Management Report on the Group in the Financial Year 2014

Overview

The BayWa Group continued on its path of internationalisation in the financial year 2014: Important steps included the acquisition of New Zealand apple producer Apollo Apples Limited by the subsidiary Turners & Growers (T & G), the acquisition of the business activities of Martifer Solar USA, Inc., a solar park development company in the USA, the purchase of a 76% shareholding in HS Kraft AB, a Swedish project development company that specialises in wind power, and the development of the Edinburgh site for management of wind projects in the UK. The Group strengthened its international agricultural trade business by founding the trading companies Cefetra S.p.A. in Italy and Cefetra Ibérica S.L.U. in Spain and establishing the global trading and marketing platform BayWa Marketing & Trading International B.V. in Rotterdam, Netherlands. In addition, BayWa entered the business of trading with operating resources with the launch of BayWa Agro Polska Sp. z o.o. in Poland and acquired the remaining 40% of the shares in Bohnhorst Agrarhandel GmbH in September 2014.

The Agriculture Segment recorded a decline in revenues in the Agricultural Trade and Fruit business units, mainly due to a general drop in producer prices. At €8,230.7 million, revenues in the Agricultural Trade business unit were down by 7.4% year on year; the Fruit business unit registered a slight decline of 0.7% to €563.9 million. Moderate revenue growth in the Agricultural Equipment business unit by 1.3% to €1,310.7 million was unable to offset these negative developments. Overall, revenues in the Agriculture Segment fell by 6.0% to €10,105.3 million in the reporting year. In the Fruit business unit, the inclusion of non-recurring income from the acquisition of Apollo Apples led to an increase in the operating result (EBIT) of 18.4% to €25.6 million. Record revenues in the Agricultural Equipment business unit were reflected in growth of EBIT of 5.7% to €22.7 million. However, these positive developments were unable to compensate the decline in the operating result of the Agricultural Trade business unit by 19.0% to €65.1 million, causing EBIT in the Agriculture Segment to fall by 8.2% to €113.4 million.

Within the Energy Segment, the decline in sales volume of heating oil and the sharp drop in the price of heating oil and fuel in the conventional energy business caused revenues to fall by 10.2% to €2,702.8 million. This resulted in a disproportionate decrease in the operating result by 45.9% to €5.8 million. In contrast, revenues in the Renewable Energies business sector – housed under BayWa r.e. renewable energy GmbH – grew by 61.8% to €786.2 million in the financial year 2014 thanks to strong project business and an increase in the number of systems sold. EBIT improved by 6.0% to €36.5 million. At €3,489.0 million, revenues in the Energy Segment were almost on par with the previous year's figure of €3,496.3 million; EBIT fell by 6.3% to €42.3 million.

The Building Materials Segment reported a decline in revenues of 10.5% to €1,524.8 million, which was due to the sale of the building material locations in Rhineland-Palatinate and North Rhine-Westphalia as at 1 May 2014 and 1 June 2014. As a result, these activities were allocated to Other Activities during the reporting period. The successful restructuring measures in the segment and an overall positive development in the construction industry led to a rise in EBIT of 13.5% to €30.7 million.

Overall, Group revenues fell by 4.7% to €15,201.8 million in the reporting year, which was primarily due to a series of unusual external developments. These effects also had an impact on the Group's operating result. In addition, the negative balance in the Other Activities Segment and consolidation effects in the amount of €39.6 million – following a positive balance in the amount of €26.2 million in the previous year – caused EBIT to fall by 33.8% to €146.8 million. Consolidated net income decreased by 25.4% to €90.5 million, due to the fact that following income tax expenses of €47.0 million in the previous year, the financial year 2014 saw tax income of €2.8 million. Earnings per share attributable to the shareholders of BayWa AG amounted to €2.03 after €2.85 in the previous year. Given the BayWa Group's future-orientated strategy in international growth markets and in view of the forecast of a noticeable improvement in the BayWa Group's EBIT, the Board of Management and the Supervisory Board will nevertheless propose to the Annual General Meeting of Shareholders an increase in the dividend from €0.75 per share to €0.80 per share.

Background to the Group

BayWa Group Business Model

Group structure and business activities

The BayWa Group

2014	Revenues (in € million)	Employees (annual average)
Agriculture	10,105.3	9,489
Energy	3,489.0	1,830
Building Materials	1,524.8	4,178
Other Activities	82.7	575
Total	**15,201.8**	**16,072**

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 trading into one of the world's leading trade, services and logistics companies. Its business focus is on Europe, but BayWa has also established an international trade and procurement network by maintaining important activities in the USA and New Zealand and business relations from Asia to South America. The BayWa Group's business activities are divided into three segments – Agriculture, Energy and Building Materials – and encompass wholesale, retail, logistics, as well as extensive supporting services and consultancy. The BayWa Group has registered places of business in 30 countries, either through itself or through Group holdings.

BayWa AG heads up business operations in three segments, both directly and through its subsidiaries, which are included in the group of consolidated companies. Besides the parent company BayWa AG, the BayWa Group comprises 287 fully consolidated companies. Furthermore, 29 companies were included at equity in the financial statements of BayWa.

Agriculture Segment
The Agriculture Segment traditionally generates the largest share, around 67%, of the BayWa Group's revenues. The Agriculture Segment is divided into the three business units Agricultural Trade, Fruit and Agricultural Equipment. Each of the business units is a full-line supplier, offering the entire product range to the agriculture sector.

The Agriculture Segment is strongly influenced by natural phenomena such as the weather and the effect these phenomena have on harvests. These factors have a direct impact on the offering and pricing in the markets for agricultural commodities and natural products. Globalisation means that international developments – such as record or failed harvests in other parts of the world or changes in exchange rates and transport prices – increasingly affect price development in regional markets. The extent to which the prices of individual agricultural commodities influence one another has increased significantly in recent years and prices have become more volatile. Supply and demand for operating resources, or fertiliser and fuel prices, for example, are also increasingly influenced by global factors. Finally, changes in the legal framework conditions, especially in the field of renewable primary products and renewable energies, can trigger considerable adaptive reactions in the markets trading agricultural products. Similarly, regulations, for instance those issued by the EU, exert a major influence on pricing and structures in a number of relevant markets.

Agricultural Trade
BayWa is the leading European company in agricultural trade with a global reach. BayWa's Agricultural Trade business unit supplies farmers with operating resources such as seed, fertilisers, crop protection and foodstuff throughout the entire agricultural year and collects, stores and sells harvested produce. For its harvesting activities, BayWa maintains a dense network of high-performance locations in its core regions with significant transport,

processing and storage capacities that ensure seamless goods delivery, quality assurance, processing, correct storage and handling of agricultural products. For its trading activities, BayWa possesses a global network for the procurement and marketing of produce, which comprises both inland and deep water ports. BayWa sells products to local, regional and national companies in the foodstuff, wholesale and retail industries through its in-house trade departments. In the case of grain and oilseed, BayWa acts as a supply chain manager and covers the entire value chain from procurement and logistics to sales and has significantly expanded its international grain trading activities. In the financial year 2014, BayWa continued to expand its international agricultural trade business with the establishment of the trading companies Cefetra S.p.A., based in Rome, Italy, and Cefetra Ibérica S.L.U., based in Madrid, Spain, which are housed under the umbrella company BayWa Agrar International B.V. The two new companies will focus primarily on supplying customers in the feedstuff and food industries in Italy, Spain and Portugal. In international terms, BayWa is one of the largest agricultural traders in the world, with access to supplies in both the northern and southern hemispheres. It supplies customers from the UK and Ireland, the Netherlands and Belgium and as far as Eastern Europe and the Baltic states.

In its traditional markets, BayWa is anchored in agribusiness as part of the agricultural cooperatives trading structure, where it also has its roots. In Germany, this business is focused on a variety of regions on account of historical structures. BayWa has over 264 sites, which form part of an extensive and dense network in its regional markets, particularly in Bavaria, Baden-Württemberg, Lower Saxony, Mecklenburg-Vorpommern, Thuringia, Saxony and southern Brandenburg. BayWa further expanded its presence in Brandenburg in 2014 with the acquisition of HAGRO Handels- und Agrodienst GmbH, which has two sites in Boitzenburger Land and Mittenwalde. Through its Austrian subsidiary RWA Raiffeisen Ware Austria GmbH, BayWa maintains close business relations across the whole of Austria with 476 cooperative warehouses. Numerous privately owned mid-sized trading enterprises, mainly operating locally, make up the competitive environment for agricultural products. In contrast, there are a number of wholesalers operating nationwide that offer equipment and resources. All in all, BayWa has established a significant market position for itself in the agricultural trade in Germany and Austria.

Fruit

In Germany, BayWa's Fruit business unit is a leading supplier of dessert fruit to the food retail industry, the largest single seller of dessert pome fruit and the largest supplier of organic pome fruit. Furthermore, BayWa also collects, stores, sorts, packages and trades fruit for customers in Germany and abroad as a marketer under contract at its 7 sites in the Lake Constance, Neckar and Rhineland-Palatinate regions. BayWa has reorganised its Fruit business unit's national business, which was transferred to the newly founded subsidiary BayWa Obst GmbH & Co. KG with effect from 1 January 2015. In doing so, BayWa is focusing its fruit business on the increasing specialisation in the national and international market. By founding the new company, BayWa is optimising the processes and structures in its fruit business. The national fruit business is also set to benefit from greater focus on the international flow of goods and the tapping of growth markets. A greater international focus was already placed on the fruit business in 2012 with the acquisition of Turners & Growers Limited (T & G). T & G is the leading fruit trader in New Zealand and also supplies parts of Asia and the South American market. Following T & G's acquisition of the third-largest apple supplier in New Zealand, Apollo Apples Limited, in the financial year 2014, the BayWa Group has increased its share in New Zealand apple exports to 35%. In addition, T & G has entered into a joint venture with the Chilean company Unifrutti, the country's second-largest exporter of fresh fruit. The aim of the joint venture is to develop and cultivate new varieties of table grapes in Peru for the Asian market. Through the reciprocal marketing of dessert fruit and pome fruit between the northern and southern hemispheres, BayWa is in the position to provide partners in the retail industry with fresh produce all year round, expand its product range and open up additional sales opportunities for German fruit on the international growth markets. The sales structures of T & G and its affiliates offer the potential to open up additional sales markets, particularly in Asia.

Agricultural Equipment

The Agricultural Equipment business unit offers a full line of machinery, equipment and facilities for all areas of agriculture. The most important customer groups include those in agriculture and forestry, local government, and industry. Aside from tractors and combine harvesters, the range of machinery also includes versatile municipal vehicles, road-sweeping vehicles, mobile facilities for wood shredding and forklift trucks for municipal services and commercial operations. The range on offer for forestry extends from large machinery and equipment such as forestry tractors, wood splitting and chipping machinery, forest milling cutters and mulchers, cable winches, road and path construction machinery right through to small appliances such as chainsaws and brush cutters and the necessary protective clothing. Moreover, servicing machinery and equipment is guaranteed through a large network of workshops. For products made by AGCO and CLAAS, BayWa is the world's largest sales partner, and it maintains a closely linked network of in-house workshops that are tailored to manufacturer brands. The range of workshop services is also complemented by mobile service vehicles to provide maintenance and repair services, supply replacement parts and trade in used machinery. BayWa also sells used machinery via an online platform. Through Agrimec Group B.V., a joint venture founded between Agrifirm Group B.V. and BayWa, the company has been represented in the sale and servicing of agricultural machinery in the Netherlands since 2014. The joint venture is a first step towards the internationalisation of the business unit and the securing of long-term growth prospects.

Energy Segment

In the financial year 2014, the Energy Segment accounted for around 23% of consolidated revenues. The segment's business activities are divided into the conventional energy business and the Renewable Energies business sector, which is housed in BayWa r.e. renewable energy GmbH.

Conventional energy business

In its conventional energy business, BayWa predominantly sells heating oil, fuels, lubricants and wood pellets in Bavaria, Baden-Württemberg, Hesse, Saxony and Austria. In the heating business, heating materials are primarily sold through in-house sales offices. Diesel and Otto fuels are sold through over 244 of the Group's fuel stations. In addition, supplies are delivered to the fuel station chains operated by partner companies and wholesalers. Further fuel stations in Austria are managed by subsidiaries, and the Group company GENOL acts as a wholesale fuel supplier to cooperative fuel stations. BayWa sells lubricants to customers in agriculture, metal-processing trades and industry. BayWa is a market leader for environmentally friendly plant-based lubricants.

Besides the large mineral oil trading companies, the competitive environment is shaped mainly by mid-sized fuel traders. Having developed over time, there is now a close connection with agribusiness, as farmers are among the largest customer groups. In the Energy Segment, conventional energy business is mainly shaped by volatile price trends in the crude oil markets. The prices of fossil-based heating materials, fuels and lubricants are also subject to considerable fluctuations, which affect the demand for these products.

BayWa r.e. renewable energy

The activities of BayWa r.e. renewable energy comprise trading in photovoltaic components as well as planning, building and selling turnkey wind power, photovoltaic and biomass plants. This business sector has been internationally oriented right from day one, as BayWa pursues a double diversification strategy in order to reduce reliance on certain national markets and respective renewable energy sources. BayWa r.e. entered the Scandinavian wind project business with the acquisition of a majority shareholding in Swedish wind farm development company HS Kraft AB in the financial year 2014. BayWa r.e. also extended its activities in the USA to the solar project business with the acquisition of the business activities of Martifer Solar USA, Inc. BayWa is now represented in all major European markets, Japan and the USA: a total of 14 countries.

Housed under BayWa r.e. renewable energy, the Group's activities cover the entire value chain in the field of renewable energies: from planning, development, construction and trading through to services for the operation of plants in the wind power, solar and biomass sectors. Moreover, operating resources and services are also offered for wind power, photovoltaic and biomass facilities.

The market for renewable energies is a largely regulated market where energy is produced and fed into the grid at prices set by the government. Developments in the market are therefore largely determined by changes in the structure and size of state subsidies. BayWa is well diversified, both in terms of its products and its geographical locations, firstly through its offering in the three areas of wind energy, photovoltaics and biomass, and secondly through its activities in Austria, Croatia, Denmark, France, Germany, Italy, Japan, Poland, Romania, Sweden, Switzerland, Spain, the UK, and the USA. By consolidating various affiliated companies under the umbrella brand BayWa r.e. renewable energy and setting up a clear business structure in the wind power, photovoltaic and biomass sectors, the foundations have been laid to eliminate overlapping activities, take advantage of synergies and thus participate in the anticipated market growth. Rising prices for fossil fuels generally result in stronger demand for renewable energies. In addition, investment incentives through guaranteed feed-in tariffs affect demand. In Germany, the structuring of subsidies in the German Renewable Energy Sources Act (EEG) is a major factor influencing demand for wind power, photovoltaic and biomass plants, as the profitability of these plants is determined by the statutory feed-in tariffs. Similar subsidy mechanisms usually exist in foreign markets. Furthermore, regulatory intervention in free trade also influences prices for systems components. Changes to relevant legislation can therefore have significant effects on investments in renewable energy. The sale of biodiesel, however, depends to a great extent on fiscal framework conditions and political decisions regarding blending quantities with traditional petroleum.

Building Materials Segment

Approximately 10% of consolidated revenues are generated in the Building Materials Segment. This segment primarily comprises business activities in the building materials trade and providing support to franchise partners in the building materials trade as well as in DIY and garden centres in Germany, Austria and Italy. With a total of 150 locations, the BayWa Group is Germany's number two in the building materials trade and ranks among the leading suppliers in Austria with some 31 sites. The number of franchise locations is currently 1,371.

In the building materials trade, BayWa mainly caters to the needs of small and medium-sized companies, tradesmen, commercial enterprises and municipalities. Private building companies and house owners are also important customers. The key success factors in this business are physical proximity to the customer, the product mix, advisory services and close relations with industrial customers. BayWa takes these factors into account with a targeted focus on its customer groups when it comes to sales and customer consulting services. In the case of conventional construction materials, being close to the customer is a significant competitive advantage. However, at the same time, the cost of transporting heavy or bulky construction materials with relatively low added value necessitates excellent location structures and optimum logistics.

The building materials market is strongly fragmented both in Germany and in Austria. In Germany, there are around 775 companies in total with some 1,986 sites specialised in the building materials trade. The majority of these are small or medium-sized enterprises, which often join forces in the form of procurement groups and similar organisations.

Changes in the economic and political environment in particular may have a positive or negative effect on the Building Materials Segment, especially in the case of subsidy programmes concerning energy-efficient renovation and residential construction. The development of the building materials trade generally follows overall building activity. Civil engineering and road construction depend greatly on public-sector spending. In the area of private construction, incentives such as government subsidies for renovation or refurbishment measures, favourable interest rates for financing, and changes in the feed-in tariffs for electricity generated by photovoltaic plants play a major role in investment decisions. In addition, manifold regulations influence general investment propensity levels and the demand for certain products. Construction laws and directives, such as the German Energy Saving Ordinance (EnEV) or the introduction of energy certification for buildings, construction permits, public procurement law, as well as directives on fire and noise insulation are of particular significance.

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 2014, the Board of Management consisted of five members: Prof. Klaus Josef Lutz (Chairman, responsible for international agriculture and the Fruit business unit), Andreas Helber (responsible for Finance and the Building Materials Segment), Dr. Josef Krapf (responsible for the Agricultural Trade business unit), Roland Schuler (responsible for the Energy Segment and the Agricultural Equipment business unit) and Reinhard Wolf (responsible for RWA Raiffeisen Ware Austria AG). The Board of Management is solely responsible for managing the company with the primary aim of increasing its value over the long term.

The BayWa AG Supervisory Board consists of 16 members. It monitors and consults 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 (MitbG), 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 efficiency.

Cooperation between the Board of Management and the Supervisory Board and on corporate governance at BayWa AG is detailed in the Supervisory Board report and the corporate governance declaration.

The Compliance organisational unit has a preventative function and aims to protect employees and the company as a whole from legal violations mainly relating to antitrust law and anti-corruption by means of training measures, comprehensive information and various consultancy services. The Compliance organisational unit provides the employees with binding internal regulations that serve to protect the company, the employees and the Board of Management from the consequences of legal violations. These regulations have been implemented at both the parent company and at selected subsidiaries. In addition, the existing ethical principles of the company have been updated and also incorporated at selected affiliated companies. Furthermore, Compliance works closely with Group Audit to verify observance of the compliance principles through the use of adequate controls. The Compliance organisational unit is headed by the Chief Compliance Officer, who reports directly to the Chief Financial Officer. In addition, each business unit and selected affiliated companies have a separate compliance officer.

The areas of foreign trade law, data protection and data security are managed by independent departments in the company.

Corporate Goals and Strategy

As a partner to its customers, BayWa intends to ensure that the company is fit for the future and independent. Its corporate governance is oriented over the long term and shaped by the company's responsibility towards customers, employees, other stakeholders and the company as a whole. The environment and the markets in which BayWa operates are subject to constant changes. In order to reinforce its position and expand its presence by carving out market opportunities, BayWa acts with entrepreneurial foresight while remaining decisive, quick-thinking and flexible. The internationalisation of the company's business activities represents a central strategic thrust: Through targeted acquisitions, the development of new business areas and organic growth in agricultural trade, fruit, agricultural equipment and renewable energies, BayWa has succeeded in entering new corporate dimensions over the past few years. Internationalisation forms the key foundations for the growth that reinforces BayWa's competitive position and opens up new markets. Other focuses include expanding digital offerings and strengthening the BayWa umbrella brand.

BayWa continually analyses its business portfolio – comprising the Agriculture, Energy and Building Materials Segments and their respective business units and business sectors – in view of future growth and earnings potential. Another important aspect is the further improvement of the business risk profile. The increasing internationalisation of business activities in the agriculture and energy industries reduces reliance on individual national markets. To boost the effectiveness of its business, BayWa consolidated its international activities in the agricultural trade under the umbrella brand BayWa Agrar International in the reporting year and established new trading companies in Italy and Spain. In addition, BayWa founded BayWa Marketing & Trading International B.V., a trading company that serves to optimise the agricultural trade portfolio and take the Group's trading activities with agricultural products to a global level. In the Fruit business unit, the product range was extended to include table grapes through the joint venture with Unifrutti in Peru. Parallel to growing the business, BayWa systematically pursues the strategy of restructuring, adapting or disposing of any business activities with insufficient growth and/or earnings prospects. In the financial year 2014, BayWa sold off unprofitable building materials activities in North Rhine-Westphalia and Rhineland-Palatinate. BayWa has been counteracting the structurally driven decline in demand for heating oil for years by acquiring smaller competitors; in order to expand its market position moving forward, BayWa is also considering a corporate partnership under BayWa stewardship.

Strengthening the market position, boosting revenues and optimising the business portfolio all serve the same goal: increasing the profitability of business activities. The consolidation of the newly acquired companies opens up a wide range of business opportunities and therefore also earnings opportunities. Revenues growth can generate economies of scale, such as in procurement through the pooling of procurement volume, which leads to more favourable purchasing conditions. The continual improvement of cost structures has always been a core element of the BayWa strategy. The focal point here is on optimising the network of sites, structuring processes efficiently, intensifying the use of existing sales structures and strengthening cooperation between Group companies at an operating level. Continuous development of the Group risk management system is aimed at mitigating risks and minimising risk costs.

The rapid development of the BayWa Group is accompanied by a solid and proactive financing strategy. It is shaped by the caution traditionally exercised by companies in the cooperative and agricultural sectors, but also takes into account the changing requirements of an established international Group. In its corporate financing, BayWa puts its faith in tried-and-tested, reliable partners in the cooperative federation. Furthermore, it makes sure that there is sufficient diversification in terms of financing sources, so as to guarantee its independence and limit risks. Efficient working capital management is of key importance at the BayWa Group. This includes the optimisation of working capital as a net figure for current assets less current liabilities. BayWa aims to maintain a balanced capital structure. The target equity ratio stands at 30%, but can be temporarily breached when taking advantage of growth opportunities.

Control System

Strategic controlling of the corporate divisions is carried out through value-oriented corporate governance and integrated risk management. Operational management of the corporate divisions is conducted based on targets; the key earnings figures EBITDA, EBIT and EBT are primarily used as the most significant financial performance indicators. The development of financial performance indicators in the financial year 2014 is described in the Financial Report in the section "Financial Performance Indicators". Non-financial performance indicators are still of secondary importance at BayWa.

The value-driven management approach supports the medium- and long-term streamlining of the portfolio and the strategic improvement 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 segment has earned its cost of capital. Return on average capital invested in the corporate divisions is calculated by applying the weighted average cost of capital (WACC) model. The return on invested capital (ROIC) of the corporate divisions 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 business unit. The development of an efficient risk management system is particularly important in safeguarding long-term economic success, especially in international business. The risk management system is monitored and managed by a Risk Board established in 2009 and headed up by the Chief Executive Officer. In addition, the Agricultural Coordination Center (ACC) was set up in the financial year 2014 as a framework to align and coordinate trading strategies and interests between the business units.

Financial Report

Operative Business Development

Agriculture Segment

Market and industry development

Prices for agricultural produce in 2014 largely remained below the high levels recorded in 2013, with some major fluctuations reported. At 1,996 million tonnes, global grain production – excluding rice – rose in harvest year 2013/14 by roughly 11%. The 2014 grain harvest in Germany was also up on the long-term average at 51.9 million tonnes, a year-on-year increase of roughly 9%. The favourable weather conditions around the world in the first quarter led to forecasts for the global grain harvest in harvest year 2014/15 rising constantly over the first half of the year to 2,001 million tonnes – a second record-breaking harvest in succession. Record harvest volume is also expected in the case of oilseed, with a global harvest of 665 million tonnes. Against this backdrop, prices for grain and oilseed fell by some 25% between the start of the year to the end of the third quarter of 2014 to their lowest levels for some considerable time. This price trend led temporarily to a major decline in trading volume, as producers, especially in Germany, were unwilling to sell their produce at such low prices. However, major buyers such as mill enterprises are likely to have held back on their purchasing activities in the hope that prices would fall even further. Grain prices recovered again in the fourth quarter, as fears grew of a shortage of supply on the global market after Russia's decision to impose export duties on wheat. In spite of this, the price of wheat on the MATIF commodity futures exchange was some 5% down year on year at approximately €200 per tonne. All in all, the producer price index for agricultural produce in Germany had fallen year on year by just under 2% by the midpoint of 2014 and by just under 7% by the end of the third quarter.

In the dairy industry, production volume in the European Union (EU) rose by approximately 2.5% on the already-high 2013 figure to just short of 161 million tonnes in 2014. This makes the EU the world's largest dairy producer. In Germany, milk production rose in 2014 by some 4%, while the average price of milk in the EU declined by approximately 5% year on year. The Russian import embargo and the ample supply of produce were two contributing factors in the price drop. In Germany, the milk price dropped by just under 17% – albeit from a relatively high level – to 34.1 cents by the end of the third quarter in 2014 compared to the price at the end of 2013. Global meat production in 2014 rose by approximately 1.1%, while meat production in Germany fell marginally. The reason for this was a drop in pork production, with poultry production rising significantly. Overall, the share of domestic production attributed to pork fell to 58%; the share of poultry stood at roughly 20%. Beef production continues to account for approximately 14% of total meat production.

The price index for agricultural operating resources has declined over the past two years. Energy prices, which are highly influenced by the price of crude oil, dropped considerably year on year in the second half of 2014 on account of the sharp decline in prices. Fertiliser sales were up 8.1% in 2014, but prices remained stable after the sharp increases observed over the past few years. Against the backdrop of a minor increase in prices, sales of crop protection materials rose by 3% to 4% year on year due to the early start to the season. Demand for fungicides was particularly high. In terms of feedstuff, prices for mixed feed largely followed the same trend as grain and oilseed prices. Prices of staple feed experienced lateral development on the whole in 2014. The only prices to increase were those for corn silage, which rose by some 9% as a result of a below-average harvest in Germany caused by bad weather conditions. Overall, the cost of operating resources fell by roughly 3.3% in the first half of 2014; this trend is likely to have continued into the second half of the year at a greater pace.

Favourable weather conditions meant that fruit harvests in Germany increased year on year in 2014 across almost all produce. The apple harvest reached the 1 million tonne mark, which is considered a normal harvest, for the first time since 2009. At 1,036 million tonnes, it was 29% up year on year. Harvest volume in the EU also reached a new record level, rising by roughly 9%. Despite matching the high 2013 levels at the start of the year, prices dropped considerably over the course of the year. Russia's import embargo, coupled with the availability of supply, had a negative impact on prices as apples from Poland not imported into Russia flooded into other EU markets and therefore indirectly lowered prices in Germany. In total, the significant year-on-year increase in fruit harvest volume caused prices to drop by between 10 and 15%. In New Zealand, the apple harvest in 2014 was down by roughly 8% year on year at 488,000 tonnes.

Investment activities in agriculture were at a high level in 2014 – not least on account of the good income situation among farmers – but were unable to match the record-breaking level of 2013. One of the most important causes of this is the rapid process of structural changes in modern agriculture through the deployment of capital-intensive production resources for the purposes of smart farming, computer-controlled production processes or integrated food chains. Gross value added per worker in the German agricultural sector rose by 96% between 1993 and 2013. The increase in productivity far exceeds the average for the German economy as a whole, which stands at a mere 44%. At the same time, the number of agricultural operations in Germany declined by 36,600, or 11.4%, to 285,000 between 2007 and 2013 – equivalent to 2.0% per year. The average area of land under cultivation rose consistently to 59.1 hectares in 2014. The growth threshold at the moment is roughly 100 hectares of agricultural land per agricultural operation: Below this threshold, the number of agricultural operations is declining, while the number of operations with more than 100 hectares of agricultural land is increasing. This trend is also contributing to an increased level of mechanisation in agriculture. According to estimates from the German Engineering Association – Agricultural Machinery Association (VDMA – Landtechnik), revenues in the agricultural equipment sector fell by just under 10% to roughly €7.6 billion in 2014. In Germany, new tractor registrations experienced 15.3% decline, while revenues from other agricultural machinery recorded year-on-year growth of 3.4% up to September.

Business Development

Revenues in the Agricultural Trade business unit fell by €656.1 million, or 7.4%, to €8,230.7 million in the financial year 2014. The decline in revenues is largely due to the sharp fall in prices for agricultural produce. While trading in grain rose by 11.8% to 14.9 million tonnes, sales of oilseed fell by 2.2% to approximately 11.9 million tonnes. The BayWa Group sold a total of 26.8 million tonnes of grain, oilseed and oilseed meal in the financial year 2014. This equates to a year-on-year increase of 5.1%. In terms of operating resources, BayWa Group focuses on the sale of seed, fertilisers, crop protection and feedstuff. The demand trend was varied in 2014. Sales of fertilisers rose by 13.3% to 2.3 million tonnes, while prices fell year on year. Business with crop protection products developed positively. In the case of seed, sales volume remained stable year on year, as did prices. By contrast, sales of feedstuff fell by 3.4%. EBITDA (earnings before interest, tax, depreciation and amortisation) in the Agricultural Trade business unit fell in the reporting year as a result of the fall in product margins as well as a slight fall in oilseed trading volume of €14.9 million, or 13.5%, to €95.7 million. At €30.6 million, depreciation and amortisation in this business unit was slightly up on the 2013 figure of €30.2 million, meaning that EBIT (earnings before interest and tax) fell year on year by €15.3 million to €65.1 million. This equates to a decline of 19.0%. With barely any change in net interest, earnings before tax (EBT) in the Agricultural Trade business unit came to €43.1 million in 2014, €15.0 million lower than the previous year's figure of €58.1 million.

The volume of fruit sales at the BayWa Group rose by 10.1% in 2014. The 14.7% rise in international sales volumes at New Zealand affiliated company Turners & Growers Limited was a major contributing factor to this trend, whereas marketing volume in Germany only increased by a marginal 0.2%. By contrast, revenues in the Fruit business unit fell by 0.7% to €563.9 million as a result of the lower sales prices in 2014 (2013: €567.7 million). EBITDA increased by €4.7 million, or 14.0%, to €38.6 million. This rise in earnings was primarily the result of one-off income from the purchase price allocation relating to New Zealand company Apollo Apples Limited, which was acquired in December 2014. That being said, sales margins were down year on year in both New Zealand and Germany due to the ample supply situation. As the 6.1%, or €0.7 million, rise in amortisation and depreciation to €13.0 million was lower than EBITDA growth, EBIT improved by a disproportionately high margin of 18.4%, or €4.0 million, to €25.6 million. In the course of growth investments and financing of the increased working capital, financing costs increased by €0.2 million to €4.5 million. Overall, earnings before tax in the Fruit business unit improved in the reporting year by €3.7 million, or 21.5%, to €21.2 million.

Business in tractors and other agricultural machinery was bolstered in the first half of 2014 by the high number of existing projects carried over from 2013, but lost momentum over the course of the year. At 4,366 units, BayWa sold roughly 10% less new machinery but still outperformed the industry average. Demand for used machinery remained stable: With 1,748 used tractors sold, the business unit almost matched the previous year's figure of 1,766 tractors. There was a major rise in revenues in relation to indoor equipment, in other words farm and animal equipment. The business unit benefitted from the new "Stall+Systeme" concept, which pools together the process steps of planning, construction, set-up and downstream customer service. BayWa has positioned itself as a general contractor since the financial year 2014 and offers agricultural buildings and engineering from a single source. As a result, revenues in the Agricultural Equipment business unit defied the industry trend and rose in the financial year 2014 by €16.7 million, or 1.3%, to €1,310.7 million. However, the decline in business in new machinery led to a €1.5 million, or 4.5%, fall in EBITDA to €32.5 million. Given that amortisation and depreciation in the reporting year fell significantly year on year by €2.8 million, or 21.9%, EBIT improved by 5.7%, or €1.2 million, to €22.7 million. Financing costs decreased by €0.4 million to €9.4 million, in spite of investments in the establishment of an independent sales and service network for the Massey Ferguson brand. In total, earnings before tax in the Agricultural Equipment business unit increased by €1.6 million, or 13.9%, to €13.2 million in 2014.

Total revenues in the Agriculture Segment came to €10,105.3 million in the financial year 2014, down 6.0%, or €643.2 million, on the 2013 figure. The operating result before depreciation and amortisation (EBITDA) fell by 6.6% – almost proportionately to revenues – to €166.8 million (2013: €178.6 million). Adjusted for depreciation and amortisation of €53.4 million, the segment's EBIT fell by 8.2%, or €10.1 million, to €113.4 million. The segment's financing costs fell in the reporting year by €0.4 million to €35.9 million. In total, the Agriculture Segment recorded earnings before tax of €77.5 million in 2014, down from €87.2 million the previous year.

Energy Segment

Market and industry development

The price of crude oil in the first half of 2014 remained in the range between USD102 and USD114 per barrel. However, a more significant decline in prices took hold in the second half of the year. By the end of 2014, the price of oil had fallen to its lowest level for five years at USD56 per barrel. The price of heating oil largely followed this trend and barely exceeded 2013 levels throughout the whole of 2014. In the heating market, heating oil sales decreased by 15.8% year on year as a result of the mild weather conditions in 2014. Total fuel sales rose by 3.7% between January and December 2014 against the backdrop of a 1.5% increase in vehicle stock. Sales of Otto fuels increased by 2.1%, while sales of diesel fuels increased by 4.6%. The positive overall economic climate in Germany led to a 0.3% increase in lubricant sales. This was primarily due to an 8.3% increase in sales of lubricating grease for the vehicle industry in particular, whereas demand for replacement engine oils and hydraulic oils fell by 4.5% and 5.4% respectively.

The large-scale global expansion of renewable energies continues at a fast pace. According to a report published midway through the year by the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety entitled “Renewables Global Status Report 2014”, renewable energies covered approximately 19% of global energy consumption in 2012. This trend is likely to have continued in 2013 and 2014. Investment in renewable energies increased in 2014 to a total of roughly USD310 billion; this equates to an increase of approximately 16% on the 2013 figure of USD268 billion.

Solar power plant capacity is estimated to have expanded from 40 gigawatts (GW) to 42 GW in 2014. Roughly two-thirds of growth is attributed to China, Japan and the USA. In Europe by contrast, expansion of solar power plant capacity fell to approximately 7 GW in 2014, down from just under 11 GW in 2013. This trend is linked to the cuts in renewable energy subsidies in some European countries. Moreover, the Europe-wide introduction of punitive tariffs on Chinese solar modules has had a negative impact since the summer of 2013, as this has prevented module prices from falling further. Given the fact that feed-in tariffs have decreased, this has resulted in lower returns. The number of new solar systems installed in Germany also fell from approximately 3.3 GW in 2013 to just 1.9 GW in 2014 – from a peak of 7.6 GW in 2012. As a result, the German government missed its annual capacity expansion target of 2.4 GW to 2.6 GW. This trend is due to the monthly 1.0% reductions in feed-in tariffs that have been in place since May 2012 as well as the flexible cap that was introduced in November 2012, under which feed-in tariffs are increased or decreased every three months depending on the level of capacity expansion. At the end of 2014, the total output of the solar power plants compensated under the German Renewable Energy Sources Act (EEG) installed in Germany was 38.2 GW.

The wind energy industry estimates that roughly 44 GW of new output was installed worldwide in 2014. This equates to a growth rate of just under 14%. After China, which accounted for 41% of newly installed capacity, Germany was the second-largest market for wind power plants with a share of 10%, followed by India with 6% and the USA with 5%. In Europe, Germany was followed by the UK with capacity expansion of 0.65 GW in the first half of 2014. However, investment in wind power in Europe remained significantly down year on year due to cuts in renewable energy subsidies in southern European countries. By contrast, the expansion of onshore wind power plants in Germany increased year on year by roughly 47% to just under 4.4 GW (of which 1.1 GW is attributable to repowering) – its highest level of the past decade and far exceeding the German government's target of 2.5 GW. By the end of 2014, onshore wind power plants with a total output of 38.1 GW had been installed in Germany together with offshore plants with an output of 1.0 GW. All in all, this equates to a year-on-year increase of some 13%.

Following the construction of 335 new biomass plants in 2013, expansion in 2014 was restricted to just 94 plants with newly installed output of 41 megawatts (MW). These are mainly plants that were connected to the grid before the revised German Renewable Energy Sources Act (EEG) came into force on 1 August 2014. Since the application of this amendment, new biomass projects are no longer attractive due to the massive cuts to subsidies in Germany. The only opportunities exist in repowering or using bio-energy plants as a standby source on the electricity market as well as in service business. Under these circumstances, it is doubtful whether the German government will reach its target of covering 6% of natural gas consumption through biomethane in 2020 and at least 10% of consumption by 2030.

Business Development

Heating oil sales in BayWa's conventional energy business fell by 11.1% in the financial year 2014. The decline in sales volumes was primarily due to the mild weather conditions. Sales of wood pellets were also down by 4.6% year on year for the same reason. Sales of fuels at the BayWa Group declined by 0.9%. This was largely the result of the closure of the unmanned petrol stations in Bad Tölz and Eichstätt. Sales in the otherwise unchanged petrol station network at the end of the financial year 2014 were marginally up on 2013 levels and were therefore consistent with the market trend. Lubricants business developed satisfactorily in 2014. Thanks to its strong competitive position, BayWa was able to record a noticeable 7.7% increase in sales that far exceeded market growth. Conventional energy sales declined by 10.2% in the reporting year to €2,702.8 million primarily on account of the significant decline in heating oil and fuel prices. EBITDA fell by 28.6% to €14.9 million. This drop was largely due to the lower contribution to earnings from heating oil sales, which could not be compensated for by improvements in earnings in fuel and lubricant business. At €9.1 million, depreciation and amortisation was €1.1 million lower than in 2013, but the decline in EBITDA led to a disproportionately high fall in EBIT of 45.9% to €5.8 million. The financial result improved to €1.2 million on account of a drop in funds committed in both non-current assets and in working capital (2013: €0.1 million). In total, earnings before tax came to €6.9 million, down from €10.7 million the previous year.

The international orientation of business activities in the Renewable Energies business sector played a pivotal role in the business success of BayWa r.e. renewable energy in 2014. Despite the difficult climate in some national markets, planned output rose once again in the reporting year by some 71% to 377.9 megawatts (MW). Of this amount, 219.4 MW was attributed to solar power plants, 152.1 MW to wind power plants and 6.4 MW to biomass. Completed systems were sold in 2014 in Germany, France, the UK, Austria and the USA. In France, the La Coste solar park comprising 6 solar power plants with a total output of 57.4 MW was sold, while 4 power plants were sold in the UK with a total output of 60.7 MW and 1 power plant in Germany with a total output of 8.2 MW. In terms of wind power plants, BayWa r.e. sold a total of 6 plants in Germany, the UK, Austria and the USA with a total output of 104.5 MW. BayWa r.e. is responsible for technical operations at all solar power plants and wind power plants moving forward; in addition, it assumes responsibility for commercial business operations for the lion's share of the plants and also for maintenance services to solar power plants. Despite a drop in sales in trading in photovoltaic components due to cuts to subsidies in some continental European markets, stable demand was reported in Switzerland while demand in the USA continued to rise. Total revenues in the Renewable Energies business sector rose by 61.8% in the financial year 2014 to €786.2 million. EBITDA rose by 3.8% to €59.2 million. After depreciation and amortisation, which was on a par with 2013 at €22.6 million, EBIT increased by 6.0% to €36.5 million. Financing costs dropped by 9.0% year on year to €12.8 million as a result of the reduction in capital employed after system sales. All in all, the business sector's earnings before tax improved by 16.3% year on year to €23.7 million.

In total, revenues of the Energy Segment fell by €7.3 million, or 0.2%, year on year to €3,489.0 million in the financial year 2014. The segment's EBITDA fell by 4.9% to €74.0 million. Adjusted for depreciation and amortisation, which increased by €1.0 million year on year to €31.7 million, EBIT declined by 6.3% to €42.3 million. Financing costs decreased by €2.4 million to €11.6 million due above all to system sales. The Energy Segment's earnings before tax therefore declined by 1.4%, or €0.4 million, to €30.6 million.

Building Materials Segment

Market and industry development

The German construction industry continued its positive development in 2014. It benefitted from the mild weather conditions at the start of the year, which enabled the building season to start much earlier than usual. In addition, temperatures in the fourth quarter of 2014 were also up on the long-term average, which meant that construction activities could continue right through until the end of the year. However, growth momentum declined significantly over the course of the year. Over the year as a whole, revenues in the main construction industry increased by 4% to roughly €99 billion. Residential construction remained the driver of growth in this industry, recording growth of 3.5% in real terms and accounting for 59.1% of overall construction investment with total investment volume of €157.8 billion. Growth was primarily focussed on a sharp rise in the construction of new multi-storey residential properties in major urban areas; building completion rose in 2014 by approximately 25% year on year. By contrast, construction of single- and multiple-family dwellings and construction outside of major urban areas developed sluggishly. Growth in refurbishment, renovation and modernisation business was also significantly down on growth in new construction. In fact, a decline in energy-efficient renovation was recorded. This was due to the significant fall in energy prices and the high capacity utilisation in the construction industry. As a result, orders in refurbishment, renovation and modernisation business were pushed aside by new construction business. Commercial construction benefitted in 2014 from a rise in companies' willingness to investment and experienced a year-on-year rise by 2.6%. Improvements in municipalities' budget situations and the increase in funding for infrastructure investment by the German Federation led to a 3.6% rise in the public-sector construction activity. Overall, construction investment increased by 3.3% year on year in real terms in 2014.

Construction investment in Austria is expected to have risen by 1.4% in 2014, far exceeding macroeconomic growth there. The continually falling level of orders in the industry in almost all of Austria's federal states led to a major downturn in sentiment in the Austrian construction industry over the course of the year. Construction activity is likely to once again have been bolstered by residential construction in 2014, which benefitted from the sharp 30% rise in number of building permits in 2013. The unabated rise in property prices also provides an incentive for investments in new buildings. By contrast, other construction activities and civil engineering are likely to have declined year on year.

Business Development

The Building Materials Segment benefitted from the lack of wintery weather conditions at the start of the financial year 2014, which led to an unusually early and dynamic start to the building materials trade season. However, this momentum was gradually lost over the course of the year. The segment's revenue fell by 10.5% year on year to €1,524.8 million in the financial year 2014 (2013: €1,703.1 million). However, it's worth considering that 2013 revenues included contributions from the building materials sites in Rhineland-Palatinate and North Rhine-Westphalia, which were sold on 1 May 2014 and 1 June 2014 respectively. These activities were recognised under Other Activities in the reporting period due to intended sale. Progress in restructuring the segment, coupled with the positive development in the industry as a whole, led to a 6.5% rise in EBITDA to €40.9 million. At the same time, depreciation and amortisation fell by 10.0% to €10.3 million, causing EBIT to rise by €3.6 million, or 13.5%, to €30.7 million. At €3.6 million, financing costs also experienced a major decline (2013: €5.9 million). In total, earnings before tax therefore rose by a disproportionately high margin of €6.0 million, or 28.3%, to €27.1 million.

Development of the Other Activities Segment in 2014

At €82.7 million, Other Activities revenues largely reflected the building materials activities in Rhineland Palatinate and North Rhine-Westphalia until their respective sale in the second quarter of 2014. EBITDA in the Other Activities Segment remained at a high level in the financial year 2014 at €86.7 million. The rise in income from holdings overcompensated for the negative earnings contribution from the sale of the building materials sites and also led to a rise in consolidation effects at the same time. Adjusted for depreciation and amortisation, which were roughly on a par with the previous year at €15.1 million (2013: €15.5 million), EBIT stood at €71.6 million in the reporting year, up from €62.5 million in 2013. As net interest in 2014 reported a negative balance of €7.6 million in 2014 – following a surplus of €4.4 million in the previous year –, earnings before tax fell to €64.0 million (2013: €66.9 million). Taking account of consolidation effects, this results in a negative balance of €–47.6 million following the positive balance of €28.9 million in 2013.

Earnings, Financial Position and Assets of the BayWa Group

Earnings position

in € million	2010	2011	2012	2013	**2014**	Change in % 2014/13
Revenues	7,903.0	9,585.7	10,531.1	15,957.6	15,201.8	–4.7
EBITDA	228.2	251.3	306.6	360.4	264.6	–26.6
EBITDA margin (in %)	2.9	2.6	2.9	2.3	1.7	–
EBIT	128.9	149.2	186.8	221.9	146.8	– 33.8
EBIT margin (in %)	1.6	1.6	1.8	1.4	1.0	–
EBT	87.1	95.4	122.6	168.3	87.6	–52.0
Consolidated net income	66.8	68.1	118.0	121.3	90.5	–25.4

Revenues of the BayWa Group fell by 4.7%, or €755.8 million, to €15,201.8 million in the financial year 2014. Against the backdrop of rising trading volumes, this decline in revenues is particularly due to the sharp fall in agricultural produce prices. The Agriculture Segment's revenues fell by €643.2 million to €10,105.3 million. Revenues in the Energy Segment remained almost on a par with 2013. The fall in revenues in the conventional energy business due to the low price of crude oil was almost compensated for by an increase in revenues in the Renewable Energies business sector. The Building Materials Segment reported a decline in revenues due to the sale of building materials sites in North Rhine-Westphalia and Rhineland-Palatinate in the first half of the financial year 2014.

Other operating income fell by a total of €80.9 million in the reporting year to €178.8 million. This was largely due to the €83.9 million reduction in income from asset disposals to €30.4 million. In 2013, this included income from the sale of three BayWa AG real estate portfolios. Furthermore, income from receivables written down of €2.7 million (2013: €11.3 million), income from letting and leasing of €28.7 million (2013: €31.4 million), income from the release of provisions of €13.9 million (2013: €17.9 million) and income from regular cost reimbursements of €18.2 million (2013: €20.3 million) also accounted for a total of €17.4 million of this decline. Income from currency gains and other income went against this trend, standing at €20.3 million (2013: €12.9 million) and €47.2 million (2013: €43.2 million) respectively. In addition, other operating income also included preliminary negative goodwill to be reported through profit and loss of €8.4 million from the acquisition of the business activities of Apollo Apples Limited by Turners & Growers Limited. At €9.0 million, remaining other income increased year on year by €0.6 million.

The reduction in inventories in the financial year of €43.1 million was largely due to the sale of complete projects in the Renewable Energies business sector during the financial year 2014.

Cost of materials fell in the reporting year by 5.8%, or €851.4 million, to €13,816.6 million, meaning that the gross profit of the BayWa Group declined by a disproportionately lower margin of 3.3% compared to revenues, which fell by 4.7%. Net of the cost of materials, gross profit came to €1,526.2 million and was €52.7 million down on the 2013 figure of €1,578.9 million.

Personnel expenses climbed by 1.4%, or €11.2 million, year on year to €792.6 million as a result of the further increase in the number of employees at the BayWa Group. A reduction in the number of employees in the Building Materials Segment on account of the sale of building materials sites in North Rhine-Westphalia and Rhineland-Palatinate was offset by a rise in the number of employees in the Agricultural Trade and Fruit business units and the Renewable Energies business sector. Adjustments under collective bargaining agreements also contributed to this development.

At €506.5 million, other operating expenses were up by €37.2 million, or 7.9%, on the 2013 figure of €469.3 million in the financial year 2014. Contributing factors included currency-induced losses of €23.3 million (2013: €10.4 million), losses from asset disposals of €11.5 million (2013: €4.0 million), rental and leasing costs of €67.2 million (2013: €60.9 million), vehicle fleet costs of €77.2 million (2013: €72.1 million), other expenses of

€30.5 million (2013: €25.8 million) and a rise in consultancy, auditing and legal fees to €34.4 million (2013: €31.0 million). Lower value adjustments and amortisation of receivables of €11.2 million (2013: €18.7 million) and energy and supply costs of €32.6 million (2013: €34.7 million) had an offsetting effect. Total remaining other operating expenses came to €218.6 million, up €6.9 million year on year.

EBITDA declined by €95.7 million, or 26.6%, to €264.6 million (2013: €360.4 million) in the financial year 2014.

Scheduled depreciation and amortisation at the BayWa Group fell by €20.6 million from €138.5 million to €117.8 million in the financial year 2014. This was largely due to the decline in depreciation and amortisation at the parent company through the sale of real estate inventories and unscheduled write-downs on goodwill in 2013. In addition, unscheduled depreciation was also carried out on property, plant and equipment of Austrian Group companies in 2013.

All in all, the operating result (EBIT) generated by the BayWa Group in the financial year 2014 fell by €75.1 million, or 33.8%, to €146.8 million.

The financial result comprises income from participating interests, which is allocated to EBITDA and EBIT, and net interest. The result of participating interests increased in the reporting year by €5.4 million to €37.5 million. A lower equity result was offset by an improvement to the result from other participating interests and financial assets. These include accounting profit of €20.9 million from the contribution of shares in a joint venture, which has been recognised at equity in the Group ever since. The €5.5 million decline in net interest to €–59.2 million was primarily due to the increase in the amount of borrowed funds to finance operations.

The BayWa Group's earnings before tax (EBT) fell by €80.6 million, or 47.9%, to €87.6 million. The Agriculture Segment was responsible for €9.7 million of this decline, while €0.4 million was attributable to the Energy Segment. The Building Materials Segment's earnings contribution climbed by €6.0 million year on year. The earnings contribution from the Other Activities Segment, together with the consolidation effects presented in the transition, fell by €76.5 million year on year as a result of the accounting profit from the disposal of three real estate portfolios that was included in the previous year's figure.

For the BayWa Group, this resulted in tax income of €2.8 million in the financial year 2014 after income tax expenses of €47.0 million in 2013. The tax rate therefore came to –3.2% in the reporting year (2013: 27.9%). The decline in tax expenses was predominantly the result of deferred tax liabilities resulting from the valuation differences in tax accounting and loss carryforwards from Group companies.

Taking account of income tax, the BayWa Group generated net income of €90.5 million in the financial year 2014 (2013: €121.3 million); compared with the previous year's figure, this represents a decline of 25.4%. The share in profit due to shareholders of the parent company went down by 28.5% from €98.2 million in the previous year to €70.2 million in the reporting year.

Earnings per share (EPS), which is 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 34,534,846 (dividend-bearing shares less treasury shares), fell from €2.85 in the previous year to €2.03 in the financial year 2014.

Comparison of forecast business development with actual business development

In the Outlook section of the 2013 Management Report on the Group, BayWa forecast a moderate rise in consolidated revenues in the financial year 2014 and a noticeable improvement in the Group's key earnings indicators, EBITDA, EBIT and EBT.

In the agricultural trade business, the volume of agricultural produce sales was forecast to rise considerably on the basis of stable prices. The operating result (EBIT) was also expected to profit from the positive development of revenues and increase significantly on the 2013 figure. In fact, actual development in the financial year 2014 differed from these expectations. High harvest volumes of many important types of agricultural produces led to a sharp decline in prices from the second quarter through to the end of the year and a temporary fall in trading volume. This was coupled with market fluctuations in the case of individual produce types caused by changes to the demand situation or restrictions in supply as a result of geopolitical crises. Prices for operating resources also fell over the course of the financial year. As a result, the anticipated revenues and operating result were not achieved.

In the fruit business, further revenue growth and a significant improvement in EBIT were expected. These revenue expectations were not met, as prices were down on 2013 levels on account of the extremely good harvest and the restrictions on imports to Russia. In terms of the operating result, expectations of a significant upturn were exceeded with an 18.4% rise in EBIT.

For the Agricultural Equipment business unit, it was expected that revenues would remain on a par with 2013 figures and that EBIT would climb by a moderate margin. With a 1.3% increase in revenues and a 5.7% improvement in EBIT, actual performance came in within the originally forecast range.

Revenues in the Agriculture Segment fell by 6.0% – contrary to the forecast – to €10,105.3 million and EBIT by 8.2% to €113.4 million on account of developments in the business units.

The conventional energy business suffered in particular from the sharp and unexpected fall in the price of crude oil in the second half of 2014, whereas constant prices had been forecast overall in the outlook for the financial year 2014. As a result, revenues fell by 10.2% – contrary to expectations of stable development. This led to a decline in EBIT of 45.9%; a marginal improvement had been originally forecast.

Revenues in the Renewable Energies Business sector were forecast to remain on a par with 2013 levels in 2014, while a slight improvement was expected in terms of EBIT. The revenue trend was much more dynamic than first forecast due to increased system sales. The EBIT forecast was also exceeded with an increase of 6.0%.

Total revenues in the Energy Segment were within the forecast range at –0.2%. In terms of EBIT, actual development deviated from the forecast moderate rise with a decline of 6.3%, as the drop in EBIT in the conventional ener gy business was unable to be fully compensated by an increase in EBIT in the renewable energies business.

In the Building Materials Segment, a decline in revenues of roughly €190 million was reported as a result of the sale of building materials sites in North Rhine-Westphalia and Rhineland-Palatinate, as well as two sites in Württemberg. Organic growth of activities in core regions and higher prices for building materials was supposed to offset this decline. Actual revenues experienced a year-on-year decline of €178.3 million and therefore met expectations. The anticipated major improvement in EBIT also came to fruition.

No forecast was made for the Other Activities Segment, as revenue and earnings development in this segment is primarily driven by opportunism in capitalising on market opportunities outside of core operating activities within the scope of BayWa's portfolio management system.

Based on the assumption of largely stable prices, a moderate rise in revenues and a noticeable improvement in earnings were anticipated for the BayWa Group. Revenues fell short of this forecast on account of a sharp fall in prices in agricultural trade and the conventional energy business. These developments had a negative impact on EBIT. In addition, consolidation effects had a much more negative influence on Group EBIT than in the previous year, meaning that the anticipated positive earnings trend failed to materialise.

After extremely positive development in the first quarter of 2014, negative effects made their presence felt in the second and third quarters, before business picked up again in the course of the fourth quarter. This shows that there can be considerable shifts between quarters due to the reliance of the BayWa Group's business activities on weather conditions, which limits the possibilities of forecasting during the year considerably.

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.

Forward exchange transactions and swaps are used selectively to hedge receivables and liabilities denominated in a foreign currency. These forward exchange transactions 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 from fluctuating exchange rates. The volume of open positions arising from the respective underlyings and the resulting cash flows form the basis for currency hedges. Terms reflect those of the underlyings.

In the BayWa Group, financial management has been set up as a service centre for the operating units 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.

Daily financial management is focused on liquidity management through cash pooling within the whole Group and the same-day provision of liquidity. The Treasury Department uses suitable IT systems and appropriate treasury management software for this purpose.

The procurement of funds is organised decentrally and based on the principle that the national entities refinance in the local currency of the respective country. This applies mainly to activities in Eastern Europe, the USA, New Zealand and the UK. Apart from this, however, the BayWa Group conducts its business mainly in euros. Treasury is responsible for the centralised monitoring of Group-wide financial exposures.

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

The most important financing principle of the BayWa Group consists in observing the principle of matching maturities. Short-term debt is used to finance the working capital. Investments in property, plant and equipment as well as acquisitions are funded from equity, bonded loans and other long-term loans. In addition, the project companies in the Renewable Energies business sector 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. For years, BayWa has placed great importance on the best possible working capital performance. Furthermore, in 2013, a Group-wide project began to further optimise working capital management. The aim of the project is to continue to drive forward the continual reduction of the current assets employed in the company and the resulting release of liquidity without jeopardising the company's profitability. Consistent process management along the entire turnover chain is the key to success. To this end, working capital responsibilities have been redefined, the systematic inclusion of relevant parameters has been anchored in internal reporting systems, specific training and coaching programmes have been carried out and existing guidelines and process descriptions have been adapted.

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

Long-term interest rates were hedged naturally by issuing bonded loans in 2014, 2011 and 2010 as fixed-interest as well as variable-interest rate tranches were issued and the interest rate risk was reduced as a result.

BayWa evolved from the cooperatives sector with which it remains closely connected through its shareholder structure as well as through the congruence of the regional interests of banks and commerce. These historical ties form the basis for a special kind of mutual trust. Particularly in the face of the great uncertainty still prevailing in the financial markets, both sides benefit from this partnership. The cooperative banks boast a particularly strong primary customer and deposit portfolio, which is made available for the preferential financing of stable business models.

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 and capital base

in € million	2010	2011	2012	2013	**2014**	Change in % 2014/13
Equity	987.7	1,045.2	1,078.0	1,182.0	1,127.2	–4.6
Equity ratio (in %)	30.3	26.6	24.2	23.6	20.5	–
Short-term borrowing [1]	1,366.7	1,697.4	1,974.2	2,414.2	2,485.2	2.9
Long-term borrowing	905.9	1,179.4	1,408.0	1,419.0	1,873.9	32.1
Debt	2,272.6	2,876.8	3,382.2	3,833.2	4,359.1	13.7
Debt ratio (in %)	69.7	73.4	75.8	76.4	79.5	–
Total capital (equity plus debt)	3,260.3	3,922.0	4,460.2	5,015.1	5,486.3	9.4

1 Including liabilities from non-current assets held for sale

BayWa is striving to achieve an equity ratio of at least 30% in the medium to long term. The equity base is a very sound foundation for a trading company and a stable platform for business to develop. In the reporting year, this threshold was breached with an equity ratio of 20.5%. The year-on-year decline in the equity ratio was due on the one hand to an increase in long-term borrowing through the placement of a bonded loan with a nominal volume of €383.0 million in October 2014. Existing investors accepted the swap offer with a nominal volume of €83.0 million, with the remaining €300 million able to be placed with new investors. Furthermore, the method in which actuarial gains and losses from provisions for pensions and severance pay are offset against equity without affecting profit or loss once again led to a reduction in equity. The reserve for actuarial losses from pension and severance pay obligations less deferred taxes came to €–218.8 million as at 31 December 2014. As this reserve results from a change of parameters not within the company's control when calculating provisions for pensions and severance pay, BayWa's capital management uses an equity ratio of 24.5% (2013: 26.1%), which has been adjusted for this effect.

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. Due to seasonal influences, borrowing rises through preliminary storing of operating resources and through buying up harvest produce in the fourth quarter of the financial year. Short-term borrowing rose only marginally year on year by €71.0 million, or 2.9%, and includes a rise in current liabilities of €34.2 million. By contrast, long-term borrowing increased by 32.1% or €454.9 million. This was largely the result of the issuing of a new bonded loan of €383.0 million by BayWa AG in the reporting year, €83.0 million of which was used to redeem bonded loans issued in previous years. The borrowed funds were used to expand agricultural trade business activities and project business in the Renewable Energies business sector. In addition, the funds were used to finance the takeover of Apollo Apples Limited by Turners & Growers Limited. Alongside the increase in non-current financial liabilities, higher pension provisions due to a change in actuarial parameters also contributed to the rise in long-term borrowing.

As at 31 December 2014, the BayWa Group's total assets climbed by €471.2 million in comparison with the previous year's figure. Non-current liabilities increased on account of the issuing of the new bonded loan by BayWa AG as well as the rise in pension provisions, while current liabilities rose by just €71.0 million.

Cash flow statement and development of cash and cash equivalents

in € million	2010	2011	2012	2013	**2014**
Cash flow from operating activities	–9.4	–27.5	150.0	219.3	–112.4
Cash flow from investing activities	–113.5	–222.6	–193.7	15.6	–224.7
Cash flow from financing activities	131.6	273.9	37.4	–217.1	351.0
Cash and cash equivalents at the end of the period	28.2	87.0	83.2	92.1	106.1

Cash flow from operating activities came to €–112.4 million in the financial year 2014, a year-on-year decline of €331.7 million. Two contributing factors in this development were the €30.8 million year-on-year decline in consolidated net income, the rise in non-cash income and the fall in non-cash depreciation and amortisation. At the same time, an expansion in inventories and in other assets not allocable to investing or financing activities also contributed to this development. This was not offset by any corresponding rise in liabilities from operating activities, as expansion in business activities was financed by long-term borrowing in the financial year, which are allocable to financing activities.

Cash flow from investing activities fell year on year by €240.3 million following cash outflow of €224.7 million in the reporting year. After offsetting against related additions of cash and cash equivalents, outgoing payments for company acquisitions totalled €142.2 million and largely related to the takeover of the business activities of Apollo Apples Limited, the acquisition of additional shares in Bohnhorst Agrarhandel GmbH and the acquisition of project companies in the Renewable Energies business sector. In the financial year, investments were also made in intangible assets, property, plant and equipment and financial assets totalling €199.5 million, which were offset by incoming payments from the disposal of intangible assets, property, plant and equipment and financial assets totalling €98.4 million. Furthermore, the dividend received, other income assumed and interest received led to cash inflows of €18.6 million. The major drop in cash flow from investing activities in the reporting year was predominantly due to the disposal of BayWa AG real estate inventories, which led to cash inflows from disposal gains.

Cash flow from financing activities amounted to €351.0 million in the financial year 2014 and resulted in particular from the issuing of a bonded loan totalling €383.0 million by BayWa AG in October of the financial year 2014 and the assumption of further borrowing to finance project business in the area of regenerative energies. In addition, capital increases led to cash inflows of €4.3 million. These were offset by the partial redemption of bonded loans issued in previous years of €83.0 million. There were also cash outflows from dividend payments and interest payments at the parent company and at the subsidiaries. The cash outflow from financing activities of €217.1 million reported in the previous year was largely caused by the reduction of financial liabilities using the disposal gains from the sale of BayWa AG real estate.

In an overall analysis of the incoming and outgoing cash payments 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 outflow from operating activities was compensated by the incoming cash flow from financing activities. As a result, cash and cash equivalents at the end of the reporting year came to €106.1 million, which is €14.0 million higher than in the previous year.

Financial base and capital requirements

The BayWa Group's financial base is primarily replenished by funds from operating activities. Furthermore, the Group was allocated funds from the issuing of a new bonded loan in the financial year 2014; these funds were used both for company acquisitions and to finance current assets. Moreover, the Group receives funds from measures to streamline portfolios, such as the disposal of real estate not essential to operations or non-strategic financial participation and sale-and-lease-back transactions.

Capital requirements are defined by investment financing and the ongoing financing of operations, the repayment of financial liabilities 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 calculated from the sum total of cash and cash equivalents less outstanding commercial paper, bank debt and finance lease obligations, as reported in the balance sheet.

Matched to funds committed, the financing structure remains largely short term. Along with short-term borrowing, the Group finances itself by way of a multi-currency Commercial Paper Programme with a total volume of €400.0 million; on the reporting date, drawdowns with an average term of 76 days came to €309.2 million (2013: €343.5 million). By the end of the reporting period, €141.9 million (2013: €139.3 million) had been financed from the ongoing Asset Backed Securitisation Programme.

Investments
In the financial year 2014, the BayWa Group invested around €164.6 million in intangible assets (€11.2 million) and property, plant and equipment (€153.4 million) together with its acquisitions. These investments were primarily for the purpose of repair and maintenance of buildings, facilities and office fixtures and fittings, as modern locations and seamlessly operating facilities are a precondition for efficient logistics processes.

BayWa will continue to invest in modern site infrastructure in future. This includes investments in land and buildings, wherever such investments are expedient and prudent. By contrast, real estate no longer used for operations is consistently sold off. The proceeds accruing from these transactions are used to reduce debt or to finance the Group's growth.
In 2014, roughly €68.8 million was invested in new business premises Group-wide. The main focus was on the completion of company locations and investment in sites' technical facilities.

At the agricultural site in Hainichen, investments totalling €3.3 million were made in a grass mixing plant and the construction of a new agricultural hall.

In addition, a total of €2.4 million was invested in the construction of a new technical service centre at the Bayreuth-Wolfbach site. In the Agricultural Equipment business unit, new business premises at the Münchberg site were acquired for €1.6 million.

In addition, RWA Raiffeisen Ware Austria AG and Turners & Growers Limited made investments in business premises totalling €4.8 million and €3.8 million respectively.

Ultimately, investment measures totalling €51.5 million began in the financial year 2014; these concern BayWa AG sites as well as sites belonging to other Group companies and are to be completed in the financial year 2015.

Payments for company acquisitions came to €145.1 million in the financial year 2014 and mainly related to the takeover of the business activities of Apollo Apples Limited in New Zealand, the acquisition of an additional 40% of shares in Bohnhorst Agrarhandel GmbH, acquisitions of project companies in the area of regenerative energies and the acquisition of a heat provision contracting company, together with all associated assets, in the Energy business unit.

Including acquisitions, roughly 52% of total investments in non-current assets in the BayWa Group were attributed to the Agriculture Segment. The high share of investments attributable to the Agriculture Segment reflects the international expansion in agricultural trade. Some 23% of total investments were made in the Energy Segment, while 6% was attributed to the Building Materials Segment and 19% to the Other Activities Segment.

Asset position
In the reporting year, non-current assets increased year on year by 9.9%, or €189.6 million, to €2,104.3 million. Additions to intangible assets and property, plant and equipment amounting to €236.7 million within the scope of investment activities and changes to the group of consolidated companies in core business were offset by disposals of €42.3 million and transfers amounting to €9.3 million. Adjusted for scheduled depreciation and amortisation in the financial year of €114.5 million and exchange rate-induced increases of €11.6 million, intangible assets and property, plant and equipment increased by a total of €82.2 million. Shares in companies recognised at equity increased by €95.3 million to €196.9 million largely as a result of the pooling of shares in one affiliated company together with other shareholders in the form of a joint venture, which the BayWa Group has since recognised at equity. The investment of 49.0% in Dutch agricultural equipment trading company Agrimec Group B.V. also contributed to this increase. Other financial assets fell by €70.0 million, primarily as a result of the aforementioned contribution of affiliated company shares to a joint venture as well as the first-time inclusion in the group of consolidated companies of companies that had previously not been consolidated as they had not been considered significant. The rise in non-current biological assets resulted from the takeover of the business activities of Apollo Apples Limited in New Zealand together with the associated assets. Investment real estate decreased on account of the disposals and transfers totalling €9.5 million completed in the financial year 2014. Alongside the rise in other non-current receivables and other assets of €20.0 million, deferred tax liabilities increased by €59.5 million. This increase is primarily related to the increase in pension provisions due to the change in calculation parameters. The BayWa Group's inventories increased year on year by €150.3 million to €1,986.3 million particularly as a result of project developments in the Renewable Energies business sector. At €1,240.1 million, the value of other current

receivables and other assets as at the reporting date climbed by €127.7 million year on year. This was due to an expansion in Group companies' commodity futures recognised as financial instruments as well as receivables from financing activities at sold project companies. In addition, an increase in prepayments made, in particular, on project developments in the Renewable Energies business sector made a contribution to this rise. By contrast, non-current assets and disposal groups held for sale fell by €24.9 million to €18.5 million. This was due primarily to the disposal of BayWa AG building materials sites in Rhineland-Palatinate and North Rhine-Westphalia effective as at 1 May 2014 and 1 June 2014 respectively. These sites' assets were classified as a disposal group in the financial year 2013 due to the intention to sell. In the reporting year, non-current assets held for sale and disposal groups predominantly comprised the assets of Raiffeisen Kraftfutterwerke Süd GmbH, which were transferred to the purchaser within the scope of an asset deal effective as at 1 March 2015. This item also comprises minor real estate inventories which are also intended to be sold in the next financial year. The BayWa Group's balance sheet increased by 9.4%, or €471.2 million, to €5,486.3 million as at the reporting date of 31 December 2014.

Traditionally, BayWa has always placed an emphasis on ensuring matching maturities in the financing of assets. Current liabilities of €2,485.2 million – consisting of current financial liabilities, trade payables, tax, other liabilities along with current provisions and liabilities from disposal groups – were offset by current assets of €3,382.0 million. By the same token, there is roughly 143% coverage for non-current assets amounting to €2,104.3 million through equity and long-term borrowing of €3,001.1 million. Ensuring matched maturities in financing is an important quality criterion for the financing partners of BayWa in the context of raising short-term funds.

Composition of assets

in € million	2010	2011	2012	2013	**2014**	Change in % 2014/13
Non-current assets	1,434.4	1,623.4	1,783.3	1,914.7	2,104.3	9.9
of which land and buildings	650.1	642.0	530.1	545.9	594.3	
of which financial assets	212.6	210.6	232.8	320.4	250.4	
of which investment property	71.6	63.6	86.2	82.4	72.8	
Non-current asset ratio (in %)	44.0	41.4	40.0	38.2	38.4	
Current assets	1,776.8	2,039.8	2,444.4	3,057.0	3,363.5	10.0
of which inventories	1,062.3	1,165.4	1,432.6	1,836.0	1,986.3	
Current asset ratio (in %)	54.5	52.0	54.8	61.0	61.3	
Assets held for sale/ disposal groups	49.1	258.8	232.5	43.4	18.5	
Total assets	3,260.3	3,922.0	4,460.2	5,015.1	5,486.3	9.4

General statement on the business situation of the Group

At the time the Management Report of the BayWa Group was drawn up, the Board of Management continued to view the development of business as positive. The earnings trend in the Agriculture Segment and the conventional energy business was negatively impacted in 2014 by a series of unusual external factors. However, this has not changed the positive medium- and long-term business outlook at the BayWa Group. In fact, BayWa benefitted in 2014 from its strategic orientation in international markets and the development of new business sectors such as renewable energies by considerably expanding the basis of its business and noticeably reducing reliance on individual country markets. The BayWa Group has a well-balanced, fit-for-the-future business portfolio to underpin its success in the future.

Financial Performance Indicators

BayWa orients the short-term management of its corporate divisions with the development of key earnings indicators EBITDA, EBIT and EBT. Key earnings indicators for the segments of the BayWa Group developed as follows in the financial year 2014:

Key financial earnings indicators

	Earnings before interest, tax, depreciation and amortisation (EBITDA)			Earnings before interest and tax (EBIT)			Earnings before tax (EBT)		
in € million 2014		Change (absolute)	Change in %		Change (absolute)	Change in %		Change (absolute)	Change in %
Agricultural Trade	95.7	– 14.9	– 13.5	65.1	– 15.3	– 19.0	43.1	– 15.0	– 25.8
Fruit	38.6	4.7	14.0	25.6	4.0	18.4	21.2	3.7	21.5
Agricultural Equipment	32.5	– 1.5	– 4.5	22.7	1.2	5.7	13.2	1.6	13.9
Agriculture Segment	**166.8**	**– 11.7**	**– 6.6**	**113.4**	**– 10.1**	**– 8.2**	**77.5**	**– 9.7**	**– 11.1**
Energy	14.8	– 6.0	– 28.6	5.8	– 4.9	– 45.9	6.9	– 3.7	– 35.2
Renewable Energies	59.2	2.1	3.8	36.5	2.1	6.0	23.7	3.3	16.3
Energy Segment	**74.0**	**– 3.8**	**– 4.9**	**42.3**	**– 2.8**	**– 6.3**	**30.6**	**– 0.4**	**– 1.4**
Building Materials Segment	**40.9**	**2.5**	**6.5**	**30.7**	**3.6**	**13.5**	**27.1**	**6.0**	**28.3**

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 in 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 corporate divisions by means of their risk-weighted costs of capital.

Economic profit

in € million 2014	Agricultural Trade	Fruit	Agricultural Equipment	Energy	Renewable Energies	Building Materials
Net operating profit	65.1	25.6	22.7	5.8	36.5	30.7
Average invested capital [1]	1,135.0	242.1	366.9	55.0	533.8	291.1
ROIC (in %)	5.74	10.57	6.19	10.55	6.84	10.55
Weighted average cost of capital (WACC) (in %)	6.10	7.20	7.10	6.60	7.10	7.20
Difference (ROIC/WACC) (in %)	– 0.36	3.37	– 0.91	3.95	– 0.26	3.35
Economic profit by business unit	– 4.1	8.2	– 3.4	2.1	– 1.4	9.7
			Agriculture		Energy	Building Materials
Economic profit by segment			0.7		0.7	9.7

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

In the financial year 2014, all three BayWa Group segments achieved positive economic profit (in other words, positive net income after respective capital costs). The Agriculture Segment posted total economic profit of €0.7 million. Agricultural trade made a negative contribution of €–4.1 million to the segment's economic profit, which was primarily due to the rise in capital employed and increased logistics costs relating to geopolitical crises. The Fruit business unit generated positive economic profit of €8.2 million, to which international business made a major contribution. The negative economic profit of the Agricultural Equipment business unit of €–3.4 million was chiefly caused by the realignment of sales operations at Massey Ferguson. In the Energy Segment, the conventional energy business made a positive contribution of €2.1 million, while the economic profit of the Renewable Energies business sector in the reporting year was negative at €–1.4 million. Despite system sales, capital employed increased by a considerable margin in the reporting year due to a sharp rise in new project management. The Energy Segment's economic profit totalled €0.7 million. The Building Materials Segment generated positive economic profit of €9.7 million in the financial year 2014 due to successful restructuring and site consolidation.

Employees

The number of employees at BayWa increased further in 2014: As at the end of the year, the BayWa Group had a workforce of 16,935 (2013: 16,834). In terms of an annual average, the number of employees rose year on year by 98 to 16, 072, equating to an increase of 0.6%. The rise was due to a number of strategic measures: More employees were hired in both the Agriculture Segment as well as the Renewable Energies business sector in the course of consistently expanding international activities. In contrast, the number of employees in the Building Materials Segment decreased due to that fact that BayWa sold off its building materials business in North Rhine-Westphalia and Rhineland-Palatinate. Another focus of HR work was in the area of project and process management with a view to digitising customer and business relationships as a basis for a successful future.

Development of the average number of employees in the BayWa Group

					Change	
	2011	2012	2013	**2014**	2014/13	in %
Agriculture	6,859	8,730	9,038	9,489	451	5.0
Energy	1,387	1,564	1,720	1,830	110	6.4
Building Materials	6,698	4,868	4,718	4,178	– 540	– 11.4
Other Activities	647	518	498	575	77	15.5
BayWa Group	15,591	15,680	15,974	16,072	98	0.6

Extensive seminar and training concept as the basis for a successful future

With staff development concepts and measures, BayWa offers its employees the chance to develop their skills. To strengthen employee loyalty, staff and managers are offered targeted seminars with qualified trainers. Training courses were focused on accompanying BayWa's internationalisation strategy. A variety of language and training courses were offered to strengthen intercultural competences. Well over 9,000 employees took part in specialist or general training courses and seminars in 2014, amounting to a total of over 28,000 training days.

Increasing internationalisation in personnel

Last year, international cooperation between the Group companies continued to be enhanced. For example, an international exchange programme was launched which gives employees the opportunity to spend a short time abroad. The primary aim of this programme is to help employees develop their skills and prepare for future time they may spend abroad during their careers. An international meeting of HR directors is also in the pipeline.

Quality training for a successful future

Extensive, professional training provides the best platform for a promising future – both for trainees and for the BayWa Group. With more than1,300 trainees, BayWa ranks among the most important companies offering trainee programmes in Germany. The trainee ratio of 9.5% is much higher than the national average. The quality of training in the 13 apprenticeships also remains at a consistently high level: According to an internal survey, more than 90%

of all trainees would recommend training at BayWa to others. In 2014, BayWa received more than 6,500 applications for around 450 training positions. That equates to around 14 applications for each position. This confirms the attractiveness of BayWa as an employer.

BayWa Foundation supports committed students

As part of the Germany Scholarship, the BayWa Foundation provides funding to students from the Technische Universität München, the Weihenstephan-Triesdorf University of Applied Sciences, the University of Hohenheim and Nürtingen-Geislingen University once a year. During an annual scholarship event, recipients in Bavaria and Baden-Württemberg are given the chance to take a closer look at the BayWa Group and the BayWa Foundation. This year, the students visited the BayWa agriculture location in Regensburg-Osthafen as well as Schradenbiogas GmbH, where they had the opportunity to take a look behind the scenes and establish a network of contacts. For BayWa, this was a good chance to touch base with the highly qualified and talented personnel and managers of tomorrow. More information about the BayWa Foundation's projects can be found at: www.baywastiftung.de/en/.

Healthy staff in safe workplaces

Environmental protection, health management and occupational safety are key aspects in the BayWa Group. Investment in safe workplaces serves to protect the health of staff and the environment. Relevant training, the right protective equipment and safe production processes are a matter of course at BayWa. The number of occupational accidents at BayWa has been falling constantly for years. Last year, BayWa also offered its staff the chance to improve their health actively and promote a healthy working environment with a variety of fitness programmes and regular health tips.

Sustainability at BayWa

As an international trading and services company, BayWa is aware of its social responsibility. BayWa practices fundamental social values in its daily activities throughout the whole Group and ensures fair conduct towards its business partners. The guidelines on social responsibility are defined in the company's Articles of Association, its corporate guidelines, ethical principles and under its regulations on corporate governance.

BayWa ensures their sustainable integration into business and society through ongoing dialogue with the public at large, stakeholders and interested parties. One way in which BayWa demonstrates its regional ties is through its support of the Bavarian Football Association (BFV), which is focused on promoting young sporting talent, since 2012. Following their successful cooperation in the past three years, BayWa increased its commitment to the FC Bayern basketball team during the reporting year and kicked off the 2014/15 season as the main sponsor of the reigning German champions.

BayWa's understanding of economic responsibility includes transparent communication as part of its investor relations activities, maintaining dialogue with the various stakeholders, and having efficient risk and complaints management.

BayWa fulfils its ecological responsibility, both through its own activities and in its dealings with customers and suppliers. Within the Group itself, ecological aspects are taken account of through the use of renewable energies and renewable raw materials as well as environmentally compatible products, measures to curb the consumption of energy, waste management and efficient transport logistics. BayWa supports its customers and suppliers in their observance of environmentally sound principles through consultancy and other services.

Sustainable personnel development, employment and job security, as well as health management, are an integral part of the social responsibility perceived by the Group to society at large and to its employees. BayWa ranks among the leading companies in Germany in respect of training and continual professional development and has thus laid the cornerstone for its long-term success in human resource development.

Responsibility for society and the environment has been anchored in BayWa's operations for generations. To mark the company's 75th anniversary, the BayWa Foundation was established as a sign of this commitment. The BayWa Foundation has been successfully supporting long-term education projects to promote a healthy diet as well as environmental awareness and responsible use of natural resources since 1998. It plays a central role in the present and invests in ensuring the welfare of future generations. BayWa AG supports the BayWa Foundation by doubling any donation made to the BayWa Foundation and covering all administrative costs. This ensures that all donations go directly to BayWa Foundation projects. More information can be found at: www.baywastiftung.de/en/.

To meet the increased demands of the capital market and different stakeholder groups for transparency, BayWa published its first separate sustainability report in 2015. This can be found on the internet at www.baywa.com/en/sustainability/.

Takeover-relevant Information

Composition of subscribed capital

The subscribed capital of BayWa AG amounted to €88,736,880.64 on the reporting date and is divided up into 34,662,844 registered shares with an arithmetical portion of €2.56 each in the share capital. Of the shares issued, 33,311,095 are registered shares with restricted transferability and 108,498 recently registered shares with restricted transferability (dividend-bearing employee shares from 1 January 2015 onwards). 1,243,251 shares are not registered shares with restricted transferability. With regard to the rights and obligations transferred by the shares (e.g. the right to a portion of the unappropriated retained earnings or to participate in the Annual General Meeting of Shareholders), 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 BayWa AG's Articles of Association, 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 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'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 affiliated companies held stakes in the capital that exceeded 10% of the voting rights:

Bayerische Raiffeisen-Beteiligungs-AG, Beilngries, Germany
Raiffeisen Agrar Invest GmbH, 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

In supplementation of Sections 84 et seq. of the German Stock Corporation Act (AktG), Article 9 of the Articles of Association of BayWa AG 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, amendments to the Articles of Association are always passed by the Annual General Meeting of Shareholders.

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

Furthermore, subject to the approval of the Supervisory Board, the Management Board is authorised to raise the share capital one or several times on or before 31 May 2015 by up to a nominal amount of €3,570,741.76 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 approval by 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.

Subject to approval by the Supervisory Board, the Board of Management is also authorised to raise the share capital one or several times on or before 31 May 2016 by up to a nominal amount of €12,500,000 through the issuance of new registered shares with restricted transferability against cash contribution. The authorisation can be used in part amounts. Shareholders' subscription rights are excluded. Subject to approval by 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.

Furthermore, subject to approval by the Supervisory Board, the Board of Management is authorised to raise the share capital on or before 31 May 2018 by up to a nominal amount of €10,000,000 through the issuance of new registered shares against cash contribution. The authorisation can be used in part amounts. Shareholders' subscription rights are excluded. Subject to approval by 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.

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 the combinations of business 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 of Shareholders to buy back shares. There are no agreements within the meaning of Section 315 para. 4 items 8 and 9 of the German Commercial Code (HGB).

Significant Events After the Reporting Date

Effective as at 1 March 2015, BayWa AG, Munich, sold the feedstuff factories of Raiffeisen Kraftfutterwerke Süd GmbH to feedstuff manufacturer Deutsche Tiernahrung Cremer GmbH & Co. KG within the scope of an asset deal with the approval of the German Federal Cartel Office. As part of the transaction, production sites in Regensburg, Heilbronn and Memmingen with a total annual production volume of over 500,000 tonnes of feedstuff are to be transferred. The logistics business is not affected by the transaction and it will remain housed under Raiffeisen Kraftfutterwerke Süd GmbH. As at the balance sheet date, assets with book values of €13,963 million and liabilities of €5,079 million were attributed to the affected sites. Assets and liabilities were classified as "held for sale" effective as at 31 December 2014.

BayWa AG, Munich, is to assume 100% of PC-Agrar GmbH, Pfarrkirchen, together with its associated subsidiaries. PC-Agrar GmbH offers software solutions and integrated services for process-driven operations management in the agricultural sector (smart farming). In future, BayWa would like to develop solutions for farmers through this partnership in order to make use of the advantages of smart farming across all types of machinery and operating resources and irrespective of the size of the farm.

BayWa AG, Munich, will take over tomato growers Great Lake Tomatoes Limited, Auckland, New Zealand and Rianto Limited, Hamilton, New Zealand through New Zealand subsidiary Turners & Growers Limited, Auckland, New Zealand. The effectiveness of the acquisitions is subject to approval by the Overseas Investment Office (OIO) of New Zealand, which deals with foreign investments.

On 3 March 2015, the German Federal Cartel Office conducted a search in a number of offices at the BayWa AG headquarters in Munich on the basis of a warrant. The search was conducted on suspicions that company employees had been involved in anti-competitive arrangements in crop protection wholesale operations. The search centred on materials dating back to the year 2000. No further details on the accusations were available to the company at the time of the conclusion of the consolidated financial statements. BayWa AG will offer its full cooperation with the German Federal Cartel Office and investigate the issue internally to clarify the circumstances.

Remuneration Report

The remuneration report is part of the Management Report on the company and explains the system of remuneration for members of the Board of Management and the Supervisory Board.

Remuneration of the Board of Management

The remuneration system, including the main contractual components, is reviewed by the Supervisory Board once a year and adjusted if necessary.

Since 1 January 2010, the remuneration of members of the Board of Management has comprised an annual fixed salary, a short-term variable component (annual bonus) and a long-term variable component (known as the bonus bank). The ratio of fixed to variable short-term remuneration and long-term variable remuneration is roughly 50 to 20 to 30 based on full (100%) achievement of goals. The non-performance-related component comprises an annual fixed salary and benefits, such as the use of a company car and contributions to accident and health insurance. Short-term variable remuneration takes the form of an annual bonus. The amount of this bonus depends on the extent to which objectives, determined by the Supervisory Board and geared to individually agreed goals and to the successful development of the company's business (earnings before tax), are achieved. If the targets are achieved, the agreed bonuses are paid out in full. If the targets are exceeded, the bonus will be increased, but only up to a maximum amount (cap) of 150%. If the targets are not fulfilled, the bonus will be reduced proportionately. Both negative and positive developments are therefore taken into account in calculating short-term variable remuneration.

The long-term variable component takes the form of what is known as a bonus bank. The bonus bank will be supplemented or charged on a yearly basis depending on the extent to which objectives, linked to the success of the company (earnings before tax) and determined by the Supervisory Board for three years in advance, have been achieved, overachieved or underachieved. If objectives are overachieved, the amount which can be transferred to the bonus bank is capped at 150% of the target figure. If there is a credit balance on the bonus bank, one-third will be provisionally paid out to the respective member of the Board of Management for the financial year 2014. The remaining two-thirds of the credit balance on the bonus bank remain in the bonus bank. The amount is paid linearly; in other words, the amount carried in the bonus bank will be paid out provisionally to members of the Board of Management in equal instalments across three financial years, provided there is a sufficient credit balance on the bonus bank and after calculating negative bonuses. If, owing to payments made in previous years or a charge reducing the bonus bank, there is a negative balance on the bonus bank, the respective Board members are obliged to pay back the provisional payments made in the two preceding years. Both negative and positive developments are therefore also taken into account in calculating long-term variable remuneration. Alongside the agreed cap on both components of remuneration, there is also a cap imposed for extraordinary developments.

In addition, there are pension commitments for the members of the Board of Management. These commitments are based partly on the most recent fixed salary (30%), and partly on the number of years of service to the company (with increases limited to 35% and 50% of the salary most recently received). The retirement age has been set at 65 years (full year). Since 1 December 2012, all obligations from pension commitments have been transferred to an external pension fund in the form of an earned entitlement, or to a provident fund. Running payments made to the pension fund or provident fund are included in the overall remuneration disclosed for the Board of Management. There are no commitments in the employment contract of the Board members if service to the company is prematurely terminated. There is also no change of control clauses.

The total remuneration of the Board of Management for the financial year 2014 came to €6.519 million (2013: €5.811 million); of this amount, €2.300 million (2013: €2.505 million) is variable. Contributions amounting to €1.230 million (2013: €0.881 million) were paid in benefits after termination of the employment contract (pensions).

The remuneration of the Board of Management is not itemised. Instead, it is divided up into fixed and variable/performance-related amounts and disclosed once a year in the Notes to the Consolidated Financial Statements. The relevant resolution was passed by the Annual General Meeting of Shareholders in accordance with Section 286 para. 5 of the German Commercial Code (HGB) on 18 June 2010 (Code Item 4.2.4). There is more information on other remuneration in the Notes to the Financial Statements and Consolidated Financial Statements.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is based on the responsibilities and the scope of tasks of the members of the Supervisory Board as well on as the Group's financial position and performance.

Since 1 January 2010, members of the Supervisory Board have received fixed annual remuneration of €10,000, payable at the end of the year, plus variable remuneration of €250 for each cash dividend portion of €0.01 per share approved by the Annual General Meeting of Shareholders which is distributed in excess of a share in profit of €0.10 per share. Variable remuneration is due and payable at the end of the Annual General Meeting of Shareholders which has passed a resolution on the aforementioned cash dividend portion.

The Chairman of the Supervisory Board receives three times the amount and the Vice Chairman twice the amount of remuneration paid as described in the paragraph above. Additional fixed remuneration of €2,500 is paid for committee work. The chairmen receive three times the respective amount.

Supervisory Board members who serve on the Supervisory Board and/or its committees for only part of the financial year will receive remuneration on a proportionate basis.

In addition, they are reimbursed for their expenses and value added tax which falls due during their activities as member of the Supervisory Board or its committees. Moreover, Supervisory Board members will be included in any D&O insurance taken out in the interest of the company covering personal liability in an appropriate amount. The company pays the insurance premium.

The total remuneration of the Supervisory Board comes to €0.686 million (2013: €0.683 million), of which €0.351 million is variable (2013: €0.322 million).
Disclosure of remuneration paid to the members of the Supervisory Board in the Notes to the Consolidated Financial Statements has not been itemised (reason given in the Declaration of Conformity).

Opportunity and Risk Report

Opportunity and risk management

The corporate policy of the BayWa Group is geared toward weighing up the opportunities against the risks of entrepreneurship in a responsible way. The management of opportunities and risks is an ongoing task of entrepreneurial activity designed to ensure the long-term success of the Group. This enables the BayWa Group to innovate, secure and improve what is already in place. The management of opportunities and risks is closely aligned to the BayWa Group's long-term strategy and medium-term planning. The decentralised regional organisation and management structure of operating business enables the Group to identify trends, requirements, and the opportunities and risk potential of frequently fragmented markets at an early stage, analyse them and take action which is both flexible and market oriented. Internationalisation opens up new business opportunities for BayWa, which also decrease its dependency on individual country markets and the associated risks. Moreover, the systematically intense screening of the markets and of peer competitors is carried out with a view to identifying opportunities and risks. This is flanked by ongoing communication and the goal-oriented exchange of information between the individual parts of the Group, which leverages additional opportunities and synergy potential.

Principles of opportunity and risk management

BayWa exploits opportunities that arise in the context of its business activities but, at the same time, also enters into entrepreneurial 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 principles underlying the system set in place within the 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 and the concluding of insurance policies supplement the Group's management of risk.

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

Opportunity and risk management within the BayWa Group

In the BayWa Group risk management is an integral component of the planning and management and control processes. A 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 segments and is included as a key component of reporting. A particularly important task of risk management is to guarantee that risks to the Group as a going concern are identified and kept to a minimum. This enables the management of Group companies to react swiftly and effectively. All units have risk officers and risk reporting officers who are responsible for implementing the reporting process.

The reporting process classifies opportunities and risks into categories and estimates their probable occurrence and potential financial impact. The system is based on individual observations, supported by the relevant management processes, and forms an integral part of core activities. It starts with strategic planning and proceeds through to procurement, sales and distribution and, finally, to counterparty risk management. As an extension of the planning process that takes place in the business sectors and in procurement, sales organisations and centralised functions, the opportunity and 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. As a result, the BayWa Group can make better use of the opportunities while avoiding or reducing the risks.

Risk reports, which are regularly prepared by the operating units, are a cornerstone of the risk management system. These reports are subject to evaluation by the Board of Management and by the heads of the business units. The systematic development of existing and new systems with a built-in warning component makes an indispensable contribution to strengthening and consistently building up a group-wide opportunity and risk culture.

A key component and, at the same time, an evolution of the opportunity and risk management is the "Risk Board", which has been in place since the financial year 2009. Presided over by the Chief Executive Officer, the Risk Board, which consists of operations managers and support staff, meets regularly to discuss and assess operational opportunities and risks. Minuted meetings are used to develop an understanding of the opportunities and risks and form the basis of the risk measurement applied to operational decisions.

In order to take into consideration the development of the business model in agricultural trade from a coverage-based business to an international agricultural commodities trading company, the Group-wide risk management system implemented in the previous year was expanded for the agriculture group. This encompasses the agricultural trade activities of BayWa, Cefetra Group, Bohnhorst Agrarhandel GmbH and BayWa Agar International B.V., which are monitored according to standardised principles. The Minimum Requirements for Risk Management (MaRisk) published by the German Financial Supervisory Authority (BaFin) serve as the benchmark for the risk management system. These standards are well established in the financial services sector and among leading trading companies and have been adapted for agricultural trade at BayWa, thanks to the flexible and relevant framework of the key regulations. In consideration of risk-bearing capacity, an adequate, efficient risk management system in accordance with the Minimum Requirements for Risk Management (MaRisk) also includes the definition of strategies and establishment of internal control procedures. The internal control system comprises, in particular:

- Requirements of the organisational and operational structure
- Processes for identifying, assessing, treating, monitoring and communicating risks (risk management and controlling processes)
- The establishment of a risk controlling function

Aside from the already established processes of ascertaining daily trading positions and monitoring volume-based market risk limits, additional, value-oriented trade risk controlling processes were introduced in 2014. These include regular mark-to-market assessments for uncompleted agricultural trade transactions and the resulting ascertainment of the trading result, as well as the portfolio-based value-at-risk procedure. In addition, stress tests are performed on a regular and ad-hoc basis to determine the effects of extraordinary market price changes on earnings and, if necessary, take action to reduce risk. In a weekly risk report, the Board of Management is informed on the agriculture group's trading positions as well as their risk content

These control mechanisms are supported by a Group-wide, standardised IT system for risk management, which was introduced in 2014. All functions and processes were reviewed by an external auditing company as part of a user acceptance testing programme.

The risk governance system introduced in 2013 has been expanded further. The highest decision-making committee within the agriculture group – the Agricultural Risk Committee – comprises Board of Management members and meets both periodically and on an ad-hoc basis. It resolves risk guidelines and limit systems for agricultural trade and, if necessary, introduces measures to control and mitigate risks.

In order to guarantee the comprehensive implementation of the Agriculture Risk Committee's decisions, including compliance with limits, a risk controlling function was set up independently of trade activities both at Group level and in each agricultural trade company. Group Risk Control is responsible for the Group-wide development and implementation of methods, processes and systems relating to risk controlling, risk monitoring and risk reporting. The Risk Officer's responsibility at trading companies covers all risk processes within the company, including limit monitoring and reporting. The Agricultural Risk Controlling Board, comprising Group Risk Control and the Risk Officer for the trading companies, is another component in risk governance; it is geared towards ensuring structured communication of risk-relevant incidents on at least a weekly basis.

Furthermore, an Agricultural Coordination Center (ACC) was also set up with the aim of improving the commercial coordination of agricultural trading activities. This includes monitoring the global markets as well as optimising the trade portfolio from an opportunities and risk perspective.

Macroeconomic opportunities and risks
General economic factors have an influence on consumer behaviour and investment patterns in BayWa's core markets. However, 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, shelter, mobility and the supply of energy. Accordingly, the impact of cyclical swings is 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. BayWa is, however, unable to fully decouple from any severe setbacks to international economic development, such as the potential for further escalation in the euro zone sovereign debt crisis.

Sector and group-specific opportunities and risks
Changes in the political framework conditions, such as, for example, changes in the regulation of markets for individual agricultural products or tax-related government subsidies of energy carriers, as well as volatile markets harbour risks. At the same time, however, they open up new prospects. Extreme weather conditions can have a direct impact on offerings, pricing and trading in agricultural produce and also downstream on the operating resources business. This is offset by the rise in product and geographical presence diversification in the Agriculture Segment as this would reduce the dependence on individual markets and increase procurement and marketing flexibility. Global climate changes also have a long-term effect on agriculture. The global demand for agricultural products, particularly grain, continues to grow. This may give rise to a sustained price uptrend. Fruit-growing activities pose a financial risk to the Group on account of the delay between cash outflow for buying, growing and maintaining the trees and vines and the costs of the harvest and cash inflow from the sale of the fruit. This risk is managed by actively monitoring net working capital. The development of income in the agriculture sector filters through directly to investment capacity and propensity and therefore to the sale of high-end agricultural machinery.

In the energy business, renewable energies are particularly affected by changes in promotion measures. Against this backdrop, geographic diversification stabilises the development of revenues and income and diversification across a number of different energy carriers – above all, wind energy, solar power and biomass – mitigates risk in certain markets that remain strongly dependent on subsidisation. Weather risks (wind levels, solar radiation) also play a risk for electricity-generating Group companies in the renewable energies industry. Average wind levels and solar radiation can be predicted to a relatively good degree of accuracy over the medium term using long-term appraisals, but there can be positive and negative deviations in the short term. System availability is also a risk which can be reduced considerably by selecting tried-and-tested components built by renowned system manufacturers. By concluding full-service maintenance agreements, it is also ensured that maintenance and repair work is carried out within defined periods of time.

Political and economic factors exert the main influence on demand in the construction sector. Political factors of influence are, for instance, special depreciation for listed buildings and measures to promote energy efficiency. At the same time, the ageing housing stock in Germany will encourage growing demand for modernisation and renovation.

Risks and opportunities from financial instruments

In addition to fixed- and variable-rate financial instruments, which are subject to varying degrees of interest rate risks, the BayWa Group also uses derivative hedging instruments such as options and futures contracts to hedge its commodity futures. As well as interest rate change risks, these derivative hedging instruments are also subject to risks posed by changes to the prices of underlying transactions as well as, depending on the basis currency in which the derivative instrument is denominated, currency risks. Transactions that were not conducted via a stock exchange are also subject to counterparty risk. By the same token, changes to interest rates, currency exchange rates or forward market prices can lead to unplanned opportunities.

Price opportunities and risks

BayWa trades in merchandise that displays very high price volatility, such as grain, oilseeds, fertilisers, mineral oil, biomethane and solar components, especially in its Agriculture and Energy segments. The warehousing of the merchandise and the signing of delivery contracts governing the acquisition of merchandise in the future means that BayWa is also exposed to the risk of prices fluctuating. Whereas the risk inherent in mineral oil and biomethane is relatively low due to BayWa's pure distribution function, fluctuations in the price of grain, oilseeds, fertilisers and solar components may incur greater risks, also owing to their warehousing, if there is no matching in the agreements on the buying and selling of merchandise. In addition to absolute price risks, business developments may be influenced by various price developments in the local premiums, in the temporal price curve as well as different quality grades. If there are no hedging transactions existing at the time when agreements are signed, the ensuing risk is monitored on an ongoing basis by the respective executive bodies. Whenever necessary, appropriate measures to limit risk are initiated. BayWa also operates as a project developer in the field of renewable energies. This business harbours a risk that, for instance, the planning and building of solar power plants, wind farms and biogas plants are delayed and that they may be connected to the grid later than originally planned. If this results in the deadline for further feed-in tariff reductions being missed, there is a risk that lower feed-in or electricity income will undermine the cost-effectiveness of the projects forecast at the planning stage.

The BayWa Group uses a portfolio-based value-at-risk method to measure and control risks from commodity futures, which are treated as financial instruments in the sense of IAS 39. The value-at-risk method used by BayWa is geared towards quantifying negative changes in the value of a portfolio, which cannot be breached with a certain probability (95%) during a defined period of time (5 trading days). The value-at-risk calculated as at 31 December 2014 stands at €3.390 million; this means that the potential losses from the observed commodity futures within the next 5 trading days will not exceed the value of €3.390 million with a probability level of 95%.

Currency opportunities and risks

BayWa's business operations take place predominantly within the eurozone. Foreign currency positions from goods and services transactions, especially in cross-border agricultural trade, 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 bonds denominated in foreign currencies is prohibited.

Share price opportunities and risks

To a small extent, the BayWa Group's investment portfolio comprises direct and indirect investments in listed companies. Equity investments are continuously monitored on the basis of their current market values.

Interest rate opportunities and risks

Interest rate risk positions arise from the Group's floating-rate financing activities and particularly from the issuing of short-term commercial papers, short-term borrowing and bonded loans with variable shares of interest. Short-term debt is used mainly to finance working capital. To reduce the interest rate risk not secured through a natural hedge, BayWa uses derivatives instruments in the form of futures, interest rate caps and swaps.

In the financial year, the average interest rate stood at roughly 1.5% (2013: 1.5%). A change in this interest rate of plus 1.0% to 2.5% would cause interest expenses to rise by €19.428 million, whereas the reverse, i.e. a change in this interest rate of minus 1.0% to 0.5%, would lower interest expenses by €19.428 million.

Legal and regulatory opportunities and risks

The companies of the Group are exposed to a number of risks in connection with litigation in which they are currently involved or may be involved in the future. Such litigation comes about in the course of normal business activities, in particular in relation to the assertion of claims from services and deliveries that are not up to standard or from payment disputes. Legal risks can also rise from breaches of compliance regulations by individual employees. BayWa forms reserves for the event of such legal risks if the occurrence of an obligation event is probable and the amount can be adequately estimated. In the individual case, actual utilisation may exceed the reserve amount.

Changes in the regulatory environment can affect the Group's performance such as, in particular, government intervention in general framework conditions for the agricultural industry and the renewable energies business. Negative impacts emanate from the adjustment, reduction or abolition of funding measures. Conversely, new regulatory and legislative developments influencing bioenergy can also result in opportunities. In the construction sector, changes to building or fiscal regulations may also have an impact on the development of business.

Plant efficiency in terms of energy generation using renewable energy carriers is strongly reliant on regulatory frameworks and government subsidies. Politically motivated changes to subsidy parameters, in particular the retroactive cuts to or abolition of feed-in tariffs, can significantly impact the value of such facilities: either in the form of lower future disposal prices or lower cash inflows from the operation of the facilities. BayWa combats the potential implications of such risks on earnings by pursuing a triple diversification strategy in its Renewable Energies business sector. The portfolio is diversified in terms of countries, energy carriers and business units (projects and service, and trade).

Credit and counterparty risks

As part of its entrepreneurial activities, the BayWa Group has an important function as a source of finance for its agricultural trading partners. In the context of so-called cultivation contracts, the Group is exposed to a financing risk arising from the upfront financing of agricultural resources and equipment, the repayment of which is made through acquiring and selling the harvest. Moreover, BayWa grants financing to commercial customers particularly in the construction sector in the form of payment terms of a considerable scope. Beyond this, there are the customary default risks inherent in trade receivables. Risks are kept to a minimum by way of an extensive debt monitoring system which spans all business units. To this end, credit limits are defined through a documented process of approval and monitored on an ongoing basis.

In addition to credit risks, the Agriculture Trade business unit also regularly monitors counterparty risks; consequently, market value changes to open selling and buying contracts are measured so as to monitor the risk of the non-fulfilment of contract obligations.

There is currently no discernible concentration of default risk from business relationships with individual debtors or groups of debtors. The maximum credit risk exposure as at the reporting date corresponds to the value of the trade receivables as at the reporting date. The expected default risk came to €15.746 million (2013: €9.118 million).

Liquidity Risks

The liquidity risk is the risk that the BayWa Group may not – or only to a limited extent – be able to fulfil its financial obligations. In the BayWa Group, funds are generated by operations and by borrowing from external financial institutions. In addition, financing instruments, such as multi-currency commercial paper programmes or asset-backed securitisation, are used as well as bonded loans. Existing credit lines are therefore measured to an extent deemed sufficient to guarantee business performance at all times – even in the event of growing volume. The financing structure therefore takes account of the pronounced seasonality of business activities. Owing to the diversification of the sources of financing, the BayWa Group does not currently have any risk clusters in liquidity. The BayWa Group's financing structure with its mostly matching maturities ensures that interest-related opportunities are reflected within the Group.

Rating of the BayWa Group

The banking sector has awarded the BayWa Group a very positive rating. This achievement is due to the solidity as well as to the long and successful history of the company and its high enterprise value, underpinned by assets such as real estate. In 2014, the BayWa Group was once again able to increase its credit facilities and issue a bonded loan that was highly oversubscribed. For reasons of cost effectiveness, BayWa deliberately dispenses with the use of external ratings.

Opportunities and risks associated with personnel

As regards personnel, the BayWa Group competes with other companies for highly qualified managers as well as for skilled and motivated staff. The Group continues to require qualified personnel in order to secure its future success. Excessively high employee fluctuation, brain drain and failure to win junior staff loyalty may have a detrimental effect on the Group's business performance. BayWa counteracts these risks by offering its employees extensive training and continuous professional development in order to secure expertise. Management based on trust, the tasking of employees in line with their natural talents and abilities, as well as the definition and adherence to our ethical principles create a positive working environment.

At the same time, BayWa AG promotes the ongoing vocational training and development of its employees. With over 1,000 trainees in 2014, the Group ranks among the largest companies offering training specifically in rural areas. BayWa recruits a large majority of its future specialist and managerial employees from the ranks of these trainees. Long years of service to the company are testament to the great loyalty shown by BayWa personnel to "their" company. This attitude creates stability and continuity and also secures the transfer of expertise down the generations.

IT opportunities and risks

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. In 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 energy and cost savings potential can be identified and realised. 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.

To realise the opportunities and minimise the risks, the IT competence of the BayWa Group is kept at a consistently high level. The resources are combined under RI-Solution GmbH, a company belonging to the Group that provides the Group companies with IT services to the highest standard. Extensive precautionary measures such as firewalls, virus protection updated on a daily basis, disaster recovery plans and training in data protection serve to safeguard data processing. Segregated in organisational terms, a data protection officer monitors compliance with security and data protection standards.

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 which could endanger the Group as a going concern. 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.

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 in place a professional control system, which has been certified in many areas, comprising measures and processes to safe-guard its assets and to guarantee the presentation of a true and fair view of the result of operations.

The annual 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 prescribed accounting standards. Corporate Accounting acts as a direct point of contact for the managers of the subsidiaries in matters pertaining to reporting and the annual and interim financial statements and draws up the consolidated financial statements in accordance with IFRS.

A control system which monitors the accounting process ensures 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 IT-based and manual control mechanisms to fully ensure the regularity and reliability of accounting. Beyond this, suitable control mechanisms, such as strict compliance with the principle of dual control and analytical reviews, have been established in all processes relevant for accounting. In addition, Internal Audit, which is independent of these processes, audits all accounting-related processes.

The obligation of all subsidiaries to report their figures every month on an IFRS basis in a standardised reporting format enables target performance divergences to be identified swiftly, thereby offering an opportunity of taking action at short notice.

Corporate Accounting monitors all processes relating to the consolidated financial statements as part of quarterly reporting, such as the capital, liabilities, expenses and income consolidation and the elimination of inter-company results, in conjunction with the reconciliation of the Group companies.

The departments and units of the Group involved in the accounting process are suitably equipped in terms of quantity and quality, and training courses are regularly conducted.

The integrity and responsibility of all employees in respect of finance and financial reporting is ensured through taking each employee under obligation to observe the code of conduct adopted by the respective company.

The employment of highly qualified personnel, concerted and regular training and continuous professional development, along with stringent functional segregation in financial accounting in the preparing, booking and controlling of vouchers is guaranteed through compliance with local and international accounting rules in the annual and consolidated financial statements.

Outlook

Outlook for the Agriculture Segment

Anticipated market and industry development

The long-term growth drivers for the agricultural industry remain valid. Above all, consistent population growth continues to cause food demand to rise, and the decline in available agricultural land per capita necessitates constant increases in yield per hectare. Continual productivity improvements in the agricultural industry are required to meet these standards. This will lead to a further increase in technological progress in agriculture. The increasing digitalisation of agriculture will have a major influence on optimising workflows and boosting income. At the same time, increasing yields per hectare are also leading to a growing need for operating resources in some areas. Greater interconnection of agricultural product markets around the world is widening the procurement basis and influencing pricing. Unusually good or poor harvests of certain agricultural products or in certain regions can cause strong fluctuations in prices over the short term. That being said, a stable to positive price trend for agricultural produce can be assumed over medium- and long-term perspectives. In Europe, the agricultural industry is benefitting from comparatively favourable climatic conditions, high levels of expertise in production technology and well-equipped farms.

Based on current forecasts for the harvest season 2014/15, grain and oilseed is set for its second record harvest in succession; grain harvest volume – excluding rice – is set to increase marginally worldwide from 1,996 million tonnes to 2,001 million tonnes year on year. Global consumption is expected to rise by some 2% to 1,977 million tonnes, meaning that inventories are likely to increase by approximately 24 million tonnes to 420 million tonnes. As a result, the coverage of the inventory stocks will increase from 74 days in the grain year 2013/14 to 78 days in the grain year 2014/15. The supply situation in the EU is also expected to be positive. With harvest volume up by roughly 5% to 317 million tonnes, the volume of available grain is set to rise by some 4% to 364 million tonnes in spite of the decline in imports. Based on these estimates, inventory stocks are set to rise in the grain year 2014/15 to roughly 50 million tonnes. Despite the good supply situation worldwide, grain prices are expected to remain stable or increase moderately. Compared over several years, grain prices are significantly down on the highs of 2012 and 2013. The strength of the US dollar is likely to lead to a fall in US grain exports. At the same time, wheat exports from Russia are likely to decline in the course of the year due to the export duties imposed in February 2015.

In the case of feedstuff grain, the US Department of Agriculture (USDA) forecasts a substantial increase in inventories in the grain year 2014/15, as the anticipated consumption of 1,255 million tonnes is down on production volume at 1,274 million tonnes, which is on a par with the previous year's figure. As a result, this grain year may see the price situation ease somewhat after the significant increases last year. Over the rest of the year, the price trend is likely to be increasingly impacted by harvest forecasts for the harvest year 2015/16.

In the case of agricultural operating resources, increased demand is expected for seed, as greening requirements became compulsory on 1 January 2015. Under these new regulations, agricultural operations must ensure that 5% their land is set aside as an Ecological Focus Area (EFA). However, the land may continue to be used for farming under certain conditions, including the cultivation of high-protein plants to bind nitrogen in the soil or the cultivation of catch and cover crops. Demand for legumes and other catch and cover crops is therefore likely to rise. Assuming that the cultivation structure remains largely the same in 2015, the use of crop protection products is likely to remain on a par with 2013 levels. The expiry and revocation of approvals for certain crop protection materials containing fungicidal ingredients, for instance, could lead to a decline in corresponding sales volumes. This is likely to be offset by higher sales of alternative crop protection products. Prices are expected to remain stable on the whole in 2015. Due to the above-average temperatures in December 2014 and January 2015, demand for fertilisers is expected to remain high, as plants have already absorbed large amounts of nutrients and the water-soaked soil means that the nitrogen and sulphur available to plants is seeping down to deeper soil layers. It is likely that the new German Fertiliser Ordinance (DüMV) will have a negative impact on demand, as it restricts the amount of fertilisers containing nitrogen or phosphate that can be used and extends the fertiliser blackout period from three months to four. After experiencing a sharp decline in the first half of 2014, fertiliser prices increased again moderately in the second half of the year. However they remain significantly down on 2013 levels. In addition, the fall in energy prices could also have a detrimental effect on fertiliser prices in the medium term. Essentially, the fall in prices compared to 2013 will boost fertiliser use, meaning that demand can be expected to either remain stable or increase. As in previous years, prices for different types of fertiliser may develop differently.

In the wake of the high harvest volumes in the previous year, fruit harvest yields are expected to decline in Germany in 2015 on the condition that weather conditions are normal. Similar development is expected for the rest of western Europe. If harvest volumes in Europe fall, fruit prices are expected to rise by a moderate amount in spite of the slight year-on-year rise in inventories. Based on current fruit development, the apple harvest is expected to rise by some 5% to 5.54 million tonnes in the Southern Hemisphere. With a 13% year-on-year increase in apple production, New Zealand plays a pivotal role in this trend. Hail damage in a number of regions in the country shortly before the start of the harvest season reduced the share of fruit able to be exported to a provisional 298,000 tonnes. This would equate to a year-on-year decline of approximately 4%. Due to an increasing focus on greater quality and a further rise in exports to Asia, apple prices are expected to either remain stable or rise slightly.

Given the significant downturn in income from many types of agricultural produce in 2014, the agricultural sector's sentiment barometer took a marked turn for the worse over the course of 2014, with no improvement in sign based on current forecasts. The willingness of farmers to invest fell considerably year on year from 40% to 34% in the first half of 2015, and planned investment volume is also down from €6.3 billion in 2013 to €4.7 billion. The negative trend in terms of investment stretches across all sectors, from the construction of farm buildings to farm and animal equipment and from technical facilities and machinery to outdoor equipment. After record-breaking investment over the past two years, a certain degree of caution can be sensed on the market for 2015. Against this backdrop, the German Engineering Association – Agricultural Machinery Association (VDMA – Landtechnik) anticipates a decline in investment in Germany in 2015 of just under 7% to €7.1 billion (2013: €7.6 billion). Over the medium and long term, the agricultural industry will benefit from the increasing use of technology to intensify agricultural production and boost efficiency as well as the growing trend towards digitalisation.

Anticipated business performance

The BayWa Group's volume of trade in agricultural produce – particularly grain and oilseed – is likely to increase significantly in 2015 year on year. This is based on the positive business from the subsequent collection and storage of the harvest, high grain inventories and the high harvest volume forecasts for the grain year 2014/15. The current price trend suggests that harvest marketing could be more constant in 2015 compared to the previous year. In 2014, the decreased willingness to sell among producers due to the unfavourable price situation significantly limited trade in the second and third quarters in particular. Furthermore, the newly founded trading companies Cefetra S.p.A. in Italy, Cefetra Ibérica S.L.U. in Spain and BayWa Marketing & Trading International B.V. in the Netherlands, which are pooled together under BayWa Agrar International B.V. within the scope of the international expansion strategy, will contribute to further growth in the BayWa Group's turnover. All in all, this is likely to lead to grain, oilseed and oilseed meal turnover volume rising to over 30 million tonnes, which should lead to a corresponding rise in revenues on the basis of the anticipated price trend. In the operating resources business, sales volume in 2015 is set to climb on account of better market penetration in existing sales regions and the commencement of operations at BayWa Agro Polska Sp. z o.o. in Poland. However, the disposal of feedstuff production activities at RKW Süd as at 1 March 2015 will have a negative impact on revenue development. Furthermore, the planned revision to the German Fertiliser Ordinance (DüMV) midway through 2015 may lead to a decline in the use of fertilisers. Overall, BayWa anticipates a major rise in revenues in the Agricultural Trade business unit. The increase in sales is also likely to cause a noticeable rise in the operating result (EBIT).

In the fruit business, the BayWa Group marketing volume is set to increase considerably year on year as the volume of sales of New Zealand subsidiary Apollo Apples Limited acquired by Turners & Growers in the financial year 2014 is included for the first time. In view of the anticipated stable to moderately upward price trend in the course of 2015, revenues in the Fruit business unit can be expected to rise in line with sales development. The realignment of German fruit trading activities at BayWa Obst GmbH & Co. KG increases the business unit's efficiency and flexibility, while reducing complexity and reinforcing its competitive advantage over the long term This allows the company to unlock the potential of strategic markets of the future. The partnership between Turners & Growers and Apollo Apples will also enable synergies to be realised and improve profitability as a result. The Fruit business unit's operating result (EBIT) is, however, likely to decline significantly year on year in 2015, as the first-time inclusion of Apollo Apples in the consolidation financial statements of BayWa in 2014 also comprised one-off income from the valuation of acquired assets.

The agricultural equipment business is set to profit from a year-on-year increase in the level of orders for agricultural machinery in the first half of 2015. Sales of new machinery are likely to slow down considerably in the second half of the year. It is also likely that farm and animal equipment business volume will decline year on year. That being said, the positive sales figures for agricultural machinery over the past few years should result in a noticeable increase in service business. However, any additional service business is unlikely to compensate for the anticipated drop in new machinery sales. In terms of agricultural equipment, BayWa anticipates a marginal year-on-year decline in revenues in 2015. The operating result (EBIT) will likely fall in line with revenues.

In the Agriculture Segment, BayWa anticipates a considerable rise in agricultural produce and operating resources sales volumes overall. The resulting increase in revenues is to more than compensate for the anticipated decline in agricultural equipment sales. The operating result (EBIT) should also benefit from the segment's positive revenue development overall and increase from 2014 levels by a noticeable margin.

Outlook for the Energy Segment

Anticipated market and industry development

Demand for fossil fuels in the heating sector is subject to fluctuations in consumption determined by weather conditions. Order patterns are also influenced by the heating oil price trend, which, in turn, is highly dependent on the price of crude oil. Forecasts for the price of crude oil indicate that prices will rise to USD80 to USD85 per barrel by the end of 2015. This scenario is based on the expectation that the oversupply that caused the sharp fall in prices in the second half of 2014 will be cut back by reductions in subsidies in OPEC countries from mid-2015 onwards. In addition, demand for crude oil may rise again by a noticeable margin in the event of stronger global economic growth. Heating oil consumption in BayWa AG's core regions is likely to decline further in 2015 due to structural factors such as the rise of renewable energies, the increasing use of gas and energy savings through the use of modern technologies and energy-efficient building renovation. Sales of wood pellets are benefitting from the substantial rise in the number of wood pellet-based heating systems installed over the past few years. The growth potential of this energy carrier is, however, limited by the regional availability of raw materials and the limited transportation distance. Sales of fuels and lubricants are primarily dependent on economic development. In view of the forecast economic growth of 1.7% in Germany, demand can be expected to rise moderately.

In terms of renewable energies, the course has been set for long-term development. The "Energy Concept 2050" introduced by the German government aims to increase the proportion of power generated from renewable sources to 80%. In the EU, the proportion of energy consumed from renewable sources is to rise to at least 20% by 2020. However, renewable energy subsidies have been cut back or abolished in many countries on account of the European sovereign debt crisis. Changes to the German Renewable Energy Sources Act (EEG) have also resulted in major changes in Germany. The amendment to the German Renewable Energy Sources Act (EEG) from August 2014, which is geared towards making the energy transition policy affordable for German citizens and for the economy and limiting the negative impact on the entire energy provision system, provides for further restrictions to subsidies and for energy-independent households to share the costs of grid expansion. As a result, direct distribution in a market premium model is becoming the norm for all operators of large-scale renewable energy plants. Surplus electricity from new plants with installed output greater than 500 kilowatts (KW) must be sold and traded on the energy exchange, usually by a direct distributor. The guaranteed feed-in tariff still applies to smaller plants with a term of 20 years. However, in the case of new plants, the EEG surcharge is to also be paid for self-generated electricity and consumed electricity provided the de minimis thresholds of 10 KW of installed output or 10 megawatt-hours (MWh) per year are exceeded. An expansion corridor has been defined for onshore wind power plants – as was the case before for photovoltaic technology. Based on a feed-in tariff decline of 0.4% per quarter from 1 January 2016, the rates of reduction increase if the expansion corridor is exceeded and reduce if expansion rates fall short of the defined corridor. The 2014 amendment to the German Renewable Energy Sources Act (EEG) removes all previous material-related one-off bonuses. The expansion of biomass technology is being focussed on the use of residual materials such as slurry and refuse. This makes the construction, renovation or expansion of biomass plants unattractive from a financial perspective. All in all, it is expected the capacity expansion in the areas of photovoltaics, wind power and biomass will slow noticeably – as is the political intention – due to the amendment to the German Renewable Energy Sources Act (EEG). In some southern European countries, the expansion of renewable energies will also decrease due to cuts to or the abolition of subsidisation. Investments in renewable energies are also expected to rise worldwide. Growth of just under 5% is anticipated in the photovoltaic sector. China is expected to account for the largest share of this growth. In early February, it published its expansion target for 2015 of 15 gigawatts (GW). This would equate to year-on-year capacity growth of roughly 50%. In the USA, a 30% year-on-year rise in solar power plant capacity is expected at roughly 2.9 GW in 2015, as subsidies under Investment Tax Credits (ITC) have been extended until the end of 2016. The framework for the construction of new plants in Europe will remain favourable, especially in the UK, until March 2016.
Newly installed output of 54 GW is forecast for onshore wind power plants in 2015, a worldwide year-on-year increase in capacity of roughly 10%. Growth is concentrated on Asia, and particularly on China, which accounts for

over one-third of expansion alone. In Europe, conditions are attractive in France, Sweden and Finland; in addition, the expansion volume in the UK is expected to match the high levels of the previous two years. In the USA, there is talk of tax relief through Production Tax Credits (PTC) being extended, meaning that further growth in the construction of wind power plants can also be expected there.

Anticipated business performance

In terms of conventional energy business, sales in fuel and lubricant trading are expected to increase on the back of the anticipated positive economic development as well as the growth in the stock of vehicles in Germany to 62.4 million. Even though heating oils prices are close to the lows of the past five years, no significant rise in demand is expected as consumers' heating oil tanks are still relatively full after two winters in succession with above-average, mild temperatures. In addition, the structural decline in heating oil business will continue. It is likely that the resulting fall in sales will not be fully compensated for by increases in market shares. Revenues in fossil and renewable heating fuels and lubricants trading should be on a par with the previous year's prices in 2015 assuming prices remain stable. A moderate increase in the business unit's operating result (EBIT) is expected as the share of low-margin heating oil business in total revenues in the conventional energy business is likely to fall.

The Renewable Energies business sector, which is pooled in BayWa r.e. renewable energy GmbH, will continue on its growth course in 2015 both organically and as a result of the latest acquisitions in Sweden and the USA. Declines in some European countries or technology industries, such as the shrinkage of the Spanish solar and wind power market due to major cuts to subsidies or the decline of German biogas business, will be more than compensated for by growth in other markets. The focus of photovoltaic business in 2015 is on new projects in the UK and the USA. In addition, a potential entry into the South East Asian market is under review. Projected photovoltaic volume totals over 153 MW. In the case of wind power plants, activities in 2015 will be focused on the USA, the UK and Sweden, closely followed by Germany and France. Total project development volume in the area of wind power stands at over 175 MW. In terms of biomass business in Germany, the focus is on the construction of two biogas plants on the basis of the former German Renewable Energy Sources Act (EEG), the repowering of existing plants, consultancy services and raw materials management. Consolidation in photovoltaic component trading in Continental Europe is set to continue in 2015. However, further increases in sales can be expected in the USA and the UK, but this will likely be unable to fully compensate for the declines in other regions. All in all, revenues in the Renewable Energies business sector should rise marginally year on year on account of the growth in project development business in 2015. There is also likely to be a moderate rise in the operating result (EBIT).

Overall, the Energy Segment is aiming to generate moderate growth in revenues and operating result (EBIT) in 2015 on the basis of anticipated development in individual areas. Earnings growth should outstrip revenue growth.

Outlook for the Building Materials Segment

Anticipated market and industry development

According to industry association Hauptverband der Deutschen Bauindustrie, the pace of growth in the German building materials industry is likely to halve year on year in 2015; the building materials industry's revenues are expected to increase by roughly 2% to approximately €101 billion overall. Against the backdrop of a sharp rise in building permits of 7.1% in 2014, growth in 2015 will primarily be driven by residential construction in 2015. As a result, real investment in residential construction is set to increase by 2.0%, with new construction and modernisation measures both contributing to this trend. Commercial construction and public-sector construction activities are likely to make somewhat less of a contribution. Investment in commercial construction is expected to rise by 1.9%, while the rate of growth in public-sector construction is set to stand at 1.7% as budgetary consolidation continues to have priority over investment.

In Austria, the Austrian Institute of Economic Research (WIFO) expects construction activity to increase by 0.7% in real terms in 2015. As a result, growth in the construction sector will once again exceed growth in macroeconomic output in 2015. As in the previous year, this rise will be driven by residential construction as building permits rose by a further 3% year on year by the end of the third quarter of 2014.

Anticipated business performance

BayWa's Building Materials Segment will only benefit from the fundamentally positive industry climate to a minor extent, as the anticipated growth will largely be attributed to the construction of multi-storey dwellings in major urban areas. In rural areas, environmental factors will remain a mixed bag. Growth in the construction of farm buildings is expected to fall considerably year on year, while commercial construction activities are also likely to remain sluggish. By contrast, the rising number of building permits for new owner-occupied homes should have a positive effect on regions outside of major urban areas. Rising energy prices could boost demand for energy-efficient renovations over the course of the year after business declined in the previous year. Against this backdrop, the focus in the building materials trade is on strengthening sales – particularly for private customers – and reinforcing the market-leading position in B2B and B2C service. In addition, the range of e-commerce products and services will be expanded. Flagship projects such as the "Effizienzhaus Plus" house construction concept will also be marketed on a broader basis through sales to construction firms. This momentum should result in a marginal increase in revenues in the Building Materials Segment in 2015. In terms of the operating result (EBIT), ongoing efficiency measures should have a positive impact in the areas of procurement, logistics and optimisation of the site network. EBIT is likely to improve moderately year on year.

Other Activities

No forecast is possible for the Other Activities Segment, as revenue and earnings development is primarily driven by opportunism in capitalising on market opportunities within the scope of BayWa's portfolio management system.

Outlook for the BayWa Group

The outlook for the BayWa Group in 2015 is positive overall. Group revenues should increased moderately in 2015 on the basis of the expected framework conditions in the segments. The Group's key earnings indicators, EBITDA, EBIT and EBT, are likely to increase noticeably in 2015 on account of company growth– particularly in international markets – and positive earnings development in all segments. BayWa is continuing its strategy of strengthening profitability sustainably in order to safeguard the independence of the company over the long term and ensure it is fit for the future.