Management Report on the Group in the Financial Year 2017

OVERVIEW

Influenced by heterogeneous underlying conditions marked globally by growing complexity, BayWa once more benefited from its widely diversified business portfolio in 2017. All of the Group's operating segments increased earnings year on year. The Energy Segment once again topped the high level of earnings from the previous year and set a new record. Earnings continued to develop favourably in the Building Materials Segment as well. While performance in the Agriculture Segment was not yet satisfactory overall, steps were taken in 2017 to sustainably boost the profitability of the agricultural trade business. Despite market conditions which continued to be challenging, the BayWa Agri Supply & Trade (BAST) business unit achieved a turnaround and delivered a positive operating result. The medium- to long-term prospects of the Agriculture Segment remain promising. Overall, the Board of Management regards the BayWa Group's business performance in 2017 as positive.

BayWa pressed ahead with its further strategic development in 2017 through a number of measures. As part of the speciality strategy in the Agriculture Segment, BayWa acquired 100% of the shares in Tracomex B.V., Netherlands (formerly: Thegra Tracomex B.V.) in January 2017. Tracomex B.V. trades in barley, oats, legumes and organic produce. The acquisition of Premium Crops Limited, a leading British trader of special types of grain and niche oilseed, followed in December 2017, subject to the approval of antitrust authorities. Focus in the Fruit business unit was on expanding the range of fruit and vegetable specialities. Since 2017, enhancing value creation as regards speciality products for lucrative growth markets with long-term sales prospects has been another one of BayWa's strategic pursuits. To this end, the business unit is investing in industrial agricultural production and developing new production activities with international partners. The first project is a joint venture of BayWa AG with Al Dahra Holding LCC in the United Arab Emirates (UAE) focused on locally producing premium tomatoes using cutting-edge greenhouse technology and marketing them in the region. In the Agricultural Equipment business unit, the focus is on measures designed to strengthen brand-specific sales organisations, division by agricultural and municipal equipment, and the continued internationalisation of business activities. The objective in the Energy Segment is to further advance the expansion of renewable energies as one of Europe's largest providers. The focus here is on scale, continued internationalisation, expanding the service business and providing integrated energy solutions. As a result, BayWa r.e. renewable energy GmbH (BayWa r.e.) strengthened its activities in 2017 through a number of acquisitions: in addition to the Australian project development company BayWa r.e. Wind Pty. Ltd (formerly: Future Energy Pty Ltd), which specialises in wind power, several service companies in the field of commercial and technical management were acquired. The conventional energy business is also making progress with digitalisation. In 2017, for example, BayWa entered into partnerships with Ladenetz.de and Hubject, which enables electric car customers to charge their vehicles using the BayWa filling station card at over 8,000 charge points in Germany. In the lubricant business, BayWa launched the new Interlubes digital platform in 2017. The platform is used for selling lubricants to B2B customers. Development focus in the Building Materials Segment is on enhancing online offers, expanding attractive, high-margin speciality products and vertical integration in select areas. In the Innovation & Digitalisation Segment, BayWa aims to take on a leading role across Europe as a professional partner to the agricultural industry in terms of digital farming solutions. In May 2017, BayWa entered into a partnership with the European Space Agency (ESA) to join forces in advancing the use of satellite information in agriculture. In addition, the BayWa Group obtained valuable expertise for the further development of digital solutions based on satellite information by acquiring 51% of the shares in VISTA Geowissenschaftliche Fernerkundung GmbH, Munich, Germany.

At €10,836.5 million, revenues for the Agriculture Segment in the financial year 2017 were on par with the previous year (€10,884.5 million). Earnings before interest and tax (EBIT) improved by €12.0 million to €82.1 million. At the same time, revenues in the BAST business unit fell by 5.3% to €5,817.8 million in the reporting year due to price and volume factors. Earnings before interest and tax (EBIT) improved by €18.5 million from an €11.5 million shortfall in the previous year to €7.0 million in the financial year 2017, owing mainly to a focus on functional trade and the expansion of the higher-margin speciality business. Earnings also improved thanks to structural optimisation of trading activities in Southern and Eastern Europe, as negative earning contributions, which adversely impacted the previous year's results, were eliminated. Due in particular to lower grain recording volumes, revenues in the BayWa Agricultural Sales (BAV) business unit decreased slightly by 0.4% in the financial year 2017 to €2,812.9 million. Even though the operating resources business saw stable earnings contributions overall, earnings before interest and tax (EBIT) for the BAV business unit stood at €25.7 million in the reporting year, marking a year-on-year decrease of €3.1 million. Apart from the decline in volume, this decrease in earnings is due in particular to pressure on margins in the recording business as a result of unfavourable grain price developments, which primarily affected the Group companies in Eastern Europe. On account of volume and price factors, revenues for the Fruit business unit saw a significant 22.2% increase to €805.5 million. TFC Holland B.V., a trader of tropical fruits from the Netherlands which was included for the first time in the scope of consolidation for the full year, also contributed to this increase. Earnings before interest and tax (EBIT) were down by €12.8 million on the high level seen in the previous year and stood at €29.5 million in the reporting year. The decrease is mainly due to the non-recurring special income of roughly €7.5 million from the sale of the packaging logistics business unit of T&G Global Limited (T&G Global) in the previous year. The bad harvest in Germany also diminished trading revenues. The Agricultural Equipment business unit generated €1,400.3 million in revenues in 2017, marking an 11.4% increase. Earnings before interest and tax (EBIT) saw disproportionate growth in relation to revenues of 87.7% to €19.9 million. In addition to a sunnier investment climate, the earnings increase was driven by the sales organisation's specialisation and the first-time consolidation for the full year of the Agrimec Group B.V. from the Netherlands.

At €3,594.7 million, the Energy Segment's revenues for the financial year 2017 were up year on year by €618.7 million. Earnings before interest and tax (EBIT) increased by 2.3% to a new record of €85.0 million. Revenues in the conventional energy business increased by 9.7% in the reporting year to €2,228.1 million, above all due to oil prices, which were higher on average than in the previous year. Earnings before interest and tax (EBIT) stood at €18.5 million in 2017, up 17.1% on the previous year. Improved margins in the fuel business and volume growth among heating oil and lubricants were key drivers behind this development. Revenues in the Renewable Energies business unit increased by 44.5% in 2017 to €1,366.6 million. This rise is due above all to the greater capacity of the systems sold and growth in the trade in photovoltaic components and the energy trade. Due to pressure on margins in the project business, earnings before interest and tax (EBIT) were down slightly on the record high from the previous year by €0.8 million at €66.5 million. Earnings in 2016 had profited disproportionately from the sale of two geothermal power plants.

In 2017, the Building Materials Segment increased revenues by 5.0% year on year to €1,606.1 million due to volume factors. Earnings before interest and tax (EBIT) recorded disproportionate growth in relation to sales of 5.6% to €30.1 million. In addition to the positive sales development, ongoing optimisation of the network of locations also contributed to the earnings improvement.

The Innovation & Digitalisation Segment generated €6.9 million in revenues in the reporting year, marking a 15.0% increase year on year. Owing to the major investments targeting the development of digital farming solutions and the new BayWa Online World, the Innovation & Digitalisation Segment reported negative earnings before interest and tax (EBIT) as planned of €10.8 million (2016: €–8.6 million).

In total, the BayWa Group generated revenues of €16,055.1 million in the reporting year, marking a 4.2% increase year on year. The BayWa Group's earnings before interest and tax (EBIT) improved by 18.4% to €171.3 million. That figure includes special income from the sale of the BayWa high-rise building. The consolidated net result increased by 27.5% to €67.2 million. Earnings per share attributable to the shareholders of BayWa AG amounted to €1.13 (2016: €0.90). In light of this, the Board of Management and Supervisory Board will propose a €0.05 dividend increase to €0.90 per share to the Annual General Meeting.

BACKGROUND TO THE GROUP

BayWa Group Business Model

Group structure and business activities

The BayWa Group

2017	Revenues (in € million)	Employees (annual average)
Agriculture	10,836.5	10,613
Energy	3,594.7	2,079
Building Materials	1,606.1	4,113
Innovation & Digitalisation	6.9	158
Other Activities	10.9	587
Total	**16,055.1**	**17,550**

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 Europe's leading trade, services and logistics companies and an integrated solution provider. Its business focus is on Europe, but BayWa has also established an international trade and procurement network by maintaining important activities in the US and New Zealand and business relations from Asia to South America. The BayWa Group's business activities – divided into the three operating segments Agriculture, Energy and Building Materials, as well as the Innovation & Digitalisation Segment focused on development – encompass wholesale, retail and logistics, as well as extensive supporting services and consultancy. The BayWa Group has registered places of business in 41 countries, either through itself or through Group companies.

BayWa AG conducts its business in the three operating segments and the Innovation & Digitalisation development segment 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 323 fully consolidated Group companies. Furthermore, 31 companies were included at equity in the financial statements of BayWa.

Agriculture Segment
The Agriculture Segment traditionally accounts for the largest share of revenues at the BayWa Group. In 2017, it accounted for just under 68% of revenues. The segment is divided into four business units – BayWa Agri Supply & Trade (BAST), BayWa Agricultural Sales (BAV), Fruit and Agricultural Equipment – and covers the full range of agricultural products and services.

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 produce. 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 and prices for operating resources such as fertilisers and crop protection products are also increasingly influenced by global and regulatory factors. What is more, changes in the legal conditions can trigger considerable adaptive reactions in the markets trading agricultural products. Finally, regulations – for instance, those issued by the European Union (EU) – exert a major influence on pricing and structures in a number of relevant markets.

BAST
BayWa assumes a leading position in agricultural trade in Europe and has global reach. In the BayWa Agri Supply & Trade (BAST) business unit, BayWa acts as a supply chain manager in the case of grain and oilseed. It covers the entire value chain from procurement and logistics to sales, and it is continuing to expand its international grain trading activities. The business unit pools activities that are not tied to a specific location, particularly national and

international grain trading, and is geared primarily towards grain or oil mills, producers of starch and feedstuffs, malt houses, breweries and biofuel manufacturers. BayWa sells products to local, regional, national and international companies in the foodstuff, wholesale and retail industries through its in-house trade departments. In January 2017, BayWa acquired 100% of the shares in Tracomex B.V., Oosterhout, Netherlands, through its Dutch Group company Cefetra B.V. as part of its specialisation strategy with regard to trade in agricultural produce. Consisting of the three companies Thenergy B.V., Biocore B.V. and RIVEKA BVBA, Tracomex B.V. has locations in the Netherlands and Belgium, and trades in specialities such as barley, oats, legumes and organic produce. In December 2017, BayWa acquired the speciality trader Premium Crops Limited through its UK subsidiary Cefetra Limited. The acquisition is subject to approval by antitrust authorities. Premium Crops is a leading UK specialist crop contracting and supply business whose focus is on sustainable, traceable, and fully risk-managed supply chains for niche oilseeds and grains. The acquisition is part of the BAST business unit's specialisation strategy of further diversifying its portfolio to include special grains and services.

BAV

The BayWa Agricultural Sales (BAV) business unit directly covers the stages of the value chain with farms: recording, sales and service. It supplies farmers with operating resources such as seed, fertilisers, crop protection and feedstuffs throughout the entire agricultural year and collects harvested produce. For its recording 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 inspection, processing, correct storage and handling of agricultural produce. When it comes to the procurement and marketing of produce, BayWa possesses a global network comprising both inland and deep water ports.

In its traditional core regions, BayWa's agribusiness is embedded in the agricultural cooperatives trading structure. In Germany, this business is focused on specific regions on account of historical structures. BayWa has 212 sites in its regional core markets, particularly in Bavaria, Baden-Württemberg, Mecklenburg-West Pomerania, Thuringia, Saxony, Saxony-Anhalt and southern Brandenburg, which form part of an extensive and dense network. In summer 2017, BayWa took over 51% of the Landhandel Knaup Group in Borchen, North Rhine-Westphalia, to expand its regional agricultural trade activities. BayWa AG holds a 51% share in the joint venture, which focuses on agricultural trade activities involving feedstuff, grain and operating resources. In addition to the Knaup Group's largest area, trading in feedstuff, the partners now also aim to further develop and expand business involving operating resources. Knaup, a family company, has a broad customer base and is well connected in the regional market thanks to its specialised sales team. As a full-line supplier, the company will offer a wider range of products and services in future and will further enhance its core areas of expertise: product management, advisory services, sales and logistics. The partnership comprises five locations in North Rhine-Westphalia, Saxony-Anhalt, Saxony and Brandenburg. Thanks to the joint venture, BayWa is strengthening its presence in western and central Germany. By expanding its digital activities, BayWa is also acquiring new customers beyond its traditional regions. Through its Austrian subsidiary RWA Raiffeisen Ware Austria Aktiengesellschaft (RWA AG), which maintains close business relations across the whole of Austria with 464 cooperative warehouses, BayWa is represented throughout the country. Numerous privately owned medium-sized trading enterprises, mainly operating locally, make up the competitive environment for agricultural produce. In contrast, there are also a number of wholesalers operating nationwide that offer operating resources. All in all, BayWa has established a leading market position for itself in the agricultural trade in Germany and Austria.

Fruit

The Fruit business unit is one of the BayWa Group's business units with the greatest international focus. In 2012, BayWa acquired T&G Global Limited (T&G Global) of New Zealand, which in turn acquired Apollo Apples Limited in 2014. Together with its subsidiary Apollo Apples, T&G is the leading provider of apples in New Zealand, with international trade links to the Americas, Asia, Australia and Europe. Through the reciprocal marketing of dessert fruit and pome fruit between the northern and southern hemispheres, BayWa is in the position to provide trade partners in Europe with fresh produce all year round, expand its product range and seize sales opportunities for German fruit on the international growth markets, which makes BayWa one of the most important pome fruit traders worldwide. The existing sales structures of T&G and its affiliates offer the potential to open up additional sales markets, particularly in Asia. In Germany, BayWa is the leading single seller of dessert pome fruit to wholesalers and retailers in the food industry and the largest supplier of organic pome fruit. BayWa also records, sorts, stores, packages and trades fruit for customers in Germany and abroad as a marketer under contract at its six sites in the Lake Constance, Neckar and Rhineland-Palatinate regions. BayWa expanded its portfolio in the growth market for exotic speciality fruits in the "ready-to-eat" sector in 2016 through the majority interest in the Dutch supplier TFC Holland B.V. (TFC), significantly strengthening its position as a leading international supplier of fruit and pome fruit. TFC has long-standing international trade relations in all procurement markets for tropical fruits – mainly for avocado, mango and citrus fruits – as well as with the European food retail industry. By taking this step, BayWa systematically continued its specialisation in the national and international fruit business. Using an attractive diversified product portfolio featuring specialities to set yourself apart from the competition is also playing an increasingly significant role in the German market, which is marked by a high concentration on the demand side.

In March 2017, BayWa and Al Dahra Holding LCC, Abu Dhabi, a leading agricultural company in the Arab world, founded a joint venture in the United Arab Emirates (UAE) to self-sufficiently provide the region with premium vegetable fruits in an efficient manner that conserves resources. The joint venture is part of BayWa's specialities strategy in a highly profitable growth market, as sustainably produced fruit and vegetables shows tremendous market potential in the United Arab Emirates thanks to a growing, affluent class of consumers. The total investment volume amounts to around €30 million. In a first step, state-of-the art climate-controlled greenhouses were erected on a 10-hectare property, where up to 5,000 tonnes of premium tomatoes will be produced and marketed to the local food retail industry every year from the second quarter of 2018. The greenhouse's controlled climate makes it possible to harvest produce all year long. Its innovative system cuts water consumption by around 60% compared to conventional greenhouses.

Agricultural Equipment

The Agricultural Equipment business unit offers a full line of machinery, equipment and systems 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 systems 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. In addition, an extensive network of workshops and mobile service vehicles provide maintenance and repair services for machinery and equipment. In January 2017, the Agricultural Equipment business unit was reorganised by dividing it into the Agricultural Equipment, CLAAS Affiliated Companies and Special Agricultural Equipment business divisions so as to better meet the varying needs of different customer groups and seize growth potential. The Agricultural Equipment business division comprises product management for new machinery, especially AGCO-brand machinery, as well as international activities. CLAAS sales and service through the joint affiliated companies are equally positioned form an organisational perspective. The Special Agricultural Equipment business division is divided into the product categories municipal services, forestry, indoor equipment and irrigation technologies.

For products made by AGCO – with the brands Fendt, Massey Ferguson, Challenger and Valtra – and CLAAS, BayWa is the world's largest sales partner, and it maintains a closely linked network of in-house workshops in southern and eastern Germany, as well as the Netherlands, that are tailored to manufacturer brands. The range of workshop services is also complemented by mobile service vehicles to provide maintenance and repair services, as well as by the supply of replacement parts and trade in used machinery. BayWa also sells used machinery via an online platform. In Germany, BayWa has significantly expanded sales structures for Massey Ferguson-branded products in recent years to increase their market share. The full line of Massey Ferguson products is exclusively presented and sold at 9 locations. Another 9 locations sell both Fendt and Massey Ferguson products on separate sales floors. In addition, 17 locations have their own sales specialists for Massey Ferguson. In service, however, BayWa remains independent of any one manufacturer. Customers can have equipment from any brand repaired and serviced, and can obtain spare parts at all workshops.

In BayWa's core regions, the market for agricultural equipment is focused primarily on replacement investments and the modernisation of machinery and systems. In light of this, tapping into international markets that harbour above-average growth potential is becoming more important, which is why BayWa has entered into a partnership with CLAAS in Canada. The partnership focuses on marketing CLAAS products in the province of Alberta. BayWa and CLAAS are planning to expand the dealer footprint in the region. The first location opened in 2016, and another one opened in 2017. In July 2016, BayWa also acquired the remaining 51% of the shares in the Agrimec Group B.V., a joint venture established together with the Agrifirm Group B.V. in 2014. The joint venture operates in agricultural machinery sales and service. In 2015, BayWa partnered with Barloworld Limited, Johannesburg, South Africa, to establish the joint venture BHBW Zambia Limited for distributing agricultural equipment in sub-Saharan Africa. This partnership resulted in a second joint venture, BHBW Holding, for agricultural equipment and logistics technology in South Africa and other neighbouring markets in January 2017. BayWa and Barloworld each hold a

50% stake in both joint ventures. BHBW Holding holds licences to distribute AGCO brands Fendt, Massey Ferguson and Challenger in the agricultural division and the Hyster-Yale brands Hyster and UTILEV with regard to lift trucks and materials handling equipment. This marks the systematic continuation of the business unit's path towards internationalisation to secure long-term growth opportunities.

Energy Segment
In the financial year 2017, the Energy Segment accounted for around 22% of consolidated revenues. The segment's business activities are divided into the conventional energy business and the Renewable Energies business unit, which is housed in BayWa r.e. renewable energy GmbH.

Conventional Energy
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 offices. Diesel and Otto fuels, as well as AdBlue, are sold through a total of 245 Group filling stations and partner stations in Germany. In addition, BayWa supplies fuels to resellers and wholesalers. In Austria, more filling stations are managed by subsidiaries. The Group company GENOL Gesellschaft m.b.H. & Co. KG acts as a wholesale fuel supplier to cooperative filling stations. BayWa sells lubricants to commercial and industrial customers, as well as to farmers and operators of combined heat and power plants. BayWa has also positioned itself as a market leader in lubricants for biogas CHP units and with regard to multifunctional oils. The subsidiary BayWa Energie Dienstleistungs GmbH offers extensive and individual solutions for energy provision to residential properties, municipal and commercial buildings and the healthcare and industrial sectors.

Besides the large mineral oil trading companies, the competitive environment is shaped mainly by medium-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 fuels are also subject to considerable fluctuations, which affect the demand for these products. From a structural perspective, demand for heating oil has been falling for years due to the increasingly widespread use of renewable energy sources and gas, as well as the improvement in energy efficiency in buildings.

Renewable Energies
The Group pools the lion's share of the renewable energy value chain in BayWa r.e. renewable energy GmbH. BayWa r.e. pursues a three-pronged diversification strategy for its business portfolio: by country, by energy carrier and by business activity. Business activities are divided into four areas: project development/implementation, services, photovoltaic trade and energy trade. Worldwide, project development/implementation encompasses project planning, management and the construction of wind and solar power plants through to the sale of finished plants. After entering the growth market Australia in the solar business in 2016 and securing a project pipeline of 300 megawatts (MW), BayWa r.e. continued its expansion strategy in 2017 by acquiring BayWa r.e. Wind Pty. Ltd (formerly: Future Energy Pty Ltd), which is active in the onshore wind sector. Services comprise planning and technical services, the provision of consumables, operational management and maintenance of the turbines and plants. In 2017, BayWa r.e. substantially strengthened its position in the UK by acquiring Green Hedge Operational Services Limited's service business and winning Magnetar Solar's invitation to tender for the support and maintenance of 16 solar farms with a total output of 153 MW in England and Wales. BayWa r.e. already maintains solar and wind energy plants with output of just under 800 MW in the UK. In December 2017, the business was further strengthened through the acquisition of Energy System Services S.r.l. (ESS), a leading provider of management and maintenance for renewable energy plants in Italy. The acquisition made BayWa r.e. the largest service provider in Italy. As a result, it now oversees system output of more than 3 gigawatts (GW) worldwide. In addition, BayWa r.e. sells photovoltaic systems and components and is one of the world's leading wholesalers that is independent of a specific manufacturer in this sector. In July 2017, BayWa r.e. and KOS Energie GmbH (KOS), an alliance of Bavarian municipal utilities providers, concluded an agreement on the joint marketing of photovoltaic and energy storage systems that will allow the members of KOS and the affiliated company Energieallianz Bayern GmbH & Co. KG (EAB) to expand their range of products and services to include attractive photovoltaic and storage solutions as well as additional innovative solutions for the digitalisation of the energy transition in the future. In energy trading, BayWa r.e. markets electricity, gas and heat generated from renewable sources. By acquiring Clean Energy Sourcing (CLENS), a direct distributor of energy and operator of a virtual power plant, BayWa r.e. further expanded its portfolio in the field of direct marketing, supplying green electricity and flexibility management in late 2017. The business operations were transferred to the newly founded trading company C.E.T. Clean Energy Trading GmbH. The Renewable Energies business unit has had a strong international focus since its founding in

order to reduce reliance on individual national markets. BayWa r.e. is now represented in all major European markets, in North America, in South East Asia, and in Australia, amounting to a total of 24 countries.

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. In terms of wind and solar energy, BayWa r.e. operates in Australia, Austria, Croatia, Denmark, France, Germany, Greece, Hungary, Indonesia, Italy, Japan, Luxembourg, Malaysia, Mexico, Poland, the Republic of Singapore, Romania, Spain, Sweden, Switzerland, Thailand, the UK, the US and Zambia. This ensures that BayWa r.e. is highly diversified both in terms of its range of energy carriers and its geographic distribution. By consolidating various Group companies in the umbrella brand BayWa r.e. renewable energy and setting up a clear business structure in the areas of wind energy, solar power and bioenergy, as well as in the Project Development/Realisation, Services and Photovoltaic Trade and Energy Trading functional units, the foundations have been laid to avoid overlapping activities, take advantage of synergies and thus participate in the expected market growth. Generally, investment incentives through guaranteed feed-in tariffs or tax breaks affect demand. In Germany, the structuring of subsidies in the German Renewable Energy Sources Act (EEG) is a major factor influencing demand for wind, solar and bioenergy plants, as the profitability of these turbines and 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.

Building Materials Segment

Approximately 10% of consolidated revenues are generated in the Building Materials Segment. The segment primarily comprises building materials trading activities in Germany and Austria. In addition, BayWa serves a number of franchise partners in the building materials and retail business in Austria through its Austrian subsidiary AFS Franchise-Systeme GmbH. The BayWa Group is one of Germany's market leaders in the building materials trade with a total of 127 locations and also ranks among the leading suppliers in Austria with 28 sites. The number of franchise locations currently totals 1,002.

In the building materials trade, BayWa mainly caters to the needs of small and medium-sized construction companies, tradesmen, commercial enterprises and municipalities. Private developers and homeowners 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 commercial customers. BayWa takes these factors into account with a targeted focus on its customer groups when it comes to sales and customer consulting services. One example of this is the online portal for building materials, launched in January 2017, which enables business customers to place orders 24/7. Customers also have the option to schedule delivery dates online as well. If customers choose to collect the goods themselves, they can create their own delivery note after completing their order. This enables them to pick up the materials straightaway without any wait. The online range was also expanded by adding a room designer and the "Mr+Mrs Homes" property configurator. The property configurator allows private developers and construction firms to plan and calculate homes online in various configurations and realise them right through to the turnkey handover of the finished house by drawing on a connected network of partners. Further areas of focus include healthy construction and energy efficiency. BayWa offers a wide range of emissions-tested building materials plus solutions for energy-efficient construction or renovation. Thanks to its private brand lines casafino for construction components and landscaping; Formel Pro for structural and chemical products, as well as insulation materials; Formel Pro Green for healthy-living building materials and cleaning agents; as well as Valut for roofing accessories, BayWa is increasingly becoming an initiator of new products. In the case of conventional construction materials, being close to the customer is a significant competitive advantage. 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 877 companies in total with 2,285 locations 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 and favourable interest rates for financing 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. Finally, the building materials business depends on weather conditions. In particular, heavy precipitation and periods of frost can significantly limit construction activities.

Innovation & Digitalisation Segment

Digitalisation is changing agriculture as we know it. Nowadays, potential for sales at farms is more about optimising whole processes instead of implementing individual measures. For example, site-specific farm management allows costs for operating resources to be reduced significantly. Machinery and system maintenance costs can also be reduced through the rapid collection, transmission and assessment of technical data. BayWa has plotted a clear course into the digital future through the independent Innovation & Digitalisation Segment, which is responsible for developing and marketing digital products and services for enhancing productivity in agriculture. It also pools the BayWa Group's e-commerce activities in the BayWa Online World. With its software product Agrar Office, the Group company FarmFacts GmbH offers farmers a future-oriented and interoperable farm management system. A number of modular tools and solutions are also available. The next innovative step is the networking of entire areas of farms and processes with upstream and downstream stages. To this end, FarmFacts offers an overall concept for medium-sized and small farms with the NEXT Farming product family. In addition, FarmFacts has teamed up with the agricultural equipment manufacturers AGCO, Krone, Kuhn, Lemken, Pöttinger and Rauch to develop the web-based, open NEXT Machine Management machine data management software as a new module for NEXT Farming that makes it possible to process all data generated by machinery and equipment regardless of the manufacturer. This enables farmers to seize the opportunities of smart farming across all types of machinery and operating resources, irrespective of the type of farm or farm size. BayWa is striving to secure a leading market role in this field across Europe.

In May 2017, BayWa entered into a partnership with the European Space Agency (ESA) to push forward the assessment of satellite data in the farming industry. The goal is to optimally incorporate satellite data into agriculture processes in order to create positive effects regarding the use of resources and water, as well as for harvest yields. For example, the Sentinel-2 satellite will provide images for monitoring plant growth and is capable of differentiating between various agricultural crops in the process. In addition, the BayWa Group has obtained valuable expertise for the further development of digital solutions by acquiring 51% of the shares in VISTA. Using satellite data, VISTA develops digital solutions for agriculture, water management and the environment. BayWa has already been working with VISTA since 2008 through its subsidiary FarmFacts.

To accelerate the development of innovative ideas for agriculture, BayWa and RWA Raiffeisen Ware Austria have created the Agro Innovation Lab (AIL) innovation platform. Start-ups with innovative business ideas for agriculture had the opportunity to apply for the acceleration programme organised by AIL. The six best start-ups were selected out of 265 applications from 61 countries and will now have the chance to advance their submitted concepts using the international network of BayWa and RWA.

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 2017, the Board of Management consisted of five members: Prof. Klaus Josef Lutz (Chairman, responsible for BayWa Agri Supply & Trade and Fruit), Andreas Helber (responsible for Finance and the Building Materials Segment), Roland Schuler (responsible for BayWa Agricultural Sales and the Innovation & Digitalisation Segment), Matthias Taft (responsible for the Energy Segment) and Reinhard Wolf (responsible for RWA Raiffeisen Ware Austria Aktiengesellschaft).

Effective 1 January 2018, Marcus Pöllinger took over responsibility for the Building Materials Segment as Executive Manager. Marcus Pöllinger is set to join the BayWa AG Board of Management on 1 November 2018; the appointment will come into effect when Board of Management member Roland Schuler goes into retirement at the end of 2018. From 1 January 2019, Marcus Pöllinger will also take over the responsibility for the Agri Trade &

Service and the Agricultural Equipment business units from Roland Schuler, in addition to the Building Materials Segment. Prof. Klaus Josef Lutz will take over the management of the Innovation & Digitalisation Segment.

The Board of Management is solely responsible for managing the Aktiengesellschaft 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 (MitbestG), shareholder and employee representatives also sit on the Supervisory Board of BayWa AG to ensure codetermination on the basis of parity. The Supervisory Board has formed six committees in order to boost its efficiency.

Details on cooperation between the Board of Management and the Supervisory Board and on corporate governance at BayWa AG are presented in the Supervisory Board report and the corporate governance declaration. These are publicly available at: www.baywa.com/en/investor_relations/financial_reports/consolidated_financial_statements/.

The main task of the Corporate Compliance organisational unit is to perform preventive duties. Corporate Compliance particularly draws on training courses and an extensive range of consultancy and information services to prevent breaches of the law. Its activities are focused on corruption prevention, antitrust law and combating money laundering. Comprehensive frameworks have been developed and implemented across the Group on these issues. Since 2017, Corporate Compliance has also been responsible for issues such as customs/export control, IT security and data protection and has implemented appropriate management systems.

A Group-wide code of conduct was introduced in 2015, creating a uniform set of values which apply to the entire BayWa Group. Employees who wish to report potential breaches of compliance regulations are now able to register their suspicions through an anonymous tip-off system in addition to existing possibilities, such as the ombudsman. Reported information is assessed and followed up in conjunction with Corporate Audit. Corporate Compliance and Corporate Audit work together closely in internal investigations of an antitrust or criminal nature. There is also an extensive range of compliance controls to review and guarantee adherence to compliance principles. Corporate Compliance is managed by the Chief Compliance Officer, who reports directly to the Chief Executive Officer. Compliance Officers are also appointed in BayWa's business units, as well as at all significant affiliated companies. They are available to employees as additional contact partners and act as conduits.

Corporate Goals and Strategy

The environment and the markets in which BayWa operates are subject to constant and increasingly serious changes. New technologies and advancing digitalisation in all areas of business and society are resulting in the appearance of new competitors on the market who are having a disruptive impact on a number of existing business models. At the same time, new data-driven business models are developing, which are prompting companies to transform their activities. Sustainability as regards climate protection and the conservation of resources is growing in social importance virtually all across the world. Globalisation is increasing competitive pressure, on the one hand, while creating access to international markets on the other. The independence of both producers and customers is on the rise due in particular to the opportunities provided by digitalisation. Despite the existing framework of complex business structures, the pace of change in business is constantly accelerating. More and more, young, flexible start-ups are developing business ideas into fully fledged products ready to be marketed. As a result, company lifespan is dropping, as many new business forms are ousting established companies.

BayWa is remaining true to its roots while continuing to evolve. The fundamental changes in the value chain call for adjustments or even entirely new business models. In keeping with the guiding principle "We meet basic needs through leading solutions for food, energy and shelter", BayWa is becoming a trusted partner to its customers when it comes to integrated solutions. The aim is to ensure the success of BayWa customers by combining products with advisory and other services and to make their work easier. As a strong partner to its customers, BayWa seeks to ensure that the company remains independent and competitive. True to the current motto, "Connections are the Foundation for Success", BayWa's corporate conduct has always had a long-term focus and been shaped by the company's responsibility towards customers, employees, other stakeholders and society as a whole.

BayWa is taking two market-driven approaches with regard to its further strategic development: ensuring business continuity by enhancing competitive strength and consequently maintaining its leading position in core business endeavours, as well as growth in new business areas by way of innovative, customer-focused business models.

The strategic pursuits at a functional level are fourfold: Within business models and the organisation, the objective is to press ahead with digitalisation. In operating business, the plan is to optimise management and expand the points of customer contact to strengthen Group brands. Particular focus is being placed at Group level on strengthening the BayWa umbrella brand across all segments and business units. Achieving an excellent organisational set-up marked by close collaboration across divisions and high-performing employees and managers will improve corporate performance. Finally, BayWa plans to continuously analyse its business portfolio for future growth and earnings potential with the aim of ensuring and sustainably increasing the profitability of the BayWa Group's business operations.

In the agricultural division, the Group is affirming its aim of becoming Europe's leading agricultural trade, distribution and logistics provider with global reach. BayWa aims to deepen existing customer ties and attract new customers by seizing opportunities to export to international markets, expanding the range through the addition of speciality produce such as malting barley, hops and legumes, and presenting new service offerings. By taking these steps, BayWa will be further developing its core business on a functional and cost-efficient basis. BayWa is also looking to diversify its portfolio through international partnerships. In the recording and operating resources business, the location structure is undergoing consolidation and optimisation, and sales are being geared towards integrated solutions. The diversification of the product portfolio through specialities and the expansion of the private brand business are helping to stabilise profitability.

The BAST business unit's domestic marketing activities were transferred to the BAV business unit effective 1 January 2018. This step was the result of an analysis of business structures with a view to best meeting the future challenges in the agricultural trade markets. The aim is to manage national trade in produce, from recording to marketing, under one roof and to successfully further develop the business model. In the course of these efforts, the BAV business unit was renamed the Agri Trade & Service business unit. These measures are helping BayWa to strengthen its integrated business, from the farmer to the processor, with one common trading book, so that the necessary trading strategies arise from the close collaboration among the efforts concerning buying up, marketing, logistics and portfolio and risk management. The Fruit business unit was renamed Global Produce effective 1 January 2018 in order to adequately take account of the increase in product diversity and the business's stronger international focus. In the Global Produce business unit, BayWa's objective is to offer retailers in Europe a diverse and attractive range of produce throughout the year by systematically expanding its procurement base in the southern hemisphere. The focus is on expanding the range of fruit and vegetable specialities. In addition, New Zealand Group company T&G Global Limited is being used as a platform for expanding exports to countries in Asia and tapping into new national markets. Since 2017, enhancing value creation as regards speciality products for lucrative growth markets with long-term sales prospects has been another one of BayWa's strategic pursuits. To this end, the business unit is investing in industrial agricultural production and developing new production activities with international partners. BayWa handles project planning and construction of the related systems and facilities, which are sold to investors upon completion. However, BayWa is in charge of long-term operational management. This set-up facilitates independent business models that meet local supply needs, reduce dependence on imports and ensure reliable sourcing of premium products. The first project is a joint venture of BayWa AG with Al Dahra Holding LCC in the United Arab Emirates (UAE) focused on locally producing premium tomatoes using cutting-edge greenhouse technology and marketing them in the region. In addition to already implemented measures to strengthen brand-specific sales organisations and the division by agricultural equipment and special equipment for municipalities, industry and forestry, the focus in the Agricultural Equipment business unit is on the development of cross-vendor digital interfaces and the development of a new Water Management business division.

The objective in the Energy Segment is to further advance the expansion of renewable energies as one of Europe's largest providers in the field of renewable energies. The focus here is on scale, continued internationalisation and expanding the service business. Providing integrated energy solutions represents another strategic direction. Examples include the combination of installations for generating renewable energy with efficient energy storage systems, as well as the cross-segment development of innovative products and services, for example with regard to agrophotovoltaics. The conventional energy business is making progress with digitalisation. In 2017, for example, BayWa entered into partnerships with Ladenetz.de and Hubject, which enables electric car customers to charge their vehicles using the BayWa filling station card at over 8,000 charge points in Germany. These efforts enhance the appeal of strategic partnerships in the filling station business and with regard to integrated energy solutions. In the lubricant business, BayWa launched the new Interlubes digital platform in 2017. The platform is used for selling lubricants to B2B customers.

In the Building Materials Segment, the extensive restructuring measures taken in the past years have created the conditions necessary for successfully continuing business. In addition to ongoing measures to enhance efficiency, development focus is on enhancing online offers, expanding attractive, high-margin speciality products and vertical integration in select areas.

The Innovation & Digitalisation Segment encompasses the fields of digital farming and e-business. In terms of digital farming, BayWa's goal is to assume a leading role as a professional partner for agriculture. With its software products Agrar Office and NEXT Farming, the subsidiary FarmFacts is the market leader in Germany and serves as the driving force behind smart farming at the BayWa Group. In addition, the subsidiary FarmFacts is generating opportunities for growth on the international markets. eBusiness, featuring the BayWa Online World, encompasses the platform for online trade. It plays a cross-cutting role at the BayWa Group concerning the digitalisation of interfaces and processes between BayWa and its customers.

The 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. With 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 management of working capital is vital at the BayWa Group as it represents a net figure for current assets less current liabilities. BayWa aims to maintain a balanced capital structure.

Control System

Strategic controlling of the corporate divisions is based on value-oriented corporate governance and integrated risk management. Operational management of the corporate divisions is conducted based on targets; 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 2017 is described in the Financial Report in the section "Financial Performance Indicators". Non-financial performance indicators are of secondary importance at BayWa.

The value-driven management approach supports the medium- and long-term streamlining of the portfolio and the strategic orientation of capital allocation within the Group. This approach shows whether the ratio between the operating profit achieved and the risk-adjusted cost of capital is appropriate, i.e. whether the segment has earned its cost of capital. Interest on average capital invested in the corporate divisions is charged 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 division. The further 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 Global Book System (GBS) has been in place to coordinate trade management in grain, oilseed and co-product trade since 2014. The GBS reconciles and optimises trade and risk positions of individual product lines across the board for national and international divisions. Fundamental market analyses are performed within the scope of the market research activities to estimate the global supply and demand situation; these analyses are discussed in weekly meetings with the trade departments.

Research and Development

	2016	**2017**
Non-capitalised research and development expenses (in €)	157,000	255,000
Number of employees	35	48
Own work capitalised (in €)	1,536,000	1,885,000

The BayWa Group's research and development activities relate primarily to the formation and further development of the new Innovation & Digitalisation Segment and take place at the subsidiaries FarmFacts GmbH and VISTA Geowissenschaftliche Fernerkundung GmbH.

Research focuses primarily on pilot projects on the topics of site-specific sowing and fertilisation, as well as satellite-based remote sensing services and applications for agriculture, water management and the environment. Development pertains mainly to software and digital applications for digital farming.

FarmFacts GmbH focuses first and foremost on software modules for controlling agricultural processes, as well as telematic applications and management software for the automated steering of agricultural machinery. In the reporting year, FarmFacts teamed up with the agricultural equipment manufacturers AGCO, Krone, Kuhn, Lemken, Pöttinger and Rauch to start development on the web-based, open NEXT Machine Management machine data management software as a new module for NEXT Farming that makes it possible to process all data generated by machinery and equipment regardless of the manufacturer. This interface is also open to other agricultural equipment manufacturers to allow farmers to digitally connect their machinery in future despite a growing number of manufacturers. VISTA Geowissenschaftliche Fernerkundung GmbH implements the latest scientific methods in operational services and applications and develops digital solutions on the basis of satellite data, including hydrology, agriculture and environmental applications such as accurate local forecasts of nutrient and water requirements or harvest forecasts for research and commercial applications. To do so, optical and radar satellite images in various resolutions, as well as additional geodata, are combined.

As at 31 December 2017, 48 employees worked in research and development. The BayWa Group's research and development expenses totalled €255,000 in the financial year 2017. Own work capitalised with regard to new digital farming products amounted to just under €1.9 million.

FINANCIAL REPORT

Operative Business Development

Agriculture Segment

Market and industry development 2017/18

According to the Federal Ministry of Food and Agriculture (BMWL), the agricultural industry is an international growth market. By 2050, the planet will be home to more than 9 billion people, who will need more food. As their prosperity grows, their food expectations will rise too, creating greater demand for meat and milk products. In order to meet these demands, agricultural production will have to increase by about two-thirds by 2050. Until now, around 12 million hectares of agricultural land have been lost worldwide every year through overgrazing, unsuitable cultivation methods, erosion or road and urban planning. The decline in the amount of land available for cultivation per capita necessitates constant increases in yield per hectare, which can only be achieved through further increases in productivity in the agricultural sector. The degree of mechanisation in agricultural production will therefore increase over the medium term. In addition, the digitalisation of agriculture, which is expanding at a dynamic rate, is having a significant impact on the optimisation of workflows, the increase in yields and the careful use of natural resources. At the same time, the need for operating resources is growing in order to improve yields per hectare. On the one hand, the global interlinking of agricultural produce markets is broadening the procurement and sales basis. On the other hand, particularly good or poor harvests of certain agricultural products and in certain regions can cause strong fluctuations in global market prices over the short term. That being said, a stable to positive price trend for agricultural produce can be assumed over the medium and long term (BMEL, Understanding global food security and nutrition, 2015, p. 2).

The global markets for grain and oilseed were again characterised by very strong harvests in 2017. The harvest volume for grain – excluding rice – amounted to 2,116 million tonnes in the grain year 2016/17, according to data published by the United States Department of Agriculture (USDA). This means the harvest volume reached a new record high and exceeded the expectation at the beginning of 2017 by 39 million tonnes. Even though worldwide consumption rose strongly by more than 6% to 2,095 tonnes, demand was fully met by the current harvest season. Stocks were up by 21 million tonnes as at the end of 2017. Of this amount, 11 million tonnes were attributable to wheat, as 750 million tonnes of wheat were harvested while only 739 million tonnes were consumed. Even though the consumption of corn increased strongly by nearly 10% to 1,061 million tonnes, stocks at the end of the year were 15 million tonnes higher because the harvest volume, at 1,076 million tonnes, reached a record level (USDA, Grain: World Markets and Trade, 2018, p. 29 et seqq.). According to the German Farmers' Association (Deutscher Bauernverband – DBV), there was a particularly strong increase in the demand for feedstuff grain in the grain year 2016/17, but this demand was met from current production. Stocks at the end of the year increased by 10 million tonnes to 262 million tonnes (DBV, Situationsbericht 2017/18, p. 154). The same was true for the harvest volume of oilseed, which amounted to 741 million tonnes globally in the harvest year 2016/17 and significantly surpassed the expectation of 712 million tonnes. At nearly 302 million tonnes, the grain harvest in the European Union was only slightly better in 2017 than in the previous year because of the dry and hot summer in southern Europe. Overall, however, the supply situation remained positive, with a self-sufficiency rate of more than 100% (USDA, Grain: World Markets and Trade, 2018, p. 40). At 45.6 million tonnes, the German grain harvest was largely unchanged year on year in 2017 and was around 3% below the average for 2011 to 2016. The below-average harvest was primarily due to low hectare yields and a slight decline in land available for cultivation. In addition, regional quality trends varied considerably due to weather conditions (DBV, Situationsbericht 2017/18, p. 156).

The USDA's current forecasts indicate that global grain production – excluding rice – will amount to around 2,080 million tonnes in the grain year 2017/18, which is nearly 2% below the record volume of the previous year. While the harvest volume for wheat of about 758 million tonnes is expected to be 1% higher, the corn harvest is forecast to decrease by 3% to roughly 1,042 million tonnes. Worldwide consumption is anticipated to be roughly similar to the previous year, at 2,099 million tonnes. As a result, stocks will probably decline by around 19 million tonnes to 496 million tonnes. The coverage of inventory stocks at the end of the year will therefore decline marginally to 86 days. It is important to note, however, that wheat production is expected to exceed consumption, whereas for corn the lower harvest volume will probably reduce stocks by 27 million tonnes. In the EU, the wheat supply situation is good for 2018 (USDA, Grain: World Markets and Trade, 2018, p. 54 et seqq.). By contrast, the corn harvest in 2017 was weak in all major EU producer countries. This makes it likely that imports will rise significantly (Agrarzeitung, Brüssel verteuert Maisimporte, 2017). It is anticipated that stocks of feedstuff grains will decline significantly in the grain year 2017/18; consumption is expected to reach 1,352 million tonnes, which would exceed the production forecast of 1,323 million tonnes by more than 2% (DBV, Situationsbericht 2017/18, p. 154 et seq.). In oilseed, supply is expected to rise marginally by 1% to 751 million tonnes in 2017/18. This means the sharply rising global demand will probably just barely be met (USDA, Oilseeds: World Markets and Trade, 2018, p. 8).

International grain prices remained under pressure in 2017 and hovered at levels far below the highs reached between 2011 and 2013 due to the generally comfortable supply situation (DBV, Situationsbericht 2017/18, p. 157 et seq.). At an average of 151.6 points for the year, the grain price index of the Food and Agriculture Organization of the United Nations (FAO) saw a 3.2% improvement on the previous year's average (FAO, Monthly Food Price Indices, 2018). However, the price trend for the individual types of grain varied. The prices for milling wheat on the MATIF commodity futures exchange fell from just under €168 per tonne to €159.25 per tonne in 2017 due to stronger competition from exports resulting from good harvests in the Black Sea region and the strength of the euro exchange rate against the US dollar. The price of grain maize on the MATIF also decreased in 2017, from €166 per tonne at the beginning of the year to €157 per tonne as at the end of the year. This price pressure resulted in the automatic application of a customs duty on corn imports into the EU for the first time since 2014. By contrast, expectations of a lower global harvest for feedstuff grains in the grain year 2017/18 led to higher prices. While the prices for oilseed decreased moderately in 2017, price volatility was significantly lower compared with the previous year (DBV, Situationsbericht 2017/18, p. 157 et seqq.).

Prices are expected to trend sideways in 2018 in light of the ample supply of wheat. By contrast, the global supply situation for both feedstuff grains and oilseed is much tighter in 2018. This creates greater leeway for rising prices (DBV, Situationsbericht 2017/18, p. 158 et seq.).

Demand for agricultural operating resources is highly dependent on the weather, among other factors. In 2017, the use of fertilisers and crop protection in Germany was primarily affected by late frosts during the bloom phase, drought in early summer and heavy rainfall in late summer. The short winter enabled an earlier start to the fertiliser season compared with the previous year, which led to higher sales of fertilisers in the first half of 2017. After successively increasing at the beginning of the year, fertiliser prices dipped again towards the end of the fertiliser-application period. This resulted in attractive storage prices for farmers at the start of the harvest year 2017/18, which they increasingly used for early procurement of fertilisers (Agrarzeitung, Düngelmittel: Mehr Stickstoff eingelagert, 2017). However, autumn fertilisation was possible to only a limited extent in many regions due to high rainfall and the impassibility of fields. Overall, as expected, around 2% more fertiliser was sold in Germany in 2017 than in the previous year (Destatis, Düngemittelversorgung, 2018). On average, prices for all types of fertiliser declined by 1.7% in 2017 compared to the previous year (Destatis, Landwirtschaftliche Betriebsmittel, 2018). Sales are expected to decrease by 5% to 10% in 2018, particularly for nitrogen fertilisers, due to the requirements stipulated in the German Fertiliser Ordinance (DüV) regarding nutrient quantities and blackout periods (Agrarzeitung, Düngerpreise fest gestimmt, 2017). However, fertiliser prices are expected to be stable to rising in 2018 if weather and vegetation conditions are normal during the year. This development is anticipated because China and Ukraine, the largest exporters to date, are no longer exporting urea fertiliser, resulting in a supply deficit. In addition, higher energy costs will probably lead to higher prices, particularly for nitrogen fertilisers (Agrarzeitung, Hohe Eneregiekosten sprechen für einen festen Stickstoffpreis, 2018). Sales of crop protection products declined in Germany in 2017 by 2.1% year on year, contrary to the expectation that they would grow slightly. The decline was attributable to two factors. First, the late frosts in April and May damaged crops, especially in fruit and vineyard cultivation. In some regions, the harvest was largely ruined. Second, plant diseases were not as widespread as in the previous year due to the dry summer. Accordingly, one crop protection application fewer than normal is likely to have sufficed to treat crops (IVA, Markt für Pflanzenschutzmittel 2017 weiter rückläufig, 2018). The prices for crop protection products increased by 1.2% on average in 2017 (Destatis, Landwirtschafliche Betriebsmittel, 2018). Assuming largely unchanged cultivation structure, normal weather conditions and stable prices, the use of crop protection is expected to increase marginally year on year in 2018. Overall, seed sales in the industry probably fell slightly in Germany during 2017. This development, which is less than the forecast, is primarily attributable to two factors. First, there was largely no winter kill due to severe frost in January and February 2017. Such damage would have required resowing. Second, the wet weather in autumn 2017 hampered sowing in many regions. As a result, the area under cultivation for just winter grains alone decreased by 2.3% year on year (Destatis, Autumn sowing for 2018 harvest, 2017). Seed prices increased by an average of 1.0% year on year in 2017 (Destatis, Landwirtschaftliche Betriebsmittel, 2018). Seed sales are expected to recover in 2018. It is likely, for example, that land not cultivated in the autumn of 2017 will be sown with summer wheat in the spring of 2018. In addition, the demand for seed for winter grains in the autumn of 2018 should be above the level of the previous year, assuming normal weather and vegetation conditions. The feedstuff industry produced 23.9 million tonnes of mixed feed throughout Germany in the harvest year 2016/17. This corresponds to a year-on-year rise of 2.1%. Quantity volumes increased in the dairy and pork sector in particular (DRV, Jahresbilanz 2017, p. 2 et seq.). In 2017, the prices for feedstuff in Germany were 0.7% below the previous year's level (Destatis, Landwirtschaftliche Betriebsmittel, 2018). The market is expected to decrease for 2018 as a whole because stricter environmental legislation might lead to a decline in animal stocks (DRV, Jahresbilanz 2017, p. 3 et seq.). Fundamentally, the prices of seed, as well as of staple and mixed feed, follow the grain and oilseed markets, meaning that the price trend over the course of the year will be increasingly influenced by the harvest expectations for the grain year 2017/18.

In Germany, the spring of 2017 was sunnier and much warmer compared with the previous year and the long-term average. The plants in fruit cultivation responded with very early blooming and leaf development. Accordingly, plant growth at Easter was around two weeks ahead of the average year. This made it all the more devastating when cold air surged across the country in the second half of April: night frosts destroyed so much of the blossoms of nearly all types of fruit plants that fruit was unable to develop. As the year progressed, additional volume and quality losses were caused by variable weather conditions as well as heavy regional rainfall and hail storms (BMEL, Ernte 2017, p. 3). As a result, the supply of German soft and stone fruit was very low overall; for example, 44% fewer sweet cherries were harvested in 2017 compared with the average of the past 10 years. The harvest volume of apples in Germany amounted to 596,666 tonnes, a decrease of 42% on the previous year's harvest of 1,032,912 tonnes and therefore significantly below the expected normal harvest. In southern Germany, the crop failures were even greater: in Baden-Württemberg, for example, 60% fewer apples were produced than in the previous year (Destatis: Land- und Forstwirtschaft, Baumobst, 2018). In the EU, the harvest volume also fell substantially year on year in 2017 by around 18% to 9.2 million tonnes. Pronounced periods of hot weather during the summer in Southern and eastern Europe had a particularly negative effect on apple production in the large producer countries of Italy and Poland, although the harvests in Belgium and Austria were very weak too (FreshPlaza, Übersicht Weltmarkt Äpfel, 2017). Against this backdrop, the prices for apples rose sharply as the year progressed. In October 2017, for example, they were above the respective five-year average by 38% in the EU and by 91% in (EU Apple Dashboard, 2017). The level of self-supply with apples in Germany will probably reach only about 40% in 2018 (AMI, Wenig Äpfel für die zweite Saisonhälfte, 2017). This means more apples from abroad will likely be needed to meet demand. Assuming weather conditions are normal, and assuming that the land under cultivation remains largely unchanged, Germany's harvest of apples, the most important of the pome fruits, is expected to achieve an above-average yield in 2018. This is expected because fruit trees will react to the low fruit content of the previous year with stronger blooming in the current year (Itz, Existenzbedrohende Frostschäden, 2017). The limited pome fruit harvest in 2017 makes it likely that the marketing period for domestic apples will end early in the first half of 2018, leading to correspondingly high purchases of imported produce. Prices, which are already above average, will therefore probably rise further as the year progresses.

In the southern hemisphere, the harvest volume of apples rose by around 8% to 5.3 million tonnes in 2017, a level which was slightly below expectations. Brazil and Argentina recorded particularly strong gains (WAPA, forecast apple production, 2018). In New Zealand, on the other hand, the apple harvest amounted to 542,000 tonnes in 2017, a 1% decrease compared with the previous year; at the start of 2017, apple production had been expected to increase by roughly 6% to a new record volume of 572,000 tonnes. The decline was caused by delayed fruit development due to cold and wet weather conditions during the bloom phase. As a result, both quantity and quality were worse than in the previous year, especially for later-ripening apple varieties. In addition, Cyclone Cook in April 2017 damaged fruit and increased the amount of fruit that fell from the trees. Although exports of New Zealand apples declined by about 2% compared to the previous year, the export quota remained very high at 61% in 2017. While volumes exported to Asia were lower year on year, deliveries to Europe and the UK increased because prices were more favourable there due to the expected poor harvest (USDA, GAIN Report Number NZ1708, 2017, p. 4). Based on the current status of fruit development, the World Apple and Pear Association (WAPA) forecasts that the apple harvest in the southern hemisphere will match the previous year's level of about 5.3 million tonnes in 2018 (WAPA, forecast apple production, 2018). In New Zealand, apple production is expected to rise by nearly 6% to reach a new record harvest of 573,000 tonnes due to new plantations entering production and good weather conditions during the bloom phase (USDA, GAIN Report, Number NZ1708, 2017, p. 4). Exports are anticipated to rise to 376,000 tonnes and therefore grow faster than the volume of production (USDA, GAIN Report, Number NZ1708, 2017, p. 9). Apple prices are expected to remain at least stable or increase moderately given the low level of stocks from the previous harvest and the expected good quality of the new harvest (WAPA, Birnenernteprognose der südlichen Hemisphäre, 2018).

The revenue and income situation of German farmers improved noticeably in the harvest year 2016/17, following two years of significant declines. Farming income improved by more than 34% on average across all sizes and forms of farms (DBV, Situationsbericht 2017/18, p. 138). Accordingly, sentiment in the agricultural sector recovered in 2017 from the multi-year low it reached in March 2016 (DBV, Konjunkturbarometer Agrar, 2018, p. 1 et. seq.). According to estimates from the VDMA (German Mechanical Engineering Industry Association), revenues in the agricultural equipment sector rose by around 6% to €7.6 billion in 2017, as compared to the expectation at the beginning of 2017 that they would decline by 1%. Lucrative harvests and adequate producer prices, especially for milk and forage crops, led to strong demand for innovative agricultural equipment and tractors (VDMA, Industry growing steadily in key international markets, 2017). Specifically, new tractor registrations increased year on year in Germany by more than 19% to 33,695 machines (VDMA, Traktoren-Zulassungen in Deutschland, 2018). At 32%, the propensity of farmers to make investments in the first half of 2018 is up on the previous-year figure of 29%. The planned investment volume has risen significantly from €3.6 billion in the previous year to €4.0 billion. The strongest growth is attributable to machinery and equipment, followed by investments in farm buildings. Volumes for farm and animal equipment are expected to remain stable, whereas investments in renewable energies are likely to be lower than in the previous year (DBV, Konjunkturbarometer Agrar, 2018, p. 5 et. seq.). Against this backdrop, the industry association VDMA Agricultural machinery expects revenues in Germany to increase by about 4% to €7.9 billion in 2018 (VDMA, Industry growing steadily in key international markets, 2017). The business with forage harvesters, loader wagons and field choppers, which is benefitting from the improved price situation on global dairy markets, is expected to see particularly strong growth. Positive momentum is also expected to have resulted from the Agritechnica trade show in November 2017. In the medium and long term, the growth in the agricultural equipment industry will be driven by the trend towards further professionalisation and the associated mounting use of technology to intensify agricultural production and increase efficiency (Agrarzeitung, Ende der Rezession, 2017).

Business Development

In contrast to the expectation that volumes would increase slightly, trading volumes with grain and oilseed in the BayWa Agri Supply & Trade (BAST) business unit decreased by around 1% to 33.4 million tonnes in 2017. This decline was caused primarily by a reduction of about 6% in the handling volume of oilseed as a consequence of the less risky trading strategy in soya. By contrast, trading volumes in grain rose by almost 2% due to growth in the international speciality business. Overall, the revenues of the BAST business unit decreased by 5.3% to €5,817.8 million in the reporting year due to price and quantity factors. Earnings before interest and tax (EBIT) improved by €18.5 million in the financial year 2017, rising from €–11.5 million in the previous year to €7.0 million. This is primarily due to the focus on functional trading and the expansion of the higher-margin speciality business. The initial consolidation of Tracomex B.V. from the Netherlands had a particularly positive effect. In addition, earnings improved thanks to the structural optimisation of trading activities in Southern and Eastern Europe, which ensured that the losses realised in the previous year were no longer incurred.

In the BayWa Agricultural Sales (BAV) business unit, revenues fell slightly by 0.4% to €2,812.9 million in the financial year 2017. The decrease is mainly the result of lower grain recording quantities due to below-average harvest volumes. Demand for operating resources was largely positive in the German sales regions, whereas some Group companies in Eastern Europe were unable to match the volumes generated in the previous year. At around 2.4 million tonnes, sales of fertiliser were nearly unchanged year on year. In crop protection and seed, sales quantities normalised compared with the weak levels in the previous year. Compared with 2016, 3.4% more seed was sold in the reporting year, due primarily to stronger demand for sowing grain. Feedstuff sales increased by 25.6% from the low volume seen in the previous year to 2.1 million tonnes on account of the improved earnings position of dairy and meat producers. Although the business with operating resources generated stable earnings overall in 2017, the EBIT of €25.7 million realised in the BAV business unit was down €3.1 million year on year. Apart from a decrease in volumes, this decline in earnings is particularly the result of margin pressure in the recording business resulting from the unfavourable trend for grain prices.

At 348,644 tonnes, the BayWa Group's total fruit sales were up 5% year on year in 2017. This growth was driven primarily by a 39% increase in the marketing volume of apples in New Zealand, which was mainly due to higher quantities of the Jazz and Envy varieties from new plantings in previous years. Sales of fruiting vegetables also rose by 4.9% in 2017. By contrast, the harvest and sales volumes for all types of fruit in Germany were considerably below the previous year's level due to damage from frost and hail storms. The marketed volumes of German dessert pome fruit decreased by 13.3%, and the total volume for soft and stone fruit was down 44%. Sales volumes for tropical fruit declined by 29.1% because the quantities marketed by T&G were limited due to reductions in quality caused by weather-related factors. Overall, the revenues of the Fruit business unit increased by 22.2% to €805.5 million in 2017 due to price and quantity effects. The first full-year consolidation of TFC Holding B.V., a Dutch distributor of tropical fruits, also contributed to this increase. EBIT decreased from the high previous-year value by €12.8 million to €29.5 million in the reporting year. This decline is attributable to three factors. First, the New Zealand Group company T&G was not able to fully offset the negative effects in the business with tropical fruit through positive performance in the business with pome fruit. In addition, the previous year's result benefited from extraordinary income of around €7.5 million associated with the sale of T&G's business unit for packaging logistics. Finally, trading income in Germany was lower due to the poorer quality of dessert pome fruit and weather-related crop failures in soft and stone fruit.

In its agricultural equipment business, BayWa benefited in 2017 from farmers' increased willingness to invest. Furthermore, sales of equipment were also higher because the portfolio was expanded to include Fendt forage harvesters. Overall, BayWa sold 3,659 tractors in 2017, a 3.7% increase on the previous year. In the business with used equipment, the Group increased sales of tractors by 12.6% to 1,873 units. The service and repair business also recorded a significant rise in demand for customer services on account of higher tractor and combine harvester sales. The business with indoor livestock systems benefited from an improved environment in the dairy and meat industry, which mainly resulted in a rebound in demand for animal buildings and equipment. The Agricultural Equipment business unit generated total revenues of €1,400.3 million in 2017, which equates to a year-on-year increase of 11.4%. Earnings before interest and tax (EBIT) improved disproportionately to revenues by 87.7% to €19.9 million. Earnings increased not only because of a better investment climate, but also due to a wide range of structural changes in the Agricultural Equipment business unit. These included the specialisation of the sales force to focus on municipal business, forestry, indoor livestock systems and irrigation, as well as through a new sales organisation in southern Germany for products under the Massey Ferguson brand. In addition, the business of Agrimec, a Dutch subsidiary that has been fully consolidated since 1 July 2016, performed very well in 2017 and contributed for the first time to full-year revenues and earnings. BHBW Holdings (Pty) Ltd, the joint venture established with Barloworld Limited in the first quarter of 2017, also performed in line with planned expectations.

Overall, revenues in the Agriculture segment amounted to €10,836.5 million in the financial year 2017, which was largely in line with the previous year (2016: €10,884.5 million). Earnings before interest and tax (EBIT) improved by €12.0 million to €82.1 million.

Energy Segment

Market and industry development 2017/18

Although the Organization of the Petroleum Exporting Countries (OPEC) began reducing oil production in November 2016 for the first time since 2008, the supply situation on the global market has remained relaxed to begin with (Handelsblatt, OPEC beschließt erste Förderkürzung seit 2008, 2016). Prices for crude oil decreased from almost USD57 per barrel at the beginning of 2017 to just over USD44 per barrel in June, temporarily dropping to a price level even lower than that of the previous year. The resolution passed by OPEC and Russia in late May 2017 to extend production cuts by another nine months led to a significant increase in the crude oil price in the second half of the year to over USD65 per barrel (TECSON, Rohölmarkt, 2018). This meant that the oil price had exceeded the predicted range of USD50 to USD60 as the year drew to a close. The price of heating oil largely followed this trend and exceeded 2016 levels virtually throughout 2017 (TECSON, Heizölpreise, 2018). In the German heating market, heating oil sales increased slightly year on year by 0.3% in 2017 (BAFA, Amtliche Mineralöldaten, 2018). This sales increase can be attributed in large part to the comparatively cold winter of 2016/17. The average temperature in Germany in January 2017 was 1.8 degrees below the 30-year average, while the temperature in January 2016 had been 1.7 degrees above the long-term average (Heizöl24, Heizölverbrauch ein Drittel höher, 2017). Generally speaking, demand for fossil fuels in the heating business is subject to fluctuations in consumption determined by weather conditions. Purchasing behaviour is also influenced by the heating oil price trend, which, in turn, is highly dependent on the price of crude oil. Forecasts made by the US Energy Information Administration (EIA) about the development of crude oil prices predict that the oil price will hover around USD62 per barrel in 2018. An expected increase in consumption due to positive global economic developments and the OPEC production cuts that were extended until the end of 2018 in November 2017 is likely to have a stabilising effect. On the other hand, higher oil production in non-OPEC states could lead to price-lowering effects. Generally speaking, prices will be very volatile in the short term subject to the development of inventories (EIA, Short Term Energy Outlook, 2018, p. 3 et seqq.). Structural factors such as the rise of renewable energies, the increased use of gas, and cuts to consumption due to modern technologies and energy-efficient building renovations have resulted in a long-term decline in heating oil consumption in core BayWa regions. This trend is also likely to continue going forward. Moreover, the winter season 2017/18 was relatively mild – measured by long-term average values – meaning that demand for heating oil in 2018 is likely to decline year on year. Wood pellet sales have been benefiting from a continuous increase in the number of wood pellet-based heating systems being installed in recent years. In 2017, the consumption of wood pellets in Germany increased by around 5% to 2.1 million tonnes. Renewed growth of around 5% is expected for 2018, as the increased installation of pellet heating systems looks set to continue (DEPV, Entwicklung Pelletproduktion in Deutschland, 2018). However, the growth potential of this environmentally-friendly heating source is limited by the regional availability of the raw material and limited transportation distances. Total fuel sales in Germany rose by 1.8% (KBA, Fahrzeugbestand, 2018) in 2017 against the backdrop of a 1.7% increase in vehicle stock between January and December 2017. Sales of Otto fuels increased by 1.6%, while sales of diesel increased by 2.0%. In 2017, total lubricant sales increased slightly by 0.5% due to the positive economic environment in Germany. In particular, base oils, lubricating greases and water-miscible metalworking fluids for use in industry and commerce recorded double-digit sales percentage increases. Overall sales volumes for fuels and lubricants therefore developed as predicted (BAFA, Amtliche Mineralöldaten, 2018). The demand for fuels and lubricants is dependent above all on economic developments. In light of expected overall economic growth of 2.5% in Germany, a moderate increase in demand is expected in 2018 (Bundesbank, Monatsbericht Dezember 2017, p. 15).

In 2017, global investments in renewable energies recorded an increase of 3% to USD333.5 billion. This was predominantly due to falling global plant prices, which have made renewable energies an affordable option for energy production in many countries. In China in particular, investments grew by 51% to USD132.6 billion. The People's Republic of China therefore accounts for almost 40% of global investments in renewable energies. Australia also recorded a boom in 2017 with investments in renewable energies of around USD9 billion (BNEF, Clean Energy Investment Trends 2017). The Australian project pipeline for solar power plants and wind turbines will generate around 3.6 GW in 2018 (BNEF, Global capacity growth wind and solar, 2018). In contrast, investments in a number of other industrialised countries were down year on year. In the US, the withdrawal from the Paris Climate Agreement and the 2017 tax reform led to a 3% decrease in investments to USD56.9 billion (BNEF, Erneuerbaren-Investitionen in Deutschland, 2018). In Europe, investments dropped by 19% to USD 57.4 billion (BNEF, European Wind-Power Investments, 2017). As the largest single market in Europe, Germany recorded investment volumes 26.3% lower year on year of USD14.6 billion (BNEF, Clean Energy Investment Trends 2017).

In 2018, global investment volumes in renewable energies are likely to remain at a similar level to those of the previous year due to a continuing decrease in plant prices. China is set to remain the largest driver of growth in the renewable energies sector with expansions to capacity on the same scale as in the previous year. Strong growth is expected for markets such as Latin America, Southeast Asia, the Middle East and Africa (BNEF, 10 predictions for 2018).

Global wind farm capacity grew by 57.6 GW in 2017. This is the equivalent of a 7% increase compared with 2016, making it higher than the expansion of 54 GW predicted by Bloomberg New Energy Finance (BNEF). Half of this capacity was installed in the Asia-Pacific region. With a share of around 75%, China dominated expansion in this region. However, at 21.2 GW, around 8% less capacity was installed in 2017 than in the previous year. China's share in global wind farm capacity growth therefore dropped to 37% in 2017. At 7.4 GW, the US – which, as in the previous year, is still the second largest wind farm market – installed around 13% less year on year in (BNEF, Global capacity growth wind and solar, 2018). The main reason for this decline was uncertainty in the industry regarding the political framework in the US. In Europe, around 28% more wind farms were connected to the grid in 2017 than in the previous year. This meant that its share in global capacity expansion rose to 28%, after reaching 23% the previous year. As the Europe-wide funding framework has switched to the auction process, a number of project developers have secured themselves the state feed-in tariffs that are being phased out, which means that some of the expansion in 2017 was due to anticipatory effects (BNEF, European Wind-Power Investments, 2017). Established markets such as the UK and Germany displayed strong growth. In the onshore wind farm segment, the UK recorded 75% more growth year on year in 2017 at 1.9 GW. Most of this is due to projects that were completed in the reporting year after long construction periods. In Germany, capacity growth from onshore wind farms reached roughly 5.0 GW (2016: 4.6 GW), which was significantly higher than the target of 2.8 GW set by the German federal government. This corresponds to a total year-on-year increase of around 8% (BNEF, Global Wind Market Outlook, 2017). At the close of 2017, there were onshore wind farms with a total output of 50.8 GW installed in Germany (BWE, Installierte Windenergieleistung in Deutschland, 2017).

According to estimates made by the BNEF, total global capacity in the wind power segment is likely to increase by 59 GW in 2017, which corresponds to growth of about 3%. It is primarily China and Latin America that will account for this growth. Expected to expand its installed capacity by 22.7 GW, China will remain the largest single market. Compared with 2017, this corresponds to an increase of 7%. The US looks set to expand its wind farm capacity by 9 GW in 2018. This will correspond to an increase of 22% year on year. Strong growth is also expected in Australia, as its wind farm capacity is likely to nearly double in 2018. In Germany, the largest European market, the newly installed capacity for onshore wind farms will be much lower than the previous year's level at only 3.4 GW, as a majority of the projects funded in accordance with the 2014 German Renewable Energy Sources Act (EEG) have already been implemented (BNEF, Global capacity growth wind and solar, 2018). Moreover, it was above all projects with longer construction deadlines that dominated the first two auction rounds for onshore wind power in 2017. This means that policymakers have come a lot closer to achieving their goal of slowing down capacity expansion. Although the EEG was intended to maintain the variety of potential bidders in wind farm project planning in 2017, it did not achieve this goal due to contracts being awarded almost exclusively to citizens' energy companies. More diversity could be achieved in 2018 by adjusting the bidding conditions for the first two auction rounds (BMWi, EEG-Novelle 2017).

In 2017, global photovoltaic capacity expansion was 30% higher year on year at an estimated 97 GW. Whereas the growth rates of newly installed capacities in many developed countries are decreasing or the absolute added volume is below the levels of the previous year, a number of new markets, such as India, Latin America and the Middle East, have been increasingly contributing to global market growth. At 53 GW, 54% of newly installed capacity was accounted for by China, followed by the US, which, at 10.7 GW, achieved a share of 11% (BNEF, Global capacity growth wind and solar, 2018). In the US, planned trade sanctions meant that there was a sharp decline in demand for private solar roof systems. In Japan, newly installed capacity decreased by 6% to around 7.5 GW. At 8.3 GW, capacity expansion in Europe was 9% higher year on year. The European market's share in global expansion therefore reached 8%. At 1.6 GW, new installations in Germany slightly exceeded the previous year's level (BNEF, Global capacity growth wind and solar, 2018). The German Solar Association believes that this was due to the reduced cost of solar power systems. Medium-sized companies and home owners in particular were once again the ones installing more photovoltaic systems (BSW-Solar, Solarstrom-Nachfrage 75 Prozent über Vorjahr, 2017). In spite of this positive development, the expansion corridor of 2.4 GW to 2.6 GW defined by the EEG could not be achieved in 2017.

In 2018, a global capacity expansion of 113 GW is forecast in the photovoltaic segment; this corresponds to growth of 16%. With a share of 72%, most of this expansion will take place in the Asia-Pacific region. As in 2017, China, India and Japan will remain the dominant markets in this region. With approx. 56 GW, China will have the largest share of global growth. With an estimated 8.3 GW of newly installed capacity, India could extend its lead over Japan, the world's fourth-largest photovoltaic market, in 2018. A capacity expansion of 7.2 GW is forecast for Japan in 2018. Established markets like the US and Europe are collectively set to contribute almost 16% to global expansion in 2018. For the US, an increase in installed capacity of 8.8 GW is expected (BNEF, Global capacity growth wind and solar, 2018). For the European market, a phase of sustainable growth is expected that will be no longer be due to feed-in tariffs, but rather to photovoltaics' ability to compete on the energy market. This means that some European countries are expecting significant growth in the photovoltaic segment: this includes above all France, with a year-on-year increase of 136% to 1.5 GW; the Netherlands, with growth of around 1 GW; and Spain, where contracts for photovoltaic plants have been awarded to the tune of 3.9 GW, which will be connected to the grid in the years to come (BNEF, Huge comeback for solar in Spain, 2017). In Germany, newly installed capacity is expected to increase by 2.0 GW in 2018 due to the fall in prices for system components. Alongside these established markets, new growth markets are also developing: for example, capacity in Mexico is expected to expand by 2.5 GW in 2018, while the BNEF has predicted growth of 3.0 GW in Australia (BNEF, Global capacity growth wind and solar, 2018).

In 2017, the development of biogas production in Germany stagnated. Reforms in the political framework in recent years mean that it is now only profitable for a small number of plants to develop new plants. Due to its complex regulations, there have been few incentives for new bioenergy projects since the new German Renewable Energy Sources Act (EEG) came into force on 1 January 2017. Existing plants that use at least 50% slurry and residual materials are set to receive different fixed feed-in tariffs based on their size for another 10 years. The industry's first reaction to these changes in 2017 was one of restraint – the auction volumes were not achieved. The auction system, which auctions a set amount of biogas power once a year, has also led to higher price pressure in the biogas sector. The lowest offers receive the contract, securing the subsidy extension. For existing plants, this period is 10 years. A regular remuneration period of 20 years is granted for new plants, which can also participate in the auction process (BMWi, EEG-Novelle 2017). According to information from the German Biogas Association, there were around 9,346 biogas plants in operation Germany at the end of 2017 with a total output of around 4.5 GW. Based on forecasts made by the German Biogas Association, only 137 new plants were connected to the grid in the 2017 reporting year, following 195 plants in 2016 (Fachverband Biogas, Prognose der Branchenentwicklung 2017).

The subsidy extension has opened up at least one new prospect for the industry going forward. This should once again make it financially attractive to invest in the continued operation of plants following the end of subsidisation under the EEG through the reorientation towards peak power requirements and the full use of heat energy. Many biogas plant operators are therefore increasing their efficiency and flexibility and improving nutrient management. This is likely to lead to a slight improvement in sentiment in the biogas industry. However, according to the German Biogas Association, there will not be any general relaxation until political stability has been restored and a reliable political framework has been created (Fachverband Biogas, Biogasbranche rechnet 2018 mit mehr Geschäft, 2017).

Business performance

Sales of heating oil in BayWa's Conventional Energy business increased by 1.1% in 2017 due to the significantly colder winter compared with the previous year, which meant that it developed better than expected. Sales volumes of wood pellets rose by 14.0%, in particular due to the continued expansion of sales activities in Germany and Austria, as well as in the field of eBusiness. This increase in volume was therefore considerably higher than the market average. Group fuel sales increased by 1.5% year on year, remaining within the forecast range. Increased diesel sales played the main role in this growth due to the addition of further filling station cards for BayWa filling station in supply activities for construction sites and the fleet business with freight forwarders. Lubricant sales increased by 5%, slightly exceeding expectations, which was due in particular to the expansion of sales activities. This meant that BayWa achieved above-average growth compared with the overall market. BayWa was able to obtain new properties for its heating contracting business and to continue developing its existing projects. For example, the local heating supply was expanded in Parsberg (Upper Palatinate). In particular, BayWa was able to expand the supply of heating based on certified quality woodchips. Overall, revenues in the conventional energy business increased by 9.7% to €2,228.1 million during the reporting year, above all due to the above-average oil prices year on year. Earnings before interest and tax (EBIT) were 17.1% higher year on year in 2017 and came in at €18.5 million. This was mainly due to margin improvements in the fuel business and an increase in volumes for heating oil and lubricants.

In 2017, the international focus of activities in the Renewable Energies business unit proved successful once again. The output generated by all wind and solar power plants achieved a new record value in the reporting year at 404.9 megawatts (MW) (2016: 265.0 MW). Of that, 182.6 MW (2016: 121.1 MW) was attributable to wind farms and 222.3 MW (2016: 141.3 MW) to solar energy plants. In the reporting year, completed systems with an installed capacity of 414.5 MW were sold in Germany, France, the UK, Italy and the US: four solar power projects with a total output of 147.7 MW – 119.8 MW of that in the UK and 27.9 MW in the US – were sold in the reporting year. Twelve wind power plants with a total output of 260.2 MW were sold: of those, 78.0 MW was accounted for by the US, 70.2 MW by Italy, 52.6 MW by Germany, 43.0 MW by France and 16.4 MW by the UK. In addition, two biogas plants with 6.6 MW of electrical output were sold in Germany. BayWa r.e. will also assume responsibility for the commercial and technical management and maintenance of most of these plants going forward. The service business was strengthened once more in September 2017 with the takeover of the management and maintenance of 16 solar plants in the UK with an output of 153 MW, and through the acquisition of the Italian provider Energy Systems Services in December 2017. Worldwide, the total plant capacity under the management of BayWa r.e. now stands at over 3 GW. In the photovoltaic module trade, sales in the reporting year increased by over 56% to 425.4 megawatt peak power output (MWp) due, in particular, to new locations in Poland, France, Thailand and the Netherlands. This can also be attributed to increased demand in Germany as a result of new, more affordable systems solutions. Biomethane sales volumes rose by almost 16% to 1,550 gigawatt hours (GWh) in 2017 due to the increased use of direct marketing for alternative applications in the heating market and for biofuels. Moreover, direct marketing activities for green energy were further expanded by the takeover of Clean Energy Sourcing (CLENS). In sum, the revenues generated by the Renewable Energies business unit in 2017 increased by 44.5% to €1,366.6 million. This increase can be attributed above all to the growth in trade with photovoltaic components and in the energy trade. At €66.5 million, earnings before interest and tax (EBIT) were €0.8 million and therefore slightly below the value of the previous year. Earnings in 2016 had profited disproportionately from the sale of two geothermal power plants.

Altogether, at €3,594.7 million, the Energy segment's revenues for financial year 2017 were €618.7 million above the previous year's revenues of €2,976.0 million. Earnings before interest and tax (EBIT) increased by 2.3% to €85.0 million.

Building Materials Segment

Market and industry development 2017/18

The German construction industry experienced a positive development in 2017 as predicted at the beginning of the year. Companies in the construction sector recorded revenue growth of 5.0% to €112.8 billion. Driving this development was demand for additional housing due to ongoing domestic migration into major urban metropolitan areas, which led to revenues in residential construction increasing by 4.0% to €41.6 billion. However, a 7.0% increase in residential construction investments had been predicted at the beginning of the year (ZDB, Entwicklung der Baukonjunktur, 2018). Including renovations and conversions of existing housing stock, it is likely that some 300,000 residential units were completed last year. However, this still means that completions continued to lag well behind the forecast requirement of at least 350,000 per year. Growth was primarily due to strong activity in the construction of new multi-storey residential properties – in 2017, building completions rose by approximately 15.8% year on year. In the redevelopment, renovation and modernisation business, strong new construction activity and accompanying high levels of capacity utilisation in 2017 meant that growth was down slightly year on year. This was also influenced by contractors facing capacity constraints as a result of the good employment situation in the construction sector (Heinze, Monatspräsentation Februar 2018, p. 14 et seqq.). In the commercial construction sector, revenues increased by 6.0% to around €39.6 billion, thereby experiencing much stronger growth than the growth rate of 3% forecast at the beginning of the year. Construction activity benefited from the sharp increase in the number of building permits that had been granted the previous year. Revenues in public construction increased sharply by 5.5% to €31.6 billion, also outperforming the 5.0% forecast at the beginning of the year. Investments primarily rose due to an increase in modernisation measures and the expansion of transport infrastructure in the field of federal road transport (ZDB, Entwicklung der Baukonjunktur, 2018).

According to the Central Association of the German Construction Sector, growth in the German construction industry in 2018 is likely to be able to virtually follow on from the growth of the previous year; overall, a 4.0% increase to €117.2 billion is expected in construction sector revenues (ZDB, Entwicklung der Baukonjunktur, 2018). This expectation is based on the level of orders that, by October 2017, had once again exceeded the already high level of the previous year. In residential construction, revenues are expected to increase by 3.5% to €43.1 billion, in spite of a decline in the number of building permits granted in 2017 compared with 2016 (Heinze, Monatspräsentation Februar 2018, p. 18). This increase is also attributable to the very positive development in multi-storey residential construction, while conventional owner-occupied home construction is likely to stagnate (ZDB, Entwicklung der Baukonjunktur, 2018). The growth rate for new construction activity is set to weaken somewhat compared with the previous year. In contrast, strong growth is forecast for modernisation measures (Heinze, Monatspräsentation Februar 2018, p. 15). The commercial construction sector is set to continue the positive trend observed the previous year with revenues increasing by 4.0% to €41.2 billion. Continuing increases in industrial capacity utilisation are probably driving investments in this area. Public construction revenues are expected to rise by 4.0% to €32.9 billion. An increase in federal investments in transport infrastructure is contributing to this trend. Moreover, the German federal states' positive fiscal balances are opening up new scope for investment, and local authorities are benefiting from the fact that the Local Authority Investment Fund has been extended until 2020 and its volumes doubled to €7.0 billion (ZDB, Entwicklung der Baukonjunktur, 2018).

In Austria, construction activity picked up noticeably in 2017 after years with low to no growth rates. According to the Austrian Institute of Economic Research (WIFO), construction investments increased by 2.8% in real terms, at the same pace as overall economic growth (WIFO, Prognose für 2017 und 2018, 2017). Structural engineering enjoyed a good economic climate in 2017, mainly as a result of momentum in new residential construction, which was due to population growth in particular. In contrast, there had only been moderate revenue growth in the commercial construction sector by mid-year. However, the good order situation and a significant increase in anticipated orders resulting from the industry's upward revision of its investment plans meant that construction activity picked up in the second half of the year. Civil engineering gained momentum in 2017, as the number of orders received began to increase sharply from the third quarter (Bank Austria, Branchen Überblick Österreich, 2017, p. 12).

In 2018, growth in the construction industry is likely to slow down noticeably year on year. According to the WIFO, real investments in construction are only expected to increase by 1.5% (WIFO, Prognose für 2017 und 2018, 2017). At the same time, growth, above all in residential construction, is likely to lose momentum in 2018 as the Austrian federal government's residential construction offensive stagnates and because construction has only begun on one fifth of the residential units planned within the scope of the second residential construction package, which had envisaged the construction of 10,000 residential units through the Bundesimmobiliengesellschaft, the Austrian federal property company (Dorffmeister, Länderübergreifender Aufschwung der europäischen

Bauwirtschaft, 2017, p. 34). However, with a share of 45%, residential construction remains the most significant segment in the Austrian construction industry (Branchenradar, Wohnbau bleibt bis auf weiteres Stütze der österreichischen Konjunktur, 2018). A much sharper increase in building activity is expected for civil engineering than for residential construction and commercial construction due to plans for additional state spending on roads and railways (WIFO-Investitionstest Herbst 2017 Bauwirtschaft, 2018, p. 4).

Business performance
In 2017, the building materials business reaped the rewards of a relatively short winter, ongoing positive developments in German construction activity and high capacity utilisation in construction companies throughout the course of the year. Sales volumes for the entire building materials portfolio largely benefited – as expected – from the positive development in multi-storey residential construction. This meant that, in particular, there was a sharp increase in demand for mass-produced items in the structural engineering product range, such as steel, ready-mix concrete, bricks, façade components and insulation materials, as well as for pre-fabricated construction components, flat roofs and garages. In addition, the use of specialist sales teams has also been having a positive impact in these product areas. The increase in the repairs and modernisations being performed on motorways, bridges and tunnels buoyed demand for the product ranges for civil engineering and road construction work. On account of sales volumes, revenues in the Building Materials segment increased by 5.0% in 2017 to €1,606.1 million year on year in spite of continued price competition in the building materials sector. Earnings before interest and tax (EBIT) for the segment increased by 5.6% to €30.1 million and therefore to a greater extent than revenues. Alongside the positive sales development, the continuous optimisation of BayWa's network of locations and the successful expansion of its high-margin range of in-house brands contributed to the improvement in earnings.

Innovation & Digitalisation Segment

Market and industry development 2017/18
Digitalisation has long been a fixed part of supporting day-to-day agricultural operations. Agriculture's ratio of investment to annual revenues of roughly 10% puts it in the top one-third of all industries according to PricewaterhouseCoopers (PwC). Digitalisation is primarily being fuelled by the optimisation of the value chain (PwC, Quo vadis, agricola, 2016). According to a survey carried out by Bitkom and the German Farmers' Association (DBV), around 53% of German farmers are already using digital technologies, while 6% of the farmers surveyed are planning investments and about 24% are still considering them. Digitalisation focuses on high-tech agricultural machinery, feeding machines and intelligent control software (Bitkom, Digitalisierung in der Landwirtschaft, 2016).

The market for digital applications in the farming industry (digital farming) largely comprises the business areas of precision farming and smart farming. Precision farming focuses on the automation of processes and the optimisation of the use of operating resources. Information is processed digitally and made available from farm management systems, weather apps and online platforms to help farmers make decisions. Building on this, smart farming makes it possible to connect all areas of operations, from logistics to getting in contact with the customer via online interfaces for the electronic ordering of spare parts or operating resources. Here, machines and systems process information independently and make decisions with at least some degree of autonomy. Examples of this include autonomous soil cultivation and harvesting machines, real-time soil analysis and site-specific farm management. This process optimisation not only results in cost savings, but also improves efficiency in the use of operating resources. The best possible use of operating resources ultimately boosts yields. The digital integration of supply chain partners, customers and suppliers also creates the possibility for new services and data-driven business models. Interconnectivity between online stores and applications enables operating resources and spare parts to be provided as and when needed or allows electronic troubleshooting to be carried out in the case of machine failure, with the results sent directly to the responsible service technician (PwC, Quo vadis, agricola, 2016).

There is a wide range of statements being made about the global market volume for digital farming. Differences between these statements mean that market observers have differing opinions about how to define the market. For 2016, figures were somewhere between USD6.6 billion and USD11.3 billion. Similarly, 8 to 10-year forecasts also diverge greatly, ranging from USDS23.4 billion to USD40.0 billion (Bharat Book Bureau, Smart Agriculture Market to 2025, 2017; Transparency Market Research, Global Smart Agriculture Market, 2017; Prognostix, Smart Agriculture: 13 trends to watch out for, 2017). In light of this, BayWa expects a mean value of around USD10 billion of global market volume in 2017 and expects medium to long-term annual market growth on a scale of at least 10%. Germany was the largest single market in Europe in 2017 with a volume of around USD394 million and a more than 35% share in total investments in precision farming. By 2022, this investment volume is expected to have almost doubled to around USD695 million. This corresponds to an average annual growth rate of 12.2% (Handel & Service Agrartechnik, Ausgabe 9, 2017). Alongside potential cost advantages, drivers of growth include further consolidation in the agriculture sector, which is leading to ever-larger farms. At the same time, qualified personnel is in ever-shorter supply, resulting in the need to manage larger farms with fewer staff. The provider structure in this market is highly fragmented. On the one hand, every manufacturer of agricultural equipment already offers a wide range of electronic components to support farmers. On the other hand, new companies – software start-ups – that are making it possible to professionally use the opportunities offered by information technology in agriculture are joining established IT providers in the market. Here, the spectrum ranges from satellite-based soil analysis for precision agriculture to business analysis software. Combining satellite data and physical plant growth models makes it possible to provide farmers with specific field work recommendations. Satellite data can be used to carry out vitality analyses for each field in order to determine a location's potential. This makes it possible to assess the economic advantages of site-specific farming. The challenge is to connect the technological possibilities to create an overall system. Continuing high investment costs, insufficient internet access and some aspects of data security are proving to be obstacles (Bitkom, Digitalisierung in der Landwirtschaft, 2016).

In Germany, market volume in interactive retail (online and mail-order retail) and e-commerce grew by 7.9% in 2017, reaching around €78.1 billion for all goods and services. According to estimates made by the German E-Commerce and Distance Selling Trade Association (bevh), e-commerce grew by 10.9% to €58.5 billion – therefore within the scope of the forecast. Multi-channel retailers recorded above-average growth and, at €20.1 billion, were able to generate revenues around 21% higher year on year. Providers with their origins in brick-and-motor retail had the largest share. For 2018, bevh expects another 9.3% in market growth in the German e-commerce sector, taking it to €63.9 billion. Overall, interactive retail is expected to grow by 8.3% to around €84.6 billion (bevh, Zweistelliges Wachstum in 2017, 2018).

Business performance

The Innovation & Digitalisation Segment pools all of the BayWa Group's activities in the fields of digital farming and e-business. BayWa has set itself the target of taking on a leading role as a component partner to the agricultural industry when it comes to digital farming and farm management solutions. Its offerings include the Agrar Office and NEXT Farming software products, digital map material, analyses and advisory services as well as hardware components. eBusiness brings together all of the BayWa Group's online activities. However, the revenues and income from the activities are attributed to the business unit responsible for the respective sold product. In addition to product revenues with external customers, the segment plays a service role within the Group. In 2017, the Innovation & Digitalisation Segment generated revenues of €6.9 million, which were therefore 15.0% higher year on year. At 45%, the largest share came from software licences and software maintenance contracts, followed by digital map material, including analyses and advice, and soil sampling, with a share of 44%. Sensors and other hardware accounted for 11% of revenues. As predicted, the Innovation & Digitalisation Segment recorded negative earnings before interest and tax (EBIT) of €10.8 million (2016: €–8.6 million). The main reason for this was, on the one hand, a high level of investment in the development of digital farming solutions such as new software modules and hardware components. On the other hand, the segment also carries out a service role for the operating business units by hosting and providing ongoing support to BayWa Online World, which does not generate any direct income.

Development of Other Activities in 2017

At €10.9 million, the Other Activities Segment's revenues in the reporting year were essentially on par with 2016 (€13.3 million). Earnings before interest and tax (EBIT) resulting from Other Activities consist of the Group's administration costs, as well as consolidation effects; in 2017, this came to €–15.2 million following €–28.6 million in the previous year. In particular, improved earnings in the reporting year can be attributed to the sale of the BayWa Tower in 2012. The almost complete sale of shares in BayWa Hochhaus GmbH & Co. KG, Grünwald, in 2017 was used to realize the remaining part of the interim profits eliminated back then.

Assets, Financial Position and Earnings Position of the BayWa Group

Asset position

Composition of assets

in € million	2013	2014	2015	2016	**2017**	Change in % 2017/16
Non-current assets	2,094.0	2,261.7	2,287.2	2,355.8	2,396.9	1.7
of which land and buildings	775.4	814.4	845.4	850.4	854.6	0.5
of which financial assets	251.5	181.5	168.2	189.1	232.6	23.0
of which investment property	82.4	72.8	55.9	41.6	40.9	- 1.7
Non-current asset ratio (in %)	40.3	40.2	37.9	36.4	36.9	–
Current assets	3,061.8	3,371.8	3,739.7	4,094.2	4,077.4	- 0.4
of which inventories	1,836.0	1,986.3	2,141.5	2,380.7	2,322.7	- 2.4
Current asset ratio (in %)	58.9	59.5	61.9	63.2	62.8	–
Assets/disposal groups held for sale	43.4	18.5	9.8	24.9	13.7	- 45.0
Total assets	**5,199.3**	**5,652.0**	**6,036.7**	**6,474.9**	**6,488.0**	**0.2**

Non-current assets grew by 1.7% or €41.1 million year on year, totalling €2,396.9 million at the end of the financial year 2017. Additions to intangible assets and property, plant and equipment amounting to €229.1 million within the scope of investing activities and changes to the group of consolidated companies in core business were offset by disposals of €26.2 million and transfers amounting to €9.2 million. Adjusted for scheduled depreciation and amortisation in the financial year of €145.6 million and exchange rate-induced reductions of €23.8 million, intangible assets and property, plant and equipment increased by a total of €24.3 million.

The significant increase of €43.5 million, or 23.0%, in financial assets can be attributed to, firstly, increases in credit balances with cooperatives (an increase of €27.2 million), which were due in large part to improvements in the market value of shares in Raffeisen Bank International AG, Vienna, Austria. Secondly, loans to Group companies also grew by €7.2 million, while Group companies themselves grew by €5.5 million. Growth in Group companies was mainly due to partial sales of shares in companies that had previously been included in the group of consolidated companies using the equity method. These companies – such as BayWa Bau- und Gartenmärkte GmbH & Co. KG, Dortmund, and BayWa Hochhaus GmbH & Co. KG, Grünwald – were listed as Group companies as at 31 December 2017. In contrast, at €214.6 million, shares in companies recognised at equity were virtually on par with the previous year.

Investment properties were also at the same level as the previous year. In contrast, non-current liabilities and other assets declined by €13.9 million, and deferred tax assets by €11.5 million.

Year on year, current assets dropped by €16.8 million, totalling €4,077.4 million as at the reporting date. Inventories decreased by €57.6 million, while current receivables and other assets increased by €21.5 million. The decrease in inventories was due to two opposing developments: unfinished goods declined due to the wind and solar projects in the field of renewable energies that were completed in the financial year 2017. This was offset by an increase in inventories that affected the Agriculture Segment in particular.

There was also a decline in non-current assets and disposal groups held for sale, which fell by €11.2 million to €13.7 million. As at the reporting date, this item predominantly contained real estate inventories, which are intended to be sold in the subsequent year.

Traditionally, BayWa has always placed a special emphasis on ensuring matching maturities in the financing of assets. Current liabilities of €2,986.8 million – consisting of current financial debt, trade payables, financial liabilities, tax, other liabilities along with current provisions and liabilities from disposal groups – were offset by current assets and assets held for sale/disposal groups of €4,091.1 million. By the same token, there is roughly 146% coverage for non-current assets amounting to €2,396.9 million through equity and long-term borrowing of €3,501.2 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.

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 associated with 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.

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

The procurement of funds is decentralised. It is 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. Corporate 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, middle 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. This includes issued bonded loans, long-term loans from banks and associated companies as well as the hybrid bond issued in October 2017. Capital market measures replace financing from short-term credit lines, but without clearing or terminating them, and diversify the refinancing portfolio.

In addition, the project companies in the Renewable Energies business unit 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 ongoing reduction of the current assets deployed within 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. Long-term interest rates were hedged naturally by issuing bonded loans in 2015, 2014, 2011 and 2010, as both fixed-interest and variable-interest rate tranches were issued and the interest rate risk was reduced as a result. The fixed coupon of the hybrid bond that was issued led to an increase in the hedge ratio by means of natural hedging.

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

BayWa evolved from the 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	2013	2014	2015	2016	**2017**	Change in % 2017/16
Equity	1,115.0	1,050.4	1,075.9	1,098.3	1,435.5	30.7
Equity ratio (in %)	21.4	18.6	17.8	17.0	22.1	–
Short-term borrowing[1]	2,421.7	2,493.5	2,769.3	3,084.4	2,986.8	- 3.2
Long-term borrowing	1,662.5	2,108.1	2,191.5	2,292.2	2,065.7	- 9.9
Debt	4,084.2	4,601.6	4,960.8	5,376.6	5,052.5	- 6.0
Debt ratio (in %)	78.6	81.4	82.2	83.0	77.9	–
Total capital (equity plus debt)	5,199.3	5,652.0	6,036.7	6,474.9	6,488.0	0.2

1 Including liabilities from non-current assets held for sale

As at the reporting date of 31 December 2017, the BayWa Group's total assets had only increased marginally year on year by €13.1 million. The €337.2 million equity increase was offset by nearly equal decreases in debt to the tune of €324.1 million.

As at the balance sheet date, the BayWa Group equity ratio stood at 22.1%. The equity base is a rock solid foundation for a trading company and a stable platform for business to develop. However, a rigid equity ratio is only of limited use as an indicator for the BayWa Group. In particular, the change in current assets with the storage of inventories in the form of agricultural commodities, as well as the acquisition of project licences in the area of renewable energies, has a direct influence on the balance sheet total and equity ratio, but actually forms the basis for trading activities in the subsequent year. As a result, the BayWa Group uses equity-to-fixed-assets ratio II as a target in its capital management process. Equity and long-term borrowing should cover at least 90% of non-current assets. As at 31 December 2017, the equity-to-fixed-assets ratio II was more than 140%.

With virtually unchanged total assets, there was an inverse development for equity and debt compared with the previous year. The 5.1% equity ratio increase can be attributed in particular to the bond issued in October 2017 in the form of what is referred to as a hybrid bond (hereinafter also referred to as "hybrid capital") with a total nominal amount of €300 million. The subordinate bond, which meets equity instrument criteria pursuant to IAS 32.11, has an indefinite term and can ordinarily only be terminated by BayWa and can also be terminated extraordinarily if certain events occur.

In contrast, the method with which actuarial gains from provisions for pensions and severance are offset against equity without affecting profit or loss once again led to an increase in equity in the financial year 2017. The reserve for actuarial losses from pension and severance pay obligations less deferred taxes came to €−234.0 million as at 31 December 2017 following €−245.4 million in the previous year. 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 25.7% (2016: 20.8%).

The decrease in the debt ratio relates to both long-term and short-term debt. 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. In terms of short-term borrowing, the decline largely affected current financial liabilities (€–73.5 million). This development was primarily due to a year-on-year decrease of €156.5 million in bonds issued as part of the Commercial Paper Programme. This was offset by the fact that the bonded loans issued in 2011 and due for repayment in December 2018 had been reclassified as current financial liabilities as at the reporting date.

Total non-current borrowing decreased by €226.5 million, or 9.9%, to €2,065.7 million, in large part as a result of the decrease in non-current financial liabilities (€–220.8 million). This was due to, firstly, the aforementioned reclassification of non-current financial liabilities as current financial liabilities and, secondly, decreases resulting from projects completed in the Renewable Energies business unit.

Cash flow statement and development of cash and cash equivalents

in € million	2013	2014	2015	2016	**2017**
Cash flow from operating activities	230.3	- 90.6	19.0	208.6	- 170.2
Cash flow from investment activities	84.5	- 227.6	- 143.5	- 123.6	- 60.5
Cash flow from financing activities	- 297.0	334.4	98.7	- 63.0	235.9
Cash and cash equivalents at the end of the period	92.1	108.4	84.5	104.4	105.5

The cash flow from operating activities came to €–170.2 million in the financial year 2017, a year-on-year decline of €378.8 million. Based on net income for the period that was €14.5 million higher year on year, this decline largely resulted from a reduction in other liabilities as well as liabilities that cannot be attributed to investment or financing activities. Around one-third of this cash outflow was compensated for by cash inflow from the reduction in inventories and trade receivables as well as other assets that cannot be attributed to investing or financing activities.

Cash flow from investing activities increased year on year by €63.1 million following cash outflow of €60.5 million in the reporting year. Payments for company acquisitions came to €21.5 million (2016: €71.2 million) and can mainly be attributed to the acquisition of Thegra Tracomex B.V. and its subsidiaries. In the financial year 2017, investments of €248.8 million were made in intangible assets, property, plant and equipment, and financial assets (2016: €165.4 million), which were offset by incoming payments from the disposal of intangible assets, property, plant and equipment, and financial assets of €198.5 million (2016: €95.0 million). Furthermore, the dividend received, other income assumed and interest received led to cash inflows of €9.2 million (2016: €14.1 million).

Cash flow from financial activities came to €235.9 million during the financial year and can be attributed to the issue of a long-term bond to the amount of €295.2 million in the form of what is referred to as a hybrid bond. This was offset by cash outflows from dividend payments at both the parent company and its subsidiaries totalling €40.9 million as well as interest payments of €24.6 million. The cash outflow of €63.0 million from financing activities reported in the previous year was largely due to the partial repayment of the bonded loans issued in previous years as well as the repayment of additional debts.

In an overall analysis of the cash flow from operating activities, investment and financing activities, and in consideration of changes to the group of consolidated companies and changes in foreign exchange rates, cash outflow from operating activities and investment activities was fully 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 €105.5 million, which was €1.1 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. Investment financing and the ongoing financing of operations have a considerable impact on the capital requirements of BayWa AG, as do 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 bank debt and outstanding loans, as reported in the balance sheet.

Along with short-term borrowing, the Group finances itself by way of a multi-currency Commercial Paper Programme, which received its last top up of €100.0 million in 2015, taking it to a total volume of €500.0 million. As at the balance sheet date, securities were issued in various currencies in the amount of €318.5 million (2016: 475.0 million) with an average weighted residual term of 45 days (2016: 49 days). By the end of the reporting period, €111.8 million (2016: €127.1 million) in receivables had been financed at their nominal value from the ongoing Asset-Backed Securitisation Programme.

Investments

In the financial year 2017, the BayWa Group invested around €179.5 million (2016: €154.1 million) in intangible assets (€29.3 million) and property, plant and equipment (€150.2 million) together with its acquisitions. The investments made in the financial year 2017 were primarily for the purpose of repair and maintenance of buildings, facilities (in construction) 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.

Including company acquisitions, roughly 60.1% of total investments in non-current assets at the BayWa Group were accounted for by the Agriculture Segment. The high share in investments attributed to the Agriculture Segment reflects the international expansion of agricultural trade. Of the total investments, 13.9% were made in the Energy Segment, 9.0% was accounted for by the Building Materials Segment, and 2.7 % was invested in the Innovation & Digitalisation Segment. In addition, 14.3% was accounted for by investments in Other Activities.

Earnings position

in € million	2013	2014	2015	2016	**2017**	Change in % 2017/16
Revenues	15,957.6	15,201.8	14,928.1	15,409.9	16,055.1	4.2
EBITDA	281.4	279.8	288.3	272.6	318.4	16.8
EBITDA margin (in %)	1.8	1.8	1.9	1.8	2.0	–
EBIT	137.4	152.1	158.1	144.7	171.3	18.4
EBIT margin (%)	0.9	1.0	1.1	0.9	1.1	–
EBT	75.1	80.4	88.1	69.6	102.4	47.1
Net income for the period	54.3	80.7	61.6	52.7	67.2	27.5

Revenues of the BayWa Group rose in the financial year 2017 by 4.2%, or €645.2 million, to €16,055.1 million. Increased revenues in the Energy Segment played a major role in this development, with the Renewable Energies business unit growing by €420.8 to €1,366.6 million and the Conventional Energies business unit by €197.9 million to €2,228.1 million. In the fruit trading business, revenues increased by €146.3 million to €805.5 million. The Agricultural Equipment business unit also recorded considerable growth, increasing its revenues by €143.4 million to €1,400.3 million. In the Building Materials Segment, revenues grew by €75.9 million to €1,606.1 million in the financial year 2017. A slight increase in revenues was also achieved in the Innovation & Digitalisation Segment (€0.9 million). This was offset by downturns in revenues in the BAST (€–326.6 million) and BAV (€–11.1 million) business units.

Other operating income increased by a total of €12.0 million in the reporting year to €206.9 million. This increase was due primarily to increased income from asset disposals and higher price gains. At around €62.1 million, this was significantly higher than the previous year's figure (€41.3 million) and was mainly a result of the sale of the BayWa Tower. Moreover, higher income from the reversal of provisions of €14.2 million (2016: 11.6 million), and the reversal of value adjustments on receivables and receivables written down of €13.0 million (2016: €5.7 million) contributed to the increase in other operating income. This was offset by lower price gains, which decreased from €36.1 million in 2016 to €9.7 million in the financial year 2017. Effects from exchange rate fluctuations largely resulted from the project business outside of the euro zone in the field of renewable energies, but also from the business activities of Group companies in New Zealand.

The €101.0 million reduction in inventories recorded in the financial year can be attributed in particular to the wind and solar projects in the field of renewable energies completed in the financial year 2017.

Along with the increase in revenues, cost of materials also increased, rising by €331.6 million, or 2.4%. Gross profit recorded an improvement of €158.3 million, or 9.7%, to €1,784.9 million.

Personnel expenses climbed year on year by 8.5%, or €73.1 million, to €936.2 million, primarily due to the expansion of business activities. This was largely a result of the business activities of the companies acquired the previous year, which were included in full for the first time in the reporting year, but also the company acquisitions in the financial year 2017 itself as well as the the further expansion of business activities in the Renewable Energies business unit.

At €570.1 million, other operating expenses were up by €57.3 million, or 11.2%, on the 2016 figure of €512.8 million in the financial year 2017. The primary factors in this increase were vehicle fleet costs totalling €79.5 million (2016: €71.6 million); rental and leasing costs of €56.5 million (2016: €54.2 million); maintenance expenses amounting to €54.6 million (2016: €49.3 million); consultancy, auditing and legal fees of €49.8 million (2016: €41.8 million); advertising expenses totalling €46.2 million (2016: €43.9 million); and other increased expenses of €70.3 million (2016: €49.9 million). These were offset in particular by lower exchange rate losses of €16.0 million (2016: €23.4 million).

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by €45.8 million, or 16.8%, to €318.4 million in the financial year 2017 (2016: €272.6 million).

Scheduled depreciation and amortisation at the BayWa Group increased by €19.3 million, or 15.5%, in the reporting year to €147.2 million. Together with the scheduled increase in depreciation resulting in particular from the acquisitions purchased in the financial year 2017, this increase was due above all to unscheduled value adjustments for intangible assets.

All in all, earnings before interest and tax (EBIT) of the BayWa Group rose by €26.6 million, or 18.4%, in the financial year 2017 to €171.3 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 €18.1 million to €39.9 million. While the equity result decreased by €16.4 million to €2.5 million – this included a one-off effect from the sale of a joint venture in 2016 – other income from shareholdings increased by €34.5 million to €37.4 million. Due to lower net interest resulting from the reduction in financial liabilities and the issue of the hybrid bond, net interest improved by €6.2 million, totalling a balance of €–68.9 million (2016: €–75.1 million).

The BayWa Group's earnings before tax (EBT) increased by €32.8 million, or 47.1%, to €102.4 million. This increase was a result of growth in both the Agriculture Segment, totalling €15.9 million, and the Building Materials Segment, which grew by €2.5 million. This was offset by declines in the segments Innovation & Digitalisation (€–2.2 million) and Energy (€–0.3 million). The Other Activities Segment, together with the consolidation effects presented in the transition, had a positive impact on the development of earnings before tax. These came to €–24.8 million in the reporting year, up by €16.9 million on the previous year's figure of €–41.7 million.

Income tax expense for the BayWa Group amounted to €35.1 million in the financial year 2017, which corresponds to a year-on-year increase of €18.2 million. The tax rate therefore amounted to to 34.3% in the reporting year (2016: 24.3%).

Taking account of income tax, the BayWa Group generated net income of €67.2 million in the financial year 2017 (2016: €52.7 million), which corresponds to an increase of 27.5%. The share in profit due to shareholders of the parent company increased by 26.4% from €31.1 million in the previous year to €39.3 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 34,881,685 (dividend-bearing shares less treasury shares), rose from €0.90 in the previous year to €1.13 for the financial year 2017.

Comparison of forecast business development with actual business development

A substantial overall rise in revenues and a marginal improvement in earnings in the financial year 2017 were forecast for the BayWa Group in the Outlook section of the 2016 Group Management Report. On account of the outlined developments in the business units, revenues at Group level rose by 4.2% and therefore failed to live up to expectations. Earnings before interest and tax (EBIT) increased by 18.4%, therefore developing within the scope of the forecast.

In the Agriculture Segment, higher grain inventories, a high forecast harvest for the grain year 2016/17 and the expansion of the specialities business were expected to lead to a considerable rise in sales for the BAST business unit on the back of the good recording and processing business. Actual sales in the business unit did not live up to this forecast, instead decreasing by 5.3% to €5,817.8 million. A significant increase in earnings before interest and tax (EBIT) had been expected. The €18.5 million improvement in earnings from a loss of €11.5 million in 2016 to €7.0 million for the financial year 2017 confirmed this forecast.

A noticeable increase in revenues was expected for the BAV business unit in 2017. Actual sales fell short of this forecast, but remained on par with the previous year (–0.4%) at €2,812.9 million. At €25.7 million, earnings before interest and tax (EBIT) for the BAV business unit were €3.1 million lower year on year – there had been expectations of a significant improvement in earnings.

In fruit trading, higher marketing volumes and the acquisition of the Dutch company TFC fuelled expectations of significant revenue growth. This forecast was confirmed with revenues increasing by 22.2% to €805.5 million. A noticeable decline had been expected for earnings before interest and tax (EBIT). With EBIT decreasing by 30.3% to €29.5 million, the actual development was below the forecast.

Revenues in the agricultural equipment business were expected to rise noticeably, with a considerable increase in earnings before interest and tax (EBIT). The actual revenue development and EBIT exceeded the forecast: revenues increased by 11.4% to €1,400.3 million, and EBIT improved by 87.7% to €19.9 million.

In sum, revenues in the Agriculture Segment remained on par with 2016 at €10,836.5 million. This meant that the considerable increase that had been forecast did not materialise. Earnings before interest and tax (EBIT) improved considerably, increasing by 16.7% to €82.1 million; a significant increase had been forecast.

Revenues from the conventional energy business were forecast to increase substantially year on year in 2017, with a significant decrease in earnings before interest and tax (EBIT). Revenues increased by 9.7% to €2,228.1 million, slightly below the expected development. In contrast, earnings before interest and tax (EBIT) developed much better than expected, increasing by 17.1% to €18.5 million.

According to the forecast, revenues in the Renewable Energies business unit were set to rise by a moderate margin in 2017 compared to the previous year. With a 44.5% increase in revenues, it significantly exceeded expectations. With a loss of 1.2%, earnings before interest and tax (EBIT), which had been predicted to decrease, significantly outperformed the development forecast at the beginning of 2017.

Total revenues in the Energy segment developed better than expected and increased by 20.8%; a substantial rise had been forecast. Earnings before interest and tax (EBIT) exceeded the noticeable decline that had been forecast, increasing by 2.3% to €85.0 million.

A noticeable increase in revenues had been expected in the Building Materials Segment. Actual development stayed within the forecast range, with a 5.0% increase in revenues. Earnings before interest and tax (EBIT), which had been expected to improve moderately, exceeded expectations with an increase of 5.6%.

A significant increase in revenues had been predicted in the forecast for the Innovation & Digitalisation Segment at the beginning of 2017. The segment recorded an actual increase in revenues of 15.0% to €6.9 million, lagging slightly behind the forecast. Earnings before interest and tax (EBIT), for which a negative result in the high nine-digit range had been expected, fell short of expectations at €–10.8 million.

It is not possible to make a forecast for the Other Activities Segment, as revenue and earnings development in this business area is primarily driven by opportunism in capitalising on market opportunities within the scope of BayWa's portfolio management system.

General statement on the business situation of the Group

Overall, the Board of Management considers the business performance of the BayWa Group in 2017 to have been positive. All operating segments in the Group were able to increase their earnings year on year. The Energy segment once again exceeded the high level of earnings of the previous year. Earnings also continued to develop well in the Building Materials Segment. Although the development of the Agriculture Segment was unsatisfactory on the whole, measures were taken in 2017 that should increase the profitability of the agricultural trade business in the long term. In spite of ongoing challenging conditions, the BAST business unit also achieved a positive operating result. Medium-to long-term prospects for the Agriculture Segment continue to look promising. In 2017, the BayWa Group once again profited from its heavily diversified business activities, its strategic orientation towards international markets and the development of new areas of business and business models. The BayWa Group has a well-balanced, forward-thinking business portfolio to underpin its success in the future. The focus will be on continuing to develop the Group into an integrated solutions provider, expanding the speciality business and optimising the portfolio.

Financial Performance Indicators

BayWa bases the short-term management of its corporate divisions on 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 2017:

Key financial earnings figures

	Earnings before interest, tax, depreciation and amortisation (EBITDA)			Earnings before interest and tax (EBIT)			Earnings before tax (EBT)		
in € million 2017		Change (absolute)	Change (in %)		Change (absolute)	Change (in %)		Change (absolute)	Change (in %)
BayWa Agri Supply & Trade (BAST)	10.5	18.5	> 100	7.0	18.5	> 100	- 1.4	16.8	92.3
BayWa Agricultural Sales (BAV)	53.4	- 1.2	- 2.2	25.7	- 3.0	- 10.5	12.6	- 0.2	- 1.6
Fruit	45.7	- 11.5	- 20.1	29.5	- 12.8	- 30.3	24.2	- 12.2	- 33.5
Agricultural Equipment	32.1	10.3	47.2	19.9	9.3	87.7	12.3	11.5	> 100
Agriculture Segment	**141.7**	**16.1**	**12.8**	**82.1**	**12.0**	**17.1**	**47.7**	**15.9**	**50.0**
Energy	27.4	3.3	13.6	18.5	2.7	17.1	18.3	2.7	17.2
Renewable Energies	93.9	4.3	4.8	66.5	- 0.8	- 1.2	50.7	- 3.0	- 5.6
Energy Segment	**121.3**	**7.6**	**6.7**	**85.0**	**1.9**	**2.3**	**69.0**	**- 0.3**	**- 0.4**
Building Materials Segment	**45.8**	**1.9**	**4.3**	**30.1**	**1.6**	**5.6**	**21.2**	**2.4**	**12.8**
Innovation & Digitalisation Segment	**- 8.7**	**- 2.1**	**- 31.8**	**- 10.8**	**- 2.2**	**- 25.6**	**- 10.8**	**- 2.2**	**- 25.6**

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 2017	BayWa Agri Supply & Trade (BAST)	BayWa Agricultural Sales (BAV)	Fruit	Agricultural Equipment	Energy	Renewable Energies	Building Materials	Innovation & Digitalisation
Net operating profit	7.0	25.7	29.5	19.9	18.5	66.5	30.1	- 10.8
Average invested capital[1]	774.7	1,011.7	357.2	459.6	33.9	971.9	385.6	7.4
ROIC (in %)	0.90	2.54	8.26	4.33	54.57	6.84	7.81	- 145.95
Weighted average cost of capital (WACC) (in %)	6.10	5.90	5.80	7.30	6.60	4.80	7.80	7.30
Difference (ROIC less WACC) (in %)	- 5.20	- 3.36	2.44	- 2.97	47.97	2.04	0.01	- 153.25
Economic profit by business unit	- 40.3	- 34.0	8.8	- 13.7	16.3	19.8	0.1	- 11.3
				Agriculture		Energy	Building Materials	Innovation & Digitalisation
Economic profit by segment				- 79.2		36.1	0.1	- 11.3

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

In the financial year 2017, the Energy and Building Materials Segments, as well as the Fruit business unit of the Agriculture Segment, achieved positive economic profit (in other words, positive net income after respective capital costs). In the Energy Segment, the Renewable Energies business unit was once again able to generate an economic profit at the high level of €19.8 million (2016: €24.2 million) thanks mainly to strong international project business. In the conventional Energy business unit, the economic profit increased in the reporting year primarily through higher sales volumes and a positive margin trend to €16.3 million (2016: €13.9 million). The Energy Segment's economic profit totalled €36.1 million. The Building Materials Segment generated positive economic profit of €0.1 million in the financial year 2017. The Fruit business unit generated an economic profit of €8.8 million following €23.3 million in the previous year. This decline was mainly due to the fact that the previous year's result contained one-off income of €7.5 million from the sale of the packaging logistics unit in New Zealand by T&G. In addition, the poor fruit harvest in Germany led to a decrease in profitability. Although the BAST business unit saw significant year-on-year improvement of €19.5 million, economic profit remained negative at €–40.3 million. Economic profit of €–34.0 million was recorded in the BayWa Agricultural Sales (BAV) business unit (2016: €–29.2 million); this was mainly due to a fall in income in grain recording. The Agricultural Equipment business unit's economic profit rose by €7.6 million year on year but remained negative at €–13.7 million due to weak development in the Austrian agricultural equipment business. The Agriculture Segment as a whole recorded economic profit of €–79.2 million in 2017. The Innovation & Digitalisation Segment posted economic profit of €–11.3 million, as expected in its planning.

Employees

The number of employees at BayWa rose once again in 2017. By the end of the year, the BayWa Group employed 17,323 employees (2016: 16,711). In terms of an annual average, the number of employees rose year on year by 590 to 17,550, equating to an increase of 3.5%. This increase was largely based on a number of strategic acquisitions in various business areas. The international standing of BayWa's fruit and agricultural equipment trading activities was strengthened through targeted acquisitions, while the Innovation & Digitalisation Segment, established in 2016, was expanded further. While the number of employees in the Building Materials Segment, and in the BAV and conventional Energy business units remained stable year on year, there were major increases in employee numbers in the Renewable Energies business unit. As regards personnel as a whole, digitalisation was the focus in 2017 and was advanced with a range of different measures.

Development of the average number of employees in the BayWa Group

					Change	
	2014	2015	2016	**2017**	2017/16	in %
Agriculture	9,489	9,997	10,212	10,613	401	3.9
Energy	1,830	1,825	1,911	2,079	168	8.8
Building Materials	4,178	4,093	4,081	4,113	32	0.8
Innovation & Digitalisation	–	97	126	158	32	25.4
Other Activities	575	597	630	587	- 43	- 6.8
BayWa Group	**16,072**	**16,609**	**16,960**	**17,550**	**590**	**3.5**

Using apps to plan and approve leave

The introduction of HR apps has made it easier to plan leave. Employees and managers can now apply for, approve and plan leave using mobile devices. Supervisors can approve leave applications from their smartphones, tablets and laptops, anywhere and at any time. The apps can also be accessed from private mobile devices.

Generation Z: trainee recruitment in the "war for talent"

BayWa launched another online trainee campaign in the reporting year to inspire young members of Generation Z (born from 1995 onwards), who have grown up with digitalisation, to embark upon traineeships at BayWa, thereby ensuring a consistent trainee ratio. It utilized both classic search engine advertising (SEA) and social media elements. In 2017, potential candidates were addressed using a canvas ad on Facebook for the first time – and with success. The content was well received by the target group, which led to more visits to the BayWa careers page, above-average visit durations and an improvement in the number of applications being received. In 2017, the Group was once again one of the most important training companies, with 1,307 trainees at the end of the year.

Digital annual employee assessment and travel management

In the second half of 2017, the process for the annual employee assessment was mapped digitally on a platform. Although the face-to-face review is still the focus, it will become faster and easier to prepare and follow up on reviews with the roll-out of the system starting on 1 January 2018. Before the face-to-face review takes place, employees and the relevant manager can fill out the familiar guidelines for the annual employee assessment on the new platform. Another new feature is the documentation of the reviews on the portal: each employee and each manager can view the personalised questionnaires on his or her personal portal. The introduction of this system will also form the systematic basis for the digitalisation of succession planning that can be expected in the years to come.

The launch of the new Concur system is digitalising and simplifying the process for claiming travel expenses. This has laid the foundation for more efficient travel expense claims in 2018.

Promoting innovation

In order to increase BayWa managers' awareness for the topics of the future, the topic of innovation was the focus of BayWa's Corporate HR in 2017. Around 90 managers were inspired by successful pioneers in this area at the annual Leadership Forum. Innovation methods were presented, which participants could then apply in practice afterwards. With the establishment of the BayWa Innovation Group – a group of managers enthusiastic about innovation – the groundwork has been laid for a number of new formats that can be utilized to awaken employees' interest in the topic of innovation, to create networks between them and to help them realise their ideas successfully. Moreover, employee development is also important to BayWa: in the reporting year, employees completed 31,166 days of training, the equivalent of 1.8 days per employee. The number of employees participating in e-learning training courses was 23,120, which was a year-on-year increase of 6.4%.

Diversity and equal opportunity

The way that diversity is promoted within the Group is one of the key success factors in BayWa's competitiveness. By establishing the corporate HR blog "Perspektivenwechsel" on the BayWa intranet, the topic of diversity and equal opportunity has been made transparent for all employees within the BayWa Group. The women's network "Connected Women" celebrated its one-year anniversary in November of the reporting year. The goal was to create a platform for female employees at BayWa where they could exchange information, share ideas and experiences, and network at all levels. It has been a success: around 60 women from the BayWa Group participated, engaged in enthusiastic discussion and swapped experiences at seven networking events and business lunches. Going forward, the aim is to keep increasing the gender quota for women in management positions, which is currently a little over 20%.

BayWa's diversity concept is part of the Corporate Governance Report / Statement on Corporate Governance as required by Section 315d in conjunction with Section 289f German Commercial Code (HGB).

BayWa Foundation: educational projects to promote healthy eating and renewable energies

The BayWa Foundation was established in 1998 to fulfil and further develop the Group's commitment to society. BayWa AG covers the administrative costs and doubles donations so that 200% of the money the Foundation receives goes towards the projects that it funds. In 2017, the Foundation funded more than 20 long-term educational projects worldwide, which aim to improve children's nutrition and impart practical knowledge about renewable energy. In Germany, the BayWa Foundation focuses on healthy nutrition to raise awareness for this issue at an early age and to promote children's health. As part of the hands-on nutritional education programme, "Gemüse pflanzen. Gesundheit ernten." schoolchildren plant their own vegetables, prepare them as healthy snacks and use the initiative-driven "Der Ernährungskompass" textbook to discover what nutrients the foods contain. Since the project was launched in 2013, 120 school gardens have been set up for around 9,000 children, and 40,000 children will receive the "Der Ernährungskompass" in 2018.

International projects, especially those in Africa, take a long-term approach. In Zambia, young mothers in need receive support in the form of education and childcare on their way to leading independent lives. In Tanzania, many households still use open wood fires to cook, which has an especially negative impact on people's health. Biogas as an alternative source of energy provides the households with clean cooking fuel and valuable fertiliser for the plantations. Together with the aid organisation Engineers Without Borders, the BayWa Foundation is working on expanding local expertise and making the technology more widely available. All of these projects are about helping people to help themselves, thus increasing quality of life over the long term. More information about these projects is available at www.baywastiftung.de/en.

Sustainability at BayWa

The separate Consolidated Non-Financial Report for BayWa AG is part of the 2017 Sustainability Report. This report is published on the website at: www.baywa.com/en/sustainability/news_publications/publications/.

Takeover-relevant Information

Composition of subscribed capital

The subscribed capital of BayWa AG amounted to €89,632,783.36 on the reporting date and is divided up into 35,012,806 registered shares with an arithmetical portion of €2.56 each in the share capital. Of the shares issued, 33,657,934 are registered shares with restricted transferability and 111,621 recently registered shares with restricted transferability (dividend-bearing employee shares from 1 January 2018 onwards). 1,243,251 shares are not registered shares with restricted transferability. With regard to the rights and obligations granted by the shares (e.g. the right to a portion of the unappropriated retained earnings or to participate in the Annual General Meeting 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 of members of the Board of Management and on amendments to the Articles of Association

Supplemental to Sections 84 et seq. of the German Stock Corporation Act (AktG), Article 9 of the Articles of Association of BayWa AG on the appointment or dismissal of members of the Board of Management also requires members of the Board of Management to be appointed by the Supervisory Board. Members of the Board of Management are appointed for a maximum term of five years, and reappointment is permitted. The Supervisory Board appoints the Chairman of the Board of Management.
Pursuant to Section 179 of the German Stock Corporation Act (AktG) in conjunction with Article 21 of the Articles of Association of BayWa AG, amendments to the Articles of Association are always passed by the Annual General Meeting of Shareholders.

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

Subject to the approval of the Supervisory Board, the Board of Management is authorised to raise the share capital on or before 31 May 2021 by a nominal amount of up to €12,500,000 through the issuance of new registered shares against contributions in kind. 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 specify the further content of the share rights and conditions under which the shares are to be issued.

Furthermore, the Board of Management is also authorised to raise the share capital one or several times on or before 18 May 2020 by up to a nominal amount of €4,104,097.28 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 seqq. 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 specify the further content of the 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 a nominal amount of up to €10,000,000 through the issuance of new registered shares against contributions in kind. 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 specify the further content of the 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 of mergers and to withdraw part or all of the shares without requiring a further resolution to be passed by the Annual General Meeting of Shareholders.

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 315a para. 1 items 8 and 9 of the German Commercial Code (HGB).

Remuneration Report

The Remuneration Report is part of the Management Report 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, exceeded or undershot. If objectives are exceeded, 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 for the financial year 2017 to the members of the Board of Management. 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 in 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 in the bonus bank, the respective Board of Management 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 50% of the salary most recently received). Employees do not reach retirement age before they turn 66. 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 contracts of the Board of Management members if service to the company is prematurely terminated. There are also no Change of Control clauses.

The total remuneration of the Board of Management for the financial year 2017 came to €6.564 million (2016: €6.910 million), of which €1.367 million (2016: €2.036 million) were variable. Contributions amounting to €1.844 million (2016: €1.555 million) were paid in benefits after termination of employment contracts (pensions). An amount of €4.421 million (2016: €3.372 million) has been paid out to former members of the Board of Management of BayWa Group and their dependents.

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 19 May 2015 (Code Item 4.2.4 sentence 3). 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 after the conclusion of the financial 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 to shareholders 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 annual remuneration of €2,500 is paid for committee work. The chairmen each 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 on account of their activities as member of the Supervisory Board or its committees. Beyond this, members of the Supervisory Board are also included in the company's group accident insurance policy. The company also maintains an insurance policy against legal proceedings and pecuniary losses and a D&O insurance and legal protection policy on behalf of its Supervisory Board members and in the interests of the company. The company pays the insurance premiums.

The total remuneration of the Supervisory Board comes to €0.657 million (2016: €0.761 million), of which €0.322 million were variable (2016: €0.425 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 BayWa Group is geared towards 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 BayWa Group to innovate, secure and improve what is already in place. The management of opportunities and risks is closely aligned to 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 also allows BayWa to tap into new business opportunities, which in turn reduces its dependence on the individual country markets and their 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 targeted 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 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, BayWa Group has established binding goals and conduct in its corporate policies, ethical principles and Code of Conduct, 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 at the BayWa Group

At the BayWa Group, opportunity and risk management is an integral component of the planning and management and control processes. A comprehensive risk management system 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 the management of counterparty risk. As an extension of the planning process that takes place in the business units 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.

The risk reports, which are regularly prepared by the business sections, 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 set-up 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 measure of risk applied to operational decisions.

The new business section Corporate Risk was established in 2017 as a development from the agricultural group's risk controlling set-up. Corporate Risk's tasks are to execute risk controlling for the agricultural group and operate and develop the risk management system to monitor risks on each trading day. In addition, the section also serves as a Group-wide competence centre to ensure compliance with best practices in relation to risk controlling methods, processes and systems, as well as to guarantee adherence to financial market regulations on commodity derivatives.

The Group-wide risk management system for the agricultural group, implemented some years ago, includes the business activities of BayWa, the Cefetra Group, BayWa Agrarhandel GmbH and BayWa Agrar International B.V. The minimum requirements for risk management (MaRisk) published by the German Financial Supervisory Authority (BaFin) serve as a benchmark for BayWa's risk management. MaRisk includes arrangements governing the identification, assessment, management and monitoring of all material risk types, including counterparty risks as well as operational risks, such as quality and logistics risks. BayWa adapted the standards established in the financial services sector and leading trading companies for its agricultural trade activities due to the flexible and practical framework of the material regulations. Appropriate and effective risk management pursuant to MaRisk comprises in particular the formulation of strategies and the establishment of internal control procedures in consideration of the risk-bearing capacity. The internal control system consists in particular of:

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

In order to manage market risks on each trading day, the positions, including the spreads (underlying risks), are determined and monitored for all Group companies. Value-oriented procedures, in addition to the volume limits, serve to ensure that the positions are managed in a manner that is appropriate for the risks. These procedures include the regular mark-to-market valuation of pending agricultural transactions and the determination of the trading results derived from this, as well as the portfolio-based value-at-risk procedure. In addition, scheduled and ad hoc stress tests are performed to recognise the effect that extraordinary market price changes have on earnings and, where necessary, implement measures to reduce risks. The trading positions of the agricultural group as well as the risks these pose are reported to the operating sections and the local risk management officer daily and to the Board of Management in the form of the Risk Board.

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

The Agriculture Risk Committee is part of Risk Governance and acts as the highest decision-making body within the agricultural group. It is composed of members of the Board of Management and others and meets regularly and when warranted. The Committee decides on risk guidelines and limit systems for the agricultural trade activities and, where necessary, implements risk-controlling and mitigating measures.

A form of risk controlling that is independent of trading was established at both the level of the Group and in the individual agriculture trading companies to ensure that the provisions of the Agriculture Risk Committee are implemented in full. Corporate Risk is responsible for the Group-wide developments and implementation of risk management, risk monitoring and risk reporting methods, processes and systems. The Risk Officer's responsibility in the trading companies covers all risk processes within the company, including limit monitoring and reporting.

The Global Book System (GBS) continues to coordinate trade management activities; it is responsible for the overarching coordination and optimisation of the trading and risk positions of the individual product lines in the trade in grain, oilseeds and co-products for the national and international sectors. Fundamental market analyses are performed within the scope of the market research activities to estimate the global supply and demand situation. Since the beginning of 2017, an additional focus has also been placed on developing and implementing quantitative portfolio and risk analysis procedures, the results of which are discussed in weekly meetings with the trading departments. Given the increasing volatility in the markets for agricultural produce, BayWa works with specialists in the area of algorithm-controlled trading strategies in order to limit the effects of fluctuations in the market triggered by high-frequency trading on BayWa's positions.

In the BayWa Group's risk atlas, risks are assigned to one of the seven risk categories compliance risks, operating risks, market risks, financial risks, legal risks, strategic risks and risks pertaining to organisational structure and workflow. The following lists all of the material opportunities and risks that could have an impact on the business activities or assets, financial position and earnings position of the BayWa Group and assigns them to one of these risk categories. Their significance relates to their potential impact on BayWa in the event that the risk materialises, weighted by the likelihood of that risk materialising. The product of these two values is referred to as the expected value of damages.

Compliance

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

Antitrust investigations were conducted at various agricultural companies in Germany in 2015, including BayWa AG, with regard to crop protection wholesale operations. The Bundeskartellamt (German federal antitrust authority) conducted a further search in a number of Agricultural Equipment offices at BayWa headquarters in January 2016 on the basis of a warrant issued by the Bonn district court. The investigations were based on the suspicion that BayWa employees were allegedly involved in agreements aimed at restricting competition in the sale of agricultural equipment. In February 2018, the Bundeskartellamt announced that it was dropping its investigation into BayWa with regard to Agricultural Equipment. The other investigation concerning crop protection is still ongoing and results or partial results were not available at the time of the conclusion of the consolidated financial statements.

BayWa forms provisions for legal and litigation risks if the occurrence of an obligation is probable and the amount can be adequately estimated. In individual cases, actual utilisation may exceed the amount of the provisions. The Board of Management believes that suitable provisions have been accounted for.

BayWa's data protection risk relates to the incorrect handling of personal or customer-related data as well as the unlawful disclosure or use of said data. This risk is increasing due to the digital transformation of many business activities and increased awareness of the issue due to new legal regulations. Advice and awareness programmes, as well as process controls, are in place to ensure compliance with data protection regulations within the Group. In general, BayWa ensures that customers retain sovereignty over their data.

In the very unlikely event that all of these individual risks materialise at the same time, the theoretical expected value of damages in the compliance risk category would come to around €6.9 million.

Operating risks

Changes in the political framework, such as changes to the regulation of markets for individual agricultural products or tax-related government subsidies of energy carriers, in addition to volatile markets, create risks. At the same time, however, they open up new prospects. Extreme weather conditions can have a direct impact on offerings, quality, 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 has reduced the dependence on individual markets and increased procurement and marketing flexibility. BayWa also combats quality risks by performing samplings and checks. Risks posed by a deterioration in the quality of inventories are reduced by professional warehousing standards. Logistics risks resulting from a lack of transport capacities due to weather conditions or strikes are identified and managed early on by the early warning systems. Global climate changes will also have a long-term effect on agriculture. The global demand for agricultural produce, particularly grain, continues to grow. This may give rise to a sustained price uptrend. The fruit- and vegetable-growing activities pose a financial risk to the Group, which arises from the delay between cash outflow for buying, growing and maintaining the crops as well as 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 operating resources and high-end agricultural machinery.

In the energy business, renewable energies are particularly affected by changes in incentive and subsidy measures. For example, BayWa r.e.'s business activities in the US slowed down slightly as the funding measures for investments in solar power plants and wind farms lost appeal due to the general reduction in the tax rate as part of the tax reform in December 2017. Against this backdrop, revenue and earnings development is stabilised by means of geographic diversification. Diversification across various energy carriers – especially wind energy, solar energy and biomass – mitigates risk in certain markets that remain strongly dependent on subsidisation. Climatic risks (wind, sunshine) also play a role for BayWa's electricity-generating Group companies in the field of renewable energies. Long-term surveys mean that average wind and sunshine are relatively easy to forecast in the medium term, although both positive and negative deviations can occur at short notice. The availability of turbines and installations also poses a risk, though this is greatly reduced by the assortment of proven components provided by well-known manufacturers. The conclusion of full-service maintenance contracts ensures that maintenance and repair work is performed within defined time periods.

Political and economic factors exert the main influence on demand in the construction sector. Political factors of influence include, for instance, special depreciation for listed buildings, measures to promote improved energy efficiency and the construction of social housing. In general, ageing housing stock in Germany will encourage growing demand for modernisation and renovation. In the Building Materials Segment, the BayWa Group is the franchiser for DIY and garden centres. After the inclusion of BayWa Bau- und Gartenmärkte in a joint venture with Hellweg – BayWa Bau- und Gartenmärkte GmbH & Co. KG, newly established in 2011 – operational management was transferred to Hellweg. In light of this, there is a risk that the franchise company in the BayWa Group will no longer meet its contractual obligations to the franchisees in the previous way and of the previous quality. Among other things, this may lead to claims for damages on the part of franchisees. This risk was counteracted by the Group concluding long-term agreements with Hellweg.

In the very unlikely event that all of these individual risks materialise at the same time, the theoretical expected value of damages in the risk category operating risks would come to around €17.1 million.

Market 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 compa-nies. BayWa's business model is largely geared towards satisfying basic human needs, such as food, mobility, energy and shelter. 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 by, for instance, identifying and acquiring suitable companies with a view to expanding or establishing existing or new areas of business. However, BayWa is unable to fully decouple itself from severe setbacks to international economic development that result from, for example, slumps in global commodity prices.

BayWa trades in goods that display 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 corresponding merchan-dise and the conclusion of supply contracts governing the acquisition of goods in future means that BayWa is also exposed to the risk of price fluctuations. Whereas the risk inherent in mineral oils 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. What is more, activities by financial investors and technical market mechanisms can sometimes exacerbate price volatility considerably. In addition to absolute price risks, business performance may be influenced by various price developments in the local premiums, in the temporal price curve as well as different quality grades. If no hedging transactions exist 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.

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 as defined under IAS 39 (International Accounting Standard). The value-at risk used by BayWa aims to quantify the negative changes in the value of a portfolio, which – with a certain degree of proba-bility (95%) – will not be exceeded during a defined period of time (five trading days). The value-at risk calculated as at 31 December 2017 amounted to €3.759 million and indicates that the potential loss from the commodity futures consid-ered will, with a probability of 95%, not exceed €3.759 million within the next five trading days.

On 23 July 2016, UK citizens voted in favour of exiting the EU in a referendum (Brexit). The negotiations are currently being held between EU member states and the UK on the terms of Brexit and should be completed by autumn 2018. The date of the UK's departure from the EU has been set at 29 March 2019. From this date, a transitional period lasting a minimum of two years will begin, in which EU regulations on free movement of people and the trading of goods and services will be replaced by bilateral regulations between the EU and the UK. This transitional period means that Brexit will have no effect on BayWa Group companies based in the UK in the short term. The companies concerned will review the consequences of new regulations on freedom of movement and trade once legally binding decisions on such subjects have been made. In the financial year 2017, around 4% of the Group's revenues were generated in the UK. Due to the volume of business in the UK, Brexit is not expected to have any significant negative effects on the Group as a whole, even in the event that restrictions should be imposed on free international trade.

On 22 December 2017, the US enacted a new tax law with the Tax Cuts and Jobs Act. The changes contained in this act were applied to the affected Group companies, most of which are part of the Renewable Energies business unit, during the preparation of the financial statements as at 31 December 2017. The lowering of the corporate tax rate to 21% led to a change in the provisions for tax liabilities for BayWA r.e. USA LLC in the financial year 2017, although it did not have any material effect from a Group perspective. The new tax law is not expected to have any considerable impact on the BayWa Group in future financial years either.

In the very unlikely event that all of these individual risks materialise at the same time, the theoretical expected value of damages in the risk category market risks would come to around €28.3 million.

Financial risks

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

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. In addition to interest rate risk, these derivative hedging instruments are also subject to the risk of price changes in the underlying and, depending on the base currency in which the derivative hedge is denominated, currency risk. Transactions that were not conducted via a stock exchange are also subject to counterparty risk. However, due to the measures that BayWa has taken, there is only a slight chance that these risks will materialise. By the same token, changes to interest rates, currency exchange rates or forward market prices can lead to unplanned opportunities.

Currency opportunities and risks: BayWa's business activities are largely located in the euro zone. If foreign currency positions arise from goods and services transactions or projects, they are always hedged without delay. Other payment obligations or receivables denominated in a foreign currency are hedged at the time when they arise. Speculative borrowing or investing of financial resources denominated in foreign currencies is prohibited.

Interest rate opportunities and risks: Interest rate risk positions arise from the Group's floating-rate financing activities, especially from the issuing of short-term commercial papers, short-term loans as well as variable-interest bonded loans. Short-term debt is used mainly to finance working capital. To reduce the interest rate risk, which is not hedged using a natural hedge, BayWa uses derivative instruments in the form of futures, interest rate caps and swaps.

In the financial year 2017, the average interest rate for variable-interest financial liabilities stood at 1.133% (2016: 1.100%).

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 advance 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 debtor moni-toring system that 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, counterparty risks are also regularly monitored in agricultural trade; 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.

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. At the BayWa Group, funds are generated through operations and by borrowing from external financial institutions. In addition, financing instruments, such as multicurrency commercial paper programmes or asset-backed securitisation, are used, as well as bonded loans. BayWa also issued a hybrid bond for the first time in October 2017. 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 accounts for the pronounced season-ality of business activities. Owing to the diversification of the sources of financing, the BayWa Group does not currently have any risk clusters concerning liquidity. The BayWa Group's financing structure, with its mostly matching maturities, ensures that interest-related opportunities are reflected within the Group.

Rating: BayWa AG enjoys a positive rating among banks. 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 2017, the BayWa Group was once again able to raise its total credit lines. For reasons of cost effectiveness, BayWa AG deliberately dispenses with the use of external ratings.

In the very unlikely event that all of these individual risks materialise at the same time, the theoretical expected value of damages in the risk category financial risks would come to around €15.1 million.

Legal risks

Group companies are and will continue to be faced with legal disputes and proceedings in relation to their operating business activities. For example, they can relate to the assertion of claims based on services and deliveries that are not up to standard or to payment disputes. This can lead to individual Group companies having to pay compensation or financial penalties or having other civil or criminal sanctions imposed on them. These risks are continuously monitored by corresponding specialist areas of the Group.

BayWa forms provisions for legal and litigation risks if the occurrence of an obligation event is probable and the amount can be adequately estimated. In individual cases, actual utilisation may exceed the amount of the provisions. The Board of Management believes that suitable provisions have been created.

Changes to the regulatory environment can influence Group development. In particular, this includes government intervention in the underlying 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 frame-works and government subsidies. Politically motivated changes to subsidy frameworks – particularly the retroactive reduction or abolition of feed-in tariffs – can have a major impact on the value of these plants, 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 threefold diversification strategy in its Renewable Energies business unit. The portfolio is diversified in terms of countries, energy carriers and business units (projects and service on the one hand, and trading on the other hand).

As a result of the financial crisis in 2008, a whole series of new laws were introduced to increase regulation of the financial market. Derivative markets were a particular focal point of these measures. In addition, efforts were taken at a European level to limit speculative commodity and, in particular, agricultural trading. Of this significant number of new regulations, the European Market Infrastructure Regulation (EMIR) and the revision of the Markets in Financial Instru-ments Directive (MiFID II) are particularly relevant to BayWa's business activities. Besides additional costs, these new regulations also increase the risk of violating new rules. Compliance with all financial regulatory measures is guaranteed in a cost-efficient manner by the operation of a Group-wide risk management software program on every trading day.

In the very unlikely event that all of these individual risks materialise at the same time, the theoretical expected value of damages in the risk category legal risks would come to around €11.1 million.

Strategic risks

BayWa also operates as a project developer in the field of renewable energies. This business harbours a risk, for instance, that the planning and construction of solar power plants, wind farms and biogas plants are delayed and that they may be connected to the grid later than originally scheduled. In such cases, if the deadline for the further reduction in feed-in tariffs is not adhered to, there is a risk that the low feed-in and electricity income could result in the profitability of the projects being lower than planned. In the Global Produce business unit, there is a risk that the investments required within the context of vegetable cultivation in climate-controlled greenhouses could exceed their planned scope.

In the very unlikely event that all of these individual risks materialise at the same time, the theoretical expected value of damages in the risk category strategic risks would come to around €9.0 million.

Organisational structure and workflow

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

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 companies continue to require qualified personnel in order to secure future success. Excessively high employee fluctuation, brain drain and failure to secure junior staff loyalty may have a detrimental effect on the Group's business performance. BayWa counter-acts 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 ethical principles create a positive working environment. At the same time, BayWa AG promotes the ongoing vocational training and development of its employees. With 1,307 trainees at the end of 2017, 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 a testament to the great loyalty that employees show to BayWa. 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 solu-tions. In a trading company with high numbers of employees, having work processes supported electronically is impera-tive. The continuous monitoring and reviewing of processes mapped electronically, however, involves more than the mere implementation of new IT components. It is always accompanied by an optimisation of process workflows, as a result of which opportunities in the form of synergy and cost-savings potential can be identified and exploited. At the same time, the risk inherent in the system rises in tandem with the growing complexity and dependency on the availabil-ity and reliability of the IT systems. To realise the opportunities and minimise the risks, the IT skills and expertise of the BayWa Group are always kept up to date. The resources are pooled in RI-Solution GmbH Gesellschaft für Retail-Informationssysteme, Services und Lösungen mbH, 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.

In the very unlikely event that all of these individual risks materialise at the same time, the theoretical expected value of damages in the organisational structure and workflow risk category would come to around €23.9 million.

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 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, 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 safeguard 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. Corporate Accounting prepares the consolidated financial statements pursuant to 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 automatic 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, accounting-relevant processes are also monitored regularly by Internal Audit.

All subsidiaries included in this process are obliged to submit their figures on an IFRS basis in a standardised reporting form to BayWa. This allows discrepancies between planned figures and actual figures to be promptly identified, with the opportunity to respond quickly.

In conjunction with the Group companies, 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.

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 BayWa Code of Conduct.

The employment of highly qualified personnel, targeted and regular training and continuous professional development, along with the stringent separation of duties in financial accounting in the preparation, booking and controlling of vouchers is guaranteed through compliance with local and international accounting principles in preparing the annual financial statements and the consolidated financial statements.

Outlook

Outlook for the BayWa Group

Prospects for the BayWa Group are positive overall based on the anticipated conditions in the operational segments. Group revenues are likely to increase noticeably in 2018 in consideration of anticipated price developments and volatilities. In 2018, the Group's earnings before interest and tax (EBIT) will hover around the level of the previous year and may increase slightly. The improved earnings for the Agriculture and Building Materials Segments will far exceed the decline forecast for Other Activities due to the removal of earnings from the sale of the BayWa high-rise. The Energy Segment's earnings are not likely to reach exactly the same record level of the previous year, as major projects in the fields of wind and solar energy in particular will, for the most part, only enter the marketing phase from 2019 onwards. The research and development investments in the Innovation & Digitalisation Segment in 2018 will be slightly higher than the previous year as planned.

Outlook for the Agriculture Segment

Effective 1 January 2018, the domestic marketing activities for the BAST business unit have been transferred to the BAV business unit, so that national produce trading can be managed in one place from recording through to marketing. As a result, the BAV business unit has been renamed as Agri Trade & Service. The BAST business unit will continue to include the international grain and oilseed trading activities. The Fruit business unit became known as Global Produce as of 1 January 2018 to take account of greater product diversity and for the sharp international focus of the business. The Agricultural Equipment business unit remains unchanged.

In the BAST business unit, the handling volume of grain and oilseed is set to fall in 2018 from 33.4 million tonnes to approximately 28 million tonnes, due mostly to the reclassification of domestic marketing activities into the BAV business unit. Due to this structural change and to the sale of operations in Romania, revenues are expected to drop by a middle triple-digit million euro amount. The high harvest volumes forecast globally for grain year 2017/18 and improved export opportunities are likely to have a positive impact. In total, the BAST revenues for 2018 will fall significantly short of the previous year's level. By contrast, the earnings before interest and tax (EBIT) is expected to rise considerably. The improvement in earnings is primarily due to measures implemented in 2017 to boost profitability, such as cost cutting and the optimisation of capital allocation, as well as the further development of the higher-margin specialities business. The company, Premium Crops, acquired in December 2017 as part of the specialities strategy, is set to make its first contribution to earnings in 2018.

The Agri Trade & Service business unit, as mentioned earlier, was expanded at the start of 2018 to include the domestic marketing activities of grain and oilseed, which achieved a trading volume of 5.3 million tonnes in 2017. The revenues of the Agri Trade & Service business unit will grow by a middle three-figure million euro amount in 2018 as a result of this structural change. Based on an average harvest in Germany, the marketing volume is forecast to increase to approximately 5.5 million tonnes. In the operating resources business, sales are expected to stay at the same level recorded in the previous year, since demand for crop protection and seed is expected to be stable. The expected drop in sales of fertilisers due to the German Fertiliser Ordinance is likely to be offset by the increase in volumes of feedstuffs. Sales in this area are likely to benefit from the new target-group focus of sales. In total, the Agri Trade & Services revenues for 2018 are set to considerably exceed the level of the previous year, thanks to the newly added domestic marketing business of the BAST business unit. This will also have a positive effect on the earnings before interest and tax (EBIT) of the Agri Trade & Services business unit. In addition, rising earnings contributions can be expected in the recording and processing business in the event of an average grain harvest. For Group companies in Austria and Eastern Europe, development is forecast to return to normal in 2018 after the weak development in the previous year. Furthermore, the majority takeover of the Landhandel Knaup Group in August 2017 will contribute to the earnings for the full year for the first time. Based on this, earnings are expected to improve significantly in the Agri Trade & Services business unit.

In the fruit business, the entire marketing volume of the BayWa Group is likely to increase slightly in 2018. This expectation is based on the forecast higher apple harvest volume in New Zealand. It is also based on the marketing of the first harvest of premium tomatoes taking place in the United Arab Emirates through the BayWa and Al Dahra Holding joint venture. However, this will be offset by falling sales due to the very poor fruit harvest in Germany in 2017. Apple prices are expected to rise in New Zealand, due to expected higher export demand, and in Germany, due to the shortage of domestic supply. Overall, the Global Produce business unit will be able to slightly increase revenues year on year. Earnings before interest and tax (EBIT) are likely to significantly outperform the level recorded in 2017. Higher earnings contributions from international business, which is likely to benefit from the improved earnings of T&G Global and the development of additional sales channels for tropical fruit from TFC, contrasts with a decline in earnings from the German fruit business. Short time had to be applied for in this area for the first half of 2018 after the failed harvest of 2017.

Sales figures are expected to rise in 2018 in the Agricultural Equipment business unit, based on the high number of orders for new machinery following the Agritechnica trade fair in autumn 2017. Positive momentum will also come from the specialisation of sales organisations for Fendt and Massey Ferguson branded products in southern Germany. The service business is poised for development that should at least be stable in 2018 due to the product range expansions in speciality areas such as equipment for local authorities and forestry. In addition, international business will generate further growth in 2018: this is likely to stem primarily from the cooperation with CLAAS in Canada, as plans are afoot to open an additional site here. All in all, the revenues generated by the Agricultural Equipment business unit are expected to increase slightly on this basis. The majority takeover of Lagerhaus Technik-Center GmbH & Co KG, Austria, in August 2017 is likely to have a negative impact on the earnings as this company requires restructuring. Against this background, the Agricultural Equipment business unit's earnings before interest and tax (EBIT) are expected to fall noticeably in 2018.

On the whole, BayWa anticipates a slight revenue growth and a significant rise in the earnings before interest and tax (EBIT) in the Agriculture Segment in financial year 2018.

Outlook for the Energy Segment

In the Conventional Energy business, heating oil sales are expected to drop in 2018 due to the ongoing structural decline in consumption. The sale of wood pellets is expected to rise thanks to the marketing of additional production volumes by WUN Energie GmbH scheduled to take place from the third quarter of 2018 onwards. In terms of fuels, the volume of diesel sales in particular could continue to grow on the back of the increasing mutual acceptance of filling station cards from BayWa, AVIA and star. Restrictions could result from the pending driving ban in German city centres for older diesel vehicles. Sales of lubricants are also forecast to increase slightly due to the expansion of sales activities. In 2018, revenues in fossil and renewable heating fuels, fuels and lubricants are expected to be up slightly in a year-on-year comparison across all product areas as a result of the forecast rise in oil price. By contrast, the earnings before interest and tax (EBIT) in the Conventional Energy business is expected to fall slightly as it is unlikely that the strong margin trend in fuels will be repeated or return to normal.

The Renewable Energies business unit is set to continue down its path towards international growth in 2018 through organic developments and acquisitions. In the project business, the Australian wind project developer, Future Energy, acquired in October 2017, will contribute to the BayWa r.e. business for a full year for the first time in 2018. In addition, BayWa r.e. won its its first auctions for solar projects in Southeast Asia and other auctions for wind projects in Germany. By contrast, activities in the US could weaken slightly because the tax incentives for investments in solar plants and wind turbines are losing appeal with the general fall in tax rates as a result of the tax reform. Overall, the commissioning and turbine/plant sales project pipeline in the areas of wind energy, solar energy and bioenergy currently totals approximately 427 MW for 2018. Of this amount, approximately 250 MW is attributable to solar plants, approximately 170 MW to wind turbines and approximately 7 MW to bioenergy projects. The focus of solar activities will be on new projects in Australia, France, the Netherlands and the US. Activities relating to wind turbines are mainly centred on Germany, the UK, France and Italy. In terms of bioenergy, four plants in Germany and one plant in the UK are up for sale in 2018. In the future, the bioenergy business will focus on the repowering of existing plants, consultancy and services as well as the management of raw materials. In 2018, the service business will benefit from the full-year effect of the mandates acquired in the previous year and from the acquisition of Sybac Service GmbH for the technical management of plants or systems in the area of renewable energies in January 2018. The direct distributor, Clean Energy Sourcing (CLENS), will contribute to the energy trading business for a full year in 2018. Trading with photovoltaic (PV) components is likely to match the positive trend observed in the previous year thanks to the full-year contributions from the new international branches opened in 2017. In addition, business is expected to expand through the collaboration agreement concluded with several German public utilities companies on the marketing of PV storage systems and in the sale of PV components. The Renewable Energies business unit's revenues are expected to significantly increase, primarily due to growth on account of Clean Energy Sourcing (CLENS) as well as the expansion in trading with PV components and the solid project pipeline. Earnings before interest and tax (EBIT) are not likely, however, to fully reach the previous year's high level in 2018 on account of the tougher price competition in the project business. The wind energy business in Germany in particular is expected to experience a fall in margins due to the transition to a tender-based system following the German EEG 2017 amendment.

Overall, there is likely to be a considerable increase in the Energy Segment's revenues for 2018 on the basis of anticipated developments in individual areas. The Energy Segment's earnings before interest and tax (EBIT) is likely to be down noiticeably on the level of the previous year. The growth opportunities in renewable energies will increase significantly in the coming years thanks to the existing project pipeline.

Outlook for the Building Materials Segment

The BayWa building materials trade is likely to benefit from the positive development of the construction sector in 2018 with its broad range of products. In particular, BayWa should benefit from the growing trend towards pre-fabrication with offers such as systems basements and construction components, as these are some of the areas in which it specialises in terms of distribution activities. In addition, the boost in private customer sales with the "At home with BayWa building materials" brand and the investment in specialised distribution for the construction timber product portfolio is expected to generate positive momentum in sales development. Another driver for growth is likely to be the "Mr+Mrs Homes" residential property configurator, which will be launched in the first half of 2018. Through the expansion of e-commerce, additional growth opportunities are opening up beyond the existing sales region. This makes BayWa one of the B2B market leaders of building materials suppliers offering Click & Collect through the Building Materials Online portal. The closure of two loss-making sites in financial year 2017 had the opposite effect on revenues; however, this did have a positive effect on the earnings. Revenues in the Building Materials Segment are likely to see a moderate increase in 2018. This expectation is mainly based on higher sales volumes. Earnings before interest and tax (EBIT) should slightly exceed the level reached in 2017, despite increases in standard wages. Product range expansions in the high-margin private brand area in particular will contribute to this.

Outlook for the Innovation & Digitalisation Segment

In the Innovation & Digitalisation Segment, the revenues are minor in size and will increase slightly to a low level in 2018. This growth will be supported by the international expansion of the distribution of the "NEXT Farming" farm management software and the sales launch of newly developed software modules obtained through Agritechnica in November 2017. Online services have also been enhanced to include new features, e.g. the maize sowing system 4.0 and a calculation of nutrient requirements. The German Fertiliser Ordinance is also likely to have a positive impact on demand for farm management software and digital farming solutions, as it stipulates stricter documentation obligations and the optimisation of fertilizer application in terms of volume. The newly developed Leitspurmanager software, coupled with digitalised field databases, enables seed to be sown and fertilizer and crop protection to be applied automatically and without any overlap. In this area, BayWa benefits from the collaboration with the European Space Agency (ESA) on the assessment of satellite data and from the expertise of the service development firm for satellite applications, VISTA, acquired with a majority stake in July 2017. Revenues from BayWa's eBusiness activities are set to increase via the enhanced BayWa Online World platform. However, revenues and income from these activities are attributed to the respective business unit responsible for the individual product sold. Due to administrative costs and start-up costs for investments in new developments, the earnings before interest and tax (EBIT) of the Innovation & Digitalisation Segment is likely to post a negative result in the low two-digit million euro range in 2018.

Other Activities

No revenue forecast was made for Other Activities as the size of such activities is insignificant in terms of the business development of the Group. The development of earnings before interest and tax (EBIT) in 2018 will be significantly shaped by the removal of earnings from the sale of the BayWa high-rise in financial year 2017.