial risks and opportunities

Within the BayWa Group, financial risks and opportunities are divided into multiple risk types that are described separately in the following.

Foreign currency opportunities and risks

Currency risk can have a negative as well as a positive impact on the Group's income statement as a result of uncertainty surrounding future exchange rate fluctuations. BayWa's business activities are largely located in the euro zone. If foreign currency positions arise from goods and services transactions or projects, they are always hedged without delay. Other payment obligations or receivables denominated in a foreign currency are hedged at the time when they arise. Speculative borrowing or investing of financial resources denominated in foreign currencies is prohibited.

Credit and counterparty risks and default risks

Both the purchase and sale of fixed-price contracts (forwards) concluded with counterparties involve the loss of these contracts should the counterparty default. In pre-harvest periods (weather markets), higher risks (exposures) arise in the event of drought as a result of a sharp rise in prices. Unlike creditor risk, these risks cannot be covered by credit insurance. A special focus is placed on credit-rating difficulties in individual sectors and countries. To discuss and manage the risks, regular reviews are held by risk management and trading management.

The business model of Energy Ventures GmbH is risky due to the timing of its investments in companies that are in the early stages of their development. The potential risk is the amount of the investment book values of the companies bearing an increased risk (e.g. uncertain outcome of the next round of financing) as at the reporting date.

Interest rate risks

Interest rate risk positions arise from the Group's floating-rate financing activities, especially from the issuing of short-term commercial papers, short-term loans as well as variable-interest bonded loans. Short-term debt is used mainly to finance working capital. To reduce the interest rate risk, which is not hedged using a natural hedge, BayWa uses derivative instruments in the form of futures, interest rate caps and swaps. In the financial year 2022, the average interest rate for variable-interest financial liabilities stood at 1.7577% (2021: 0.8827%).

Tax risks

Tax risks result in particular from changes in national tax laws and regulations, case law and interpretation by national tax authorities, especially in the case of tax audits. Findings by national auditing authorities in the various countries may lead to higher tax expenses and payments and may also have an impact on the amount of tax assets and liabilities, as well as on deferred tax assets and liabilities. Any residual risks beyond the tax risks already taken into account in the balance sheet range from being improbable to possible and could have a moderate impact on the assets, financial position and earnings position.

Legal risks

Group companies are and will continue to be faced with legal disputes and proceedings in relation to their operating business activities. Such disputes and proceedings can relate to the assertion of claims based on breaches of contractual obligations, payment disputes or from breaches of regulatory or tax requirements. As a result, this may lead to individual Group companies having to pay compensation or fines or face other civil, public or criminal sanctions, among other things. A Group-wide, risk-based compliance management system helps avoid breaches of legal requirements.

BayWa may be exposed to material risks from cyberattacks on its IT infrastructure. External attackers regularly exploit security gaps in companies' software to collect client data or damage them in some other way. One of the ways in which this risk is minimised is by standardising programming on an ongoing basis and eliminating in-house programming. However, even standardised software can also be prone to security gaps, making hacker attacks possible. For this reason, there is continuous close coordination with IT Security and Information Security with regard to software and hardware, with websites also being regularly reviewed and firewall settings and monitoring continuously being increased. Employees are given training on the subject of IT security and made aware of the potential risks.

Changes in agricultural policy, new governments, new EU regulations, trade barriers or export bans can all have a direct impact on BayWa's business. For example, changes in regulation regarding the amount of nutrients in soil can result in declining fertilizer application volumes. BayWa attempts to counteract these developments by gaining additional market share and making cost reductions. The respective state institutes inform BayWa about the changes to regulations and laws. The countermeasures are outlines in the annual strategy paper.

The Cefetra Group is also exposed to risks from changes to agricultural policy. The legal department monitors these developments very closely. The goal is to ensure compliance with laws and regulations. Where possible, sales agreements are concluded with the same contractual terms and conditions and with the same origin as the original purchases. Contractual wording to mitigate the risk for the Cefetra Group concerning import and export duties or bans is also included whenever possible. This wording is based on ongoing active information searches and a thorough overall market observation.

Strategic risks and opportunities

Material strategic risks include risks associated with the business model of the Group, as well as competitiveness, digitalisation and changes in consumer behaviour.

New trends in technology and new processing technologies constitute a strategic risk for BayWa's building materials business. These include, for example, new construction methods, industrial pre-fabrication and increased online sales. Factors of this kind can lead to a drop in demand for building materials, resulting in a decline in revenues and income. BayWa counters these risks with a range of measures for the future-proof development of conventional construction for private developers, property developers and general contractors. These include expanding key account management for supraregional customers or providing assembly services, such as for windows and doors. Other measures include focusing on private brands, increasing productivity by digitalising customer and supplier interfaces, and expanding the specialisation in wood. Value creation in pre-fabrication will be steadily expanded through investments in Ceraflex Bayern GmbH (pre-fabricated large ceramics), Tjiko GmbH (bathroom modules) and further planned investments so as to counter the increased shortage of skilled labour.

A downturn in the construction industry resulting from corrections in subsidy programmes or increased mortgage interest rates poses the risk of declining construction activity and falling revenue in building materials for BayWa. In addition, price wars with competitors can adversely affect business development. BayWa counters this risk by adjusting its marketing strategies and its cost and credit management, as well as through a value-based medium-term sensitivity analysis of the business sector using specific material factors.

Risks and opportunities of the organisational structure and workflow

In the area of organisational structure and workflow, the BayWa Group differentiates between a number of different risk types that are described separately in the following.

As regards personnel, BayWa Group competes with other companies for highly qualified managers, as well as for skilled and motivated staff. The Group companies continue to require qualified personnel in order to secure future success. High employee turnover, brain drain, failure to win junior staff loyalty and the shortage of skilled workers on the labour market may have a detrimental effect on the Group's business performance. BayWa counters these risks by strengthening the BayWa employer brand, further expanding its recruitment activities by approaching potential applicants directly or using the internal employee network (among other things), offering its employees extensive training and continuous professional development opportunities – both vertical and horizontal – and offering a modern and future-oriented working environment. At the same time, BayWa supports the further training and professional development of its employees and is one of the largest providers of vocational training, especially in rural areas. BayWa recruits a large majority of its future specialist and managerial employees from the ranks of these trainees, who then have extensive, individual development opportunities at BayWa. Long years of service to the company are a testament to the high-level of loyalty that employees display towards BayWa. This continuity creates an environment of stability and simultaneously secures the transfer of expertise down the generations.

The use of cutting-edge information technology characterises the entire business activity of the BayWa Group. All key business processes are supported by IT and mapped using state-of-the-art software solutions. At a trading company with high numbers of employees, having work processes supported electronically is imperative. The continuous monitoring and reviewing of processes mapped electronically, however, involves more than the mere implementation of new IT components. It is always accompanied by an optimisation of process workflows, as a result of which opportunities in the form of synergy and cost-savings potential can be identified and implemented. At the same time, the risk inherent in the system rises in tandem with the growing complexity and dependency on the availability and reliability of the IT systems. Powers outages may disrupt IT systems and services. This can have a substantial impact on business processes in the various divisions. To minimise this impact, work is currently under way to draw up an IT contingency plan.

The BayWa Group, as an agricultural supplier and a global purveyor and marketer of grain, oilseed and fruit – as well as a trader of energy carriers and building materials – is confronted with a wide range of national quality and safety standards. This also includes genetically modifications to products. Compliance with the quality and safety requirements is guaranteed through the quality management teams of the respective business areas and segments. In addition, various certifications document the fulfilment of the relevant legal requirements.

As a rule, the Cefetra Group sells goods under the terms "Free On Board (FOB)", "Free On Truck (FOT)" and "Cost Insurance Freight (CIF)" and regulates the transfer of risk between seller and buyer. This makes the company responsible for the logistical handling of a large share of its transactions. The logistics process is complex and risky for many reasons, such as different rules depending on the country, varying transportation and freight costs or fluctuating water levels. To mitigate these risks, the company's legal department concludes insurance policies against loss of and damage to shipments and processes the reporting of premiums and claims. Shipments are also monitored and tracked.

Errors when providing sales advice and supplying customers with the wrong goods is another risk to which BayWa is exposed. To minimise this risk, the company relies on intensive product training and a complaints management system.

Overall assessment of the opportunity and risk situation by Group management

An overall assessment of the current opportunity and risk situation shows that there are no risks individual risks or aggregate risks that could endanger the Group as a going concern. The overall assessment is therefore unchanged from the previous year. There are currently no such risks discernible for the future either. All in all, the risks to the BayWa Group are limited and manageable.

Along with potentially non-influenceable or only indirectly influenceable geopolitical risks and macroeconomic risks, operational risks are also the focus of monitoring. As far as the latter are concerned, the BayWa Group has taken appropriate measures to manage and control these risks.

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Key features of the internal control and risk management system

Internal control system (ICS)

The BayWa Group's internal control system (ICS) comprises all of the principles, procedures and measures that are used to manage and monitor the company's activities. The rules enshrined in the ICS are set out in a range of statements, policies, operating procedures and process descriptions. A Group-wide framework is in place that defines the structure, revision and communication of these rules and regulations.

Firstly, clearly defined responsibilities are ensured by delineating areas of responsibility and assigning distinct roles. Secondly, there is a separation of functions, which prevents potential conflicts of interest. The binding targets and behaviours to which the BayWa Group has committed itself across the Group in its corporate policy and Code of Conduct apply to individuals' actions in relation to corporate values, as well as to fair and conscientious behaviour vis-à-vis suppliers, customers and co-workers. BayWa also introduced a Supplier Code of Conduct in 2022.

Based on this, the respective business units and segments define a suitable framework of processes and rules for their individual business activities, which – depending on the business unit or segment – may differ from one another due to different systems or processes for the activity handled in the respective process. However, some risks occur throughout the Group. To this end, Group functions that result in suitable Group-wide standards for their respective areas in keeping with a "second line" approach and help to support and monitor their implementation have been set up.

For example, BayWa has established a sustainability organisation as a dedicated Group function within the Group. The Board of Management of BayWa bears overall responsibility in this regard. The Corporate Sustainability Division reports directly to the Board of Management, constantly develops the topic in line with stakeholder and shareholder requirements and is responsible for implementing the sustainability strategy.

BayWa's compliance management system is a further component of the ICS and spans topics such as upholding human rights, preventing corruption, antitrust law and anti-money laundering. The Code of Conduct, which applies across the Group, is the centrepiece of this system and is complemented by additional policies that lay down more detailed requirements, such as the Compliance Policy. In addition to compliance training, risk analyses and compliance checks are performed on a continuous basis, either in

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person or using IT. BayWa also operates an IT-based screening system for sanctions and terrorism lists for all customers and suppliers.

All key business processes are supported by IT solutions and modelled using state-of-the-art software solutions. Where applicable, the existing set of integrated application and IT-based controls is applied. Manual controls are also employed. BayWa operates a data protection and information security management system, as part of which policies are maintained and training is provided. A cyber insurance policy has also been concluded for the BayWa Group.

With regard to the business processes, the relevant process owners are responsible for ensuring that the controls in place are effective. Across the Group, and the relevant second line is responsible for doing so. They define the processes and controls for the management of risks. As an independent third line, Corporate Audit audits business processes as well as IT support on the basis of its own risk assessments and makes recommendations on how to improve the effectiveness and efficiency of the processes and controls. The action plans drawn up as a result are implemented by the first and second lines and monitored by Corporate Audit.

The Supervisory Board supervises the management of the company by the Board of Management. The Audit Committee supervises the accounting process, the annual audit and the effectiveness of the internal control, risk management and audit system, as well as the internal procedures for related party transactions.

Since the internal control system and the risk management system are subject to continuous change as a result of changes to the business model and responsibilities, to name two examples, the audits repeatedly reveal potential for improvement both in terms of the appropriateness (lack of suitable controls) and effectiveness (inadequate implementation) of controls. Further potential for improvement may also arise from compliance incidents. The implementation of the potential for improvement is monitored.

In the overall assessment of the management systems at the BayWa Group, it was found that none of the potential for improvement identified during the reporting year spoke against the appropriateness and effectiveness of the two management systems.

Risk management system (RMS)

BayWa's comprehensive risk management system records and monitors both the development of the Group and any existing weak points on an ongoing basis. The risk management system covers all divisions and is included as a key component of reporting. One of the main tasks of risk management is to identify and contain risks that could endanger the company as a going concern. BayWa's risk management system is described in detail in the sections entitled "Principles of opportunity and risk management", "Structure of opportunity and risk management within the BayWa Group" and "Risk management process within the BayWa Group".

Internal control system and risk management system in relation to the Group accounting process

The internal control system (ICS), which monitors accounting processes, is a key component of opportunity and risk management. The BayWa Group has set up an internal control system in accordance with the legal standards, the functionality of which is monitored by Internal Audit. External specialists are regularly consulted to perform benchmark analyses and certifications and to introduce optimisation measures. The consolidated financial statements are drawn up through a centralised process. Compliance with legal provisions and regulations pertaining to the Articles of Association during this process is guaranteed by the corresponding accounting standards. The Corporate Accounting department acts as a direct point of contact for the managers and employees in accounting at the subsidiaries in matters pertaining to reporting and the annual and interim financial statements. Corporate Accounting prepares the consolidated financial statements pursuant to IFRS.

A control system which monitors the accounting process is designed to ensure the complete and timely capturing of all business transactions in accordance with the statutory provisions and the regulations laid down under the Articles of Association. Moreover, it serves to guarantee that stocktaking is duly and properly performed and that assets and liabilities are recognised, valued and disclosed appropriately. The control system uses both automatic and manual control mechanisms to ensure the regularity and reliability of accounting.

All subsidiaries included in this process are obliged to submit their figures on an IFRS basis in a standardised reporting form to BayWa. This allows for the prompt identification of deviations from planned targets with the opportunity to respond quickly.

Remuneration Report

The remuneration report – which has no longer been part of the consolidated management report since the financial year 2021 – is published as a separate document and made permanently available on the company's website at https://www.baywa.com/en/group/corporate-governance/corporate-governance.

Takeover-relevant Information – Reporting pursuant to Section 315a German Commercial Code (HGB)

Composition of subscribed capital

As at the reporting date, BayWa AG's subscribed capital amounted to €91,807,715.84 (2021: €91,250,199.04 million) and was divided into 35,862,389 ordinary registered shares (2021: 35,644,609) with an arithmetical portion in the share capital of €2.56 per share. Of the shares issued, 34,401,358 are registered shares with restricted transferability (2021: 34,175,458) and 217,780 recently registered shares with restricted transferability (2021: 225,900) (dividend-bearing employee shares from 1 January 2023 onwards). A total of 1,243,251 shares are registered shares not subject to restricted transferability (2021: 1,243,251). With regard to the rights and obligations granted by the shares (e.g. the right to a portion of the unappropriated retained earnings or to participate in the Annual General Meeting), reference is made to the provisions laid down under the German Stock Corporation Act (AktG). There are no special rights or preferences.

Restrictions on voting rights and the transfer of shares

Pursuant to Section 68 para. 2 of the German Stock Corporation Act (AktG), in conjunction with Article 6 of the Articles of Association of BayWa AG, the purchase of shares with restricted transferability by individuals and legal entities under civil and public law requires the approval of the Board of Management of BayWa AG. BayWa AG holds a small portfolio of registered shares (19,500 units), which, pursuant to Section 71b of the German Stock Corporation Act (AktG), do not carry voting rights as long as they are in BayWa AG's possession. There are no other restrictions that relate to the voting rights or the transfer of shares.

Affiliated companies with over 10% of voting rights

On the reporting date, the following shareholders held stakes in the capital that exceeded 10% of the voting rights:

- Bayerische Raiffeisen-Beteiligungs Aktiengesellschaft, Beilngries, Germany
- Raiffeisen Agrar Invest AG, Vienna, Austria

Legal requirements and provisions of the Articles of Association on the appointment or dismissal of members of the Board of Management and on amendments to the Articles of Association

Supplemental to Sections 84 et seq. of the German Stock Corporation Act (AktG), Article 9 of the Articles of Association of BayWa AG on the appointment or dismissal of members of the Board of Management also requires members of the Board of Management to be appointed by the Supervisory Board. Members of the Board of Management are appointed for a maximum term of five years, and reappointment is permitted. The Supervisory Board appoints the Chairman of the Board of Management.

Pursuant to Section 179 of the German Stock Corporation Act (AktG) in conjunction with Article 21 of the Articles of Association of BayWa AG, amendments to the Articles of Association are always passed by the Annual General Meeting.

Authorisation of the Board of Management relating in particular to the option of issuing or buying back shares

Subject to the approval of the Supervisory Board, the Board of Management is authorised to raise the share capital one or more times on or before 10 May 2026 by up to a nominal amount of €12,500,000 through the issuance of new registered shares with restricted transferability against contributions in kind. The authorisation can be used in partial amounts. Shareholders' subscription rights are excluded. Subject to the approval of the Supervisory Board, the Board of Management is authorised to determine the further content of share rights and conditions under which the shares are to be issued (authorised capital 2021). The Supervisory Board is authorised to amend the Articles of Association accordingly in line with the scope of the capital increase from authorised capital in 2021 or following the deadline for the use of authorised capital in 2021.

Subject to the approval by the Supervisory Board, the Board of Management is authorised to raise the share capital one or more times on or before 25 May 2025 by up to a nominal amount of €3,506,682.88 through the issuance of new registered shares with restricted transferability against cash contribution to the employees of BayWa AG and of affiliated companies within the meaning of Sections 15 et seq. of the German Stock Corporation Act (AktG). Shareholders' subscription rights are excluded. Subject to the approval of the Supervisory Board, the Board of Management is authorised to determine the further content of share rights and conditions under which the shares are to be issued (authorised capital 2020).

Subject to the approval of the Supervisory Board, the Board of Management is authorised to raise the share capital one or more times on or before 31 May 2023 by up to a nominal amount of €10,000,000 through the issuance of new registered shares against contributions in kind. The authorisation can be used in partial amounts. Shareholders' subscription rights are excluded. Subject to the approval of the Supervisory Board, the Board of Management is authorised to determine the further content of share rights and conditions under which the shares are to be issued (authorised capital 2018).

Furthermore, the Board of Management is authorised to offer held shares to third parties within the framework of the acquisition of or investment in companies or of mergers and to withdraw part or all of the shares without requiring a further resolution to be passed by the Annual General Meeting.

The Board of Management has not been further authorised by the Annual General Meeting to buy back shares. There are no agreements within the meaning of Section 315a para. 1 items 8 and 9 of the German Commercial Code (HGB).

Munich, 27 March 2023

BayWa Aktiengesellschaft

The Board of Management
Prof. Klaus Josef Lutz
Andreas Helber
Marcus Pöllinger
Reinhard Wolf