Management Report on the Group in the Financial Year 2015*

OVERVIEW

In a challenging market environment with widespread declines in prices for raw materials and agricultural produce, the BayWa Group was able to develop successfully in the reporting year 2015 and improve its operating result. The key factor in this trend was the systematic internationalisation of business activities. For instance, BayWa opened new agricultural trade offices in Ukraine, Russia and Argentina in 2015 and acquired the British grain trader Wessex Grain Ltd. Wessex Grain Ltd., based in Somerset, operates in the collection business in south and south-west England. BayWa also acquired the Romanian agricultural trader Patberg International S.R.L. based in Bucharest, which was renamed BayWa Agri Romania S.r.l. In the Agricultural Equipment business unit, BayWa established Barloworld Limited, Johannesburg, a joint venture for agricultural equipment sales in sub-Saharan Africa in which BayWa and Barloworld each hold a 50% share. In the area of renewable energies, the Munich-based trade and services group acquired project rights for several solar parks with a total output of 75 megawatts (MW) in North and South America; in addition, new branch openings in Japan and Singapore marked the first step into the South-East Asian market.

Revenues in the Agriculture Segment increased slightly in the financial year 2015 by 0.5% to €10,154.7 million. This was due to another significant rise in trading volume by 12.6 percent to approximately 30.2 million tonnes in the Agricultural Trade business unit and further sales growth in the Fruit business unit. The sharp decrease in prices for agricultural produce had an offsetting effect; as a result, revenues in the Agricultural Trade business increased disproportionately to sales volume by only 1.1% to €8,321.4 million. The development of agricultural produce prices was reflected in a fall in farmers' investment propensity, resulting in revenues in the Agricultural Equipment business unit falling by 3.8% year on year to €1,260.7 million. The new Digital Farming business unit, which was established in the fourth quarter, recorded revenues of €5.2 million. Revenues in the fruit business rose by 0.6% to €567.4 million. Earnings before interest and tax (EBIT) in the Agriculture Segment fell by €20.6 million year on year to €87.2 million. This was primarily due to the lack of summer rain in Germany and resulted in a decline in the use of crop protection products, much lower corn collection volumes and a lack of grain drying income. In addition, low water surcharges for freight led to a rise in logistics costs. There was also a moderate decline in EBIT in the Agricultural Equipment business unit on account of a drop in new machinery business. Start-up costs were incurred for the expansion of the Digital Farming business unit, which were not compensated by any income in the reporting year. By contrast, the Fruit business unit performed well, boosting its EBIT by 31.2% to a record-breaking €27.0 million.

For the Energy Segment, 2015 was a record-breaking year. BayWa r.e. renewable energy GmbH increased its revenues by 29.5% to €1,017.8 million thanks to strong project management business and a high number of systems sold. Among the sales was the "Beethoven" project in South Dakota, USA, BayWa r.e.'s largest wind farm to date with total output of 80 MW. EBIT in the Renewable Energies business sector rose by €25.3 million to a record-breaking €61.8 million. Conventional energies revenues declined by 16.9% to €2,246.4 million. This decline was solely due to the sharp fall in the price of crude oil in 2015, which pushed down prices for heating oil and fuels. By contrast, EBIT almost tripled due to higher margins and sales figures, rising by €9.7 million to €15.4 million. Total revenues in the Energy Segment declined by 6.4% to €3,264.2 million, while this segment's EBIT improved substantially by 82.6% to €77.2 million.

Business activities in the building materials industry were hampered by unfavourable weather conditions in the first few months of 2015, with construction business only really gaining momentum in the reporting year after Easter.

*2014 figures adjusted; please refer to the "Earnings, Financial Position and Assets of the BayWa Group" on page 17 of the Management Report on the **Group with regard to the adjustments.**

At the same time, a sharp fall in demand on European building materials markets outside of Germany led to foreign producers increasing their market presence in Germany. This put pressure on prices for building and insulation materials in the reporting year. Even though the building materials trade was able to increase sales overall, the Building Materials Segment declined in the financial year 2015 by €28.4 million, or 1.9%, to €1,496.4 million (2014: €1,524.8 million). Thanks to the continued optimisation of the network of locations and a strong performance in the fourth quarter, EBIT came in at €27.4 million and almost matched the previous year's figure of €28.0 million.

In total, the BayWa Group generated revenues of €14,928.1 million in the reporting year. This equates to a 1.8% year-on-year decline, which was primarily due to the fall in prices for fossil energy carriers. The BayWa Group's operating result improved by 4.0% to €158.1 million. This was due to the excellent performance in the Energy Segment, particularly in the area of renewable energies. Consolidated net income decreased by 23.7% to €61.6 million, due to the fact that tax income of €0.3 million in the previous year turned into income tax expenses of €26.5 million in the financial year 2015. Earnings per share attributable to the shareholders of BayWa AG amounted to €1.39 (2014: €1.78). The BayWa Group holds promising positions in global growth markets. The continued strategy of internationalisation is carving out new earnings potential, which is reflected in the anticipated rise in EBIT in this financial year as stated in the Outlook section. Against this backdrop, the Board of Management and Supervisory Board will put forward a proposal to the Annual General Meeting of Shareholders to raise the dividend from €0.80 per share to €0.85 per share.

BACKGROUND TO THE GROUP

BayWa Group Business Model

Group structure and business activities

The BayWa Group

2015	Revenues (in € million)	Employees (annual average)
Agriculture	10,154.7	10,094
Energy	3,264.2	1,825
Building Materials	1,496.4	4,093
Other Activities	12.8	597
Total	**14,928.1**	**16,609**

BayWa AG was established in 1923 and has its principal place of business in Munich. Through consistent growth and the continual expansion of its scope of services, BayWa has grown from its humble beginnings in agricultural cooperative trading into one of the world's leading trade, services and logistics companies. Its business focus is on Europe, but BayWa has also established an international trade and procurement network by maintaining important activities in the USA and New Zealand and business relations from Asia to South America. The BayWa Group's business activities are divided into three segments – Agriculture, Energy and Building Materials – and encompass wholesale, retail, logistics, as well as extensive supporting services and consultancy. The BayWa Group has registered places of business in 34 countries, either through itself or through Group holdings.

Digitalisation, the "Internet of things" and global electronic networking are gradually penetrating all facets of the economy and our lives. As this trend takes hold, an increasing number of analogue business models are being systematically restructured as omnichannel models. The keys to success are the scalability of the business model, the speed of implementation (in other words the duration of the period from product development to marketable status) and the corporate culture. Launching an innovative business as a separate unit takes a tremendous amount of willingness. What is more, disproportionately high costs and start-up losses must also be planned for. BayWa identified this trend at an early stage and integrated it into its business model and entrepreneurial activities. This is leading to more efficient business processes, a broader range of products and services and the development of new customer groups. The focus is always on improving the benefit for the customer. Current examples are the establishment of the new Digital Farming business unit and the BEEGY GmbH joint venture in the Renewable Energies business sector, which pools energy production, services and IT into complete solutions and services for private customers, the trade sector, commerce and industry.

BayWa AG heads up business operations in three segments, both directly and through its subsidiaries, which are included in the group of consolidated companies. Besides the parent company BayWa AG, the BayWa Group comprises 294 fully consolidated companies. Furthermore, 32 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 2015, it accounted for roughly 68% of revenues. In the past, this segment had been divided into three business units – Agricultural Trade, Fruit and Agricultural Equipment – covering the full range of agricultural products and services. However, given the increasing scale of digitalisation in the agricultural industry, BayWa has pooled its related activities in an independent Smart Farming business unit since the fourth quarter of 2015.

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 for operating resources, or fertiliser and crop protection product prices, for example, are also increasingly influenced by global and regulatory factors. What's more, changes in the legal framework conditions, especially in the field of renewable primary products and renewable energies, can trigger considerable adaptive reactions in the markets trading agricultural products. Finally, regulations, for instance those issued by the EU, exert a major influence on pricing and structures in a number of relevant markets.

Agricultural Trade
BayWa is the leading European company in agricultural trade with a global reach. BayWa's Agricultural Trade business unit supplies farmers with operating resources such as seed, fertilisers, crop protection and foodstuff throughout the entire agricultural year and collects, stores and sells harvested produce. For its harvesting activities, BayWa maintains a dense network of high-performance locations in its core regions with significant transport, processing and storage capacities that ensure seamless goods delivery, quality assurance, processing, correct storage and handling of agricultural products. When it comes to the procurement and marketing of produce, BayWa possesses a global network comprising both inland and deep water ports. BayWa sells products to local, regional and national companies in the foodstuff, wholesale and retail industries through its in-house trade departments.

In the case of grain and oilseed, BayWa acts as a supply chain manager and covers the entire value chain from procurement and logistics to sales and is continuing to expand its international grain trading activities. A global trading and marketing platform has been set up in the shape of BayWa Marketing & Trading International B.V. (BMTI) in Rotterdam. Furthermore, further internationalisation was pursued in agricultural trade business in the financial year 2015 with the establishment of new trade offices in Ukraine, Russia and Argentina and the acquisition of grain trader Wessex Grain Ltd. in Great Britain. Wessex Grain Ltd., based in Somerset, operates in the collection business in south and south-west England. This region is an important procurement market for the Benelux, Spain and Ireland export markets. BayWa also acquired Romanian agricultural trader Patberg International S.R.L. based in Bucharest, which was renamed BayWa Agri Romania S.r.l. The move secures the BayWa Group access to this key procurement market for agricultural produce in Romania. In international terms, BayWa is one of the largest agricultural traders in the world, with access to supplies in both the northern and southern hemispheres. The BayWa Group supplies customers all over the world, from Great Britain and Ireland and the Netherlands and Belgium to Eastern Europe, the Baltic states and the MENA region (Middle East and North Africa).

In its traditional core regions, BayWa's agribusiness is embedded in the agricultural cooperatives trading structure. In Germany, this business is focused on a variety of regions on account of historical structures. BayWa has over 237 sites, which form part of an extensive and dense network in its regional markets, particularly in Bavaria, Baden-Wurttemberg, Lower Saxony, Mecklenburg-Vorpommern, Thuringia, Saxony and southern Brandenburg. By expanding its digital activities, BayWa is also acquiring new customers beyond these regions. Through its Austrian subsidiary RWA Raiffeisen Ware Austria AG, BayWa maintains close business relations across the whole of Austria with 472 cooperative warehouses. Numerous privately owned medium-sized trading enterprises, mainly operating locally, make up the competitive environment for agricultural products. In contrast, there are a number of wholesalers operating nationwide that offer equipment and resources. All in all, BayWa has established a leading market position for itself in the agricultural trade in Germany and Austria.

Fruit
In Germany, BayWa's Fruit business unit is a leading supplier of dessert fruit to the food retail industry, the largest single seller of dessert pome fruit and the largest supplier of organic pome fruit. Furthermore, BayWa also collects, stores, sorts, packages and trades fruit for customers in Germany and abroad as a marketer under contract at its 7 sites in the Lake Constance, Neckar and Rhineland-Palatinate regions. BayWa has reorganised its Fruit business unit's national business, which was transferred to the newly founded subsidiary BayWa Obst GmbH & Co. KG with effect from 1 January 2015. In doing so, BayWa focused its fruit business on the increasing specialisation in the national and international market. This allowed the processes and structures in the fruit business to be optimised, meaning that national fruit business can benefit from greater orientation towards the international flow of goods and the development of growth markets. BayWa has been operating in international fruit business since 2012 through its subsidiary T&G Global Limited (T&G). T&G is the leading fruit trader in New Zealand and also supplies parts of Asia and the South American market. Following T&G's acquisition of the third-largest apple supplier in New Zealand, Apollo Apples Limited, in the financial year 2014, the BayWa Group has increased its share in New Zealand apple exports to approximately 35%. In the financial year 2015, T&G acquired two New Zealand tomato growers, Great Lake Tomatoes Limited, Auckland, and Rianto Limited, Auckland, and entered into a joint venture

with asparagus trader and exporter M+G Vizzarri in Australia. Through the joint venture T&G Vizzarri Farms Pty Ltd, T&G has become a leading asparagus trader in the southern hemisphere and improved its position in the Australian food retail sector and in relation to its customers in South East Asia. What's more, BayWa is developing and cultivating new varieties of table grapes in Peru for the Asian market.

Through the reciprocal marketing of dessert fruit and pome fruit between the northern and southern hemispheres, BayWa is in the position to provide partners in the retail industry with fresh produce all year round, expand its product range and seize sales opportunities for German fruit on the international growth markets. The sales structures of T&G and its affiliates offer the potential to open up additional sales markets, particularly in Asia. For instance, T&G opened a branch in Shanghai in autumn 2015 to provide its Chinese contacts with optimum support.

Agricultural Equipment

The Agricultural Equipment business unit offers a full line of machinery, equipment and facilities for all areas of agriculture. The most important customer groups include those in agriculture and forestry, local government, and industry. Aside from tractors and combine harvesters, the range of machinery also includes versatile municipal vehicles, road-sweeping vehicles, mobile facilities for wood shredding and forklift trucks for municipal services and commercial operations. The range on offer for forestry extends from large machinery and equipment such as forestry tractors, wood splitting and chipping machinery, forest milling cutters and mulchers, cable winches, road and path construction machinery right through to small appliances such as chainsaws and brush cutters and the necessary protective clothing. In addition, an extensive network of workshops and mobile service vehicles provide maintenance and repair services for machinery and equipment.

For products made by AGCO and CLAAS, BayWa is the world's largest sales partner, and it maintains a closely linked network of in-house workshops in southern and eastern Germany that are tailored to manufacturer brands. The range of workshop services is also complemented by mobile service vehicles to provide maintenance and repair services, supply replacement parts and trade in used machinery. BayWa also sells used machinery via an online platform. Through Agrimec Group B.V., a joint venture founded between Agrifirm Group B.V. and BayWa, the company has been represented in the sale and servicing of agricultural machinery in the Netherlands since 2014. In 2015, BayWa established Barloworld Limited, Johannesburg, the joint venture BHBW Limited for agricultural equipment sales in sub-Saharan Africa in which BayWa and Barloworld each hold a 50% share. The joint venture holds licences to distribute AGCO brands Massey Ferguson and Challenger. The joint venture's first sales trading company began operations on 1 November 2015 in the Zambian capital Lusaka. The medium-term plan is to expand the joint venture's presence in Zambia and development more markets in sub-Saharan Africa. This marks the systematic continuation of the business unit's strategy of internationalisation to secure long-term growth opportunities.

Digital Farming

Digitalisation is changing agriculture as we know it. Nowadays, potential for optimisation at agricultural operations is more about optimising whole processes instead of implementing individual measures. 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, assessment and transmission of technical data. By establishing a brand-new business unit for digital farming, BayWa is plotting a course into the digital future. The Digital Farming business unit also comprises PC-Agrar Informations- und Beratungsdienst GmbH, acquired by BayWa effective as at 1 April 2015, alongside the BayWa Group's existing e-commerce activities, which are already pooled in the new business unit. With its "Agrar-Office" software, PC-Agrar GmbH offers farmers a future-oriented, cross-manufacturer digital information platform. Moving forward, the aim is to develop solutions that allow farmers to seize the opportunities of smart farming across all types of machinery and operating resources and irrespective of the size of the farm. BayWa offers a range of modular tools and solutions for this purpose and aims to take on a leading role in the market in this area. PC-Agrar's sales subsidiary, LAND-DATA Eurosoft – renamed FarmFacts GmbH & Co. KG in November 2015 – was awarded a gold medal at the Agritechnica trade fair in autumn 2015. Together with a number of partners, FarmFacts has development a brand-new integrated solution for organic and mineral fertilisation known as "Connected Nutrient Management". LAND-DATA Eurosoft was also awarded a silver medal for its irrigation control software "ICA-Wireless". The next step is farm management, in other words the networking of entire areas of farms and processes with upstream and downstream stages. BayWa already offers an overall concept for medium-sized and small farms in the shape of the new "Next Farming" product generation.

Energy Segment

In the financial year 2015, 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 sector, 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-Wurttemberg, Hesse, Saxony and Austria. In the heating business, heating materials are primarily sold through in-house sales offices. Diesel and Otto fuels are sold through over 244 of the Group's fuel stations in Germany. In addition, supplies are delivered to the fuel station chains operated by partner companies and wholesalers. In Austria, more fuel stations are managed by subsidiaries. The Group company GENOL acts as a wholesale fuel supplier to cooperative fuel stations. BayWa sells lubricants to commercial and industrial customers, as well as to farmers and operators of combined heat and power plants. BayWa is also one of the leading suppliers of environmentally friendly, vegetable oil-based lubricants. 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 heating materials, fuels and lubricants are also subject to considerable fluctuations, which affect the demand for these products. In addition, 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.

BayWa r.e. renewable energy

The Group pools its entire renewable energy value chain in BayWa r.e. renewable energy. Activities are divided into four areas: project development/realisation, services, photovoltaic trade and energy trade. Project development/realisation encompasses project planning and management and the construction of wind power, photovoltaic and biomass plants through to the sale of finished plants. In February 2015, project licenses were acquired for the construction of several solar parks with a total output of 75 megawatts (MW) in North and South America. In addition, BayWa r.e. also acquired project licenses for 31 wind power projects at the end of 2015 with a total output of some 375 MW spread across various sites in Germany but mainly in North Rhine-Westphalia and Rhineland-Palatinate. Services comprise planning and technical services, the provision of operating resources and plant operations and maintenance. In this area, BayWa r.e. acquired the service business for renewable energy plans of Deutsche Immobilien Leasing GmbH in 2015. In addition, BayWa r.e. also trades in photovoltaic systems and components and markets electricity, gas and heat generated from renewable sources. This business sector has been internationally oriented right from day one, as BayWa r.e. pursues a double diversification strategy in order to reduce reliance on certain national markets and respective renewable energy sources. BayWa r.e. is now represented in all major European markets, North America, Japan and Singapore: a total of 16 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. BayWa's wind energy and solar activities operate in Austria, Croatia, Denmark, France, Germany, Great Britain, Italy, Japan, Mexico, Poland, Romania, Singapore, Sweden, Switzerland, Spain and the USA. This ensures that BayWa is well diversified both in terms of its range of energy carriers and its geographic distribution. By consolidating various affiliated companies in the umbrella brand BayWa r.e. renewable energy and setting up a clear business structure in both the areas of wind energy, solar and biomass as well as in the Projects/Services and Trade functional units, the foundations have been laid to eliminate overlapping activities, take advantage of synergies and thus participate in the anticipated 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 energy, photovoltaic and biomass plants, as the profitability of these plants is determined by the statutory feed-in tariffs. Similar subsidy mechanisms usually exist in foreign markets. Furthermore, regulatory intervention in free trade also influences prices for systems components. Changes to relevant legislation can therefore have significant effects on investments in renewable energy.

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 supplies a number of franchise partners in the building materials and DIY and garden centres business in Austria and Italy through its Austrian subsidiary AFS Franchise-Systeme GmbH. With a total of 145 locations, the BayWa Group is Germany's number two in the building materials trade and ranks among the leading suppliers in Austria with 31 sites. The number of franchise locations is currently 1,320.

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

The building materials market is strongly fragmented both in Germany and in Austria. In Germany, there are around 760 companies in total with some 2,250 sites specialised in the building materials trade. The majority of these are small or medium-sized enterprises, which often join forces in the form of procurement groups and similar organisations.

Changes in the economic and political environment in particular may have a positive or negative effect on the Building Materials Segment, especially in the case of subsidy programmes concerning energy-efficient renovation and residential construction. The development of the building materials trade generally follows overall building activity. Civil engineering and road construction depend greatly on public-sector spending. In the area of private construction, incentives such as government subsidies for renovation or refurbishment measures 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.

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 2015, the Board of Management consisted of five members: Prof. Klaus Josef Lutz (Chairman, responsible for agricultural and fruit trading), Andreas Helber (responsible for finance and building materials), Roland Schuler (responsible for operating resources trading and agricultural equipment/digital farming), Matthias Taft (responsible for energy) and Reinhard Wolf (responsible for RWA Raiffeisen Ware Austria AG). The Board of Management is solely responsible for managing the company with the primary aim of increasing its value over the long term.

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

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

The main task of the Corporate Compliance organisational unit is to perform preventative duties. Corporate Compliance 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 and antitrust law. Comprehensive frameworks have been developed and implemented across the company on these issues. Furthermore, a Group-wide code of conduct has been introduced, 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 grievances 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 Group Audit. Corporate Compliance and the Group Audit organisational unit 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.

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

Corporate Goals and Strategy

As a partner to its customers, BayWa intends to ensure that the company is fit for the future and independent. Its corporate governance is oriented over the long term and shaped by the company's responsibility towards customers, employees, other stakeholders and the company as a whole. The environment and the markets in which BayWa operates are subject to constant changes. In order to reinforce its position and expand its presence by carving out market opportunities, BayWa acts with entrepreneurial foresight while remaining decisive, quick-thinking and flexible. BayWa achieves its growth targets through the organic development of existing activities, through general development of new business areas in Germany and abroad and through acquisitions. In addition, BayWa joins forces with other companies to seize new business opportunities through partnerships and cooperation. The internationalisation of the company's business activities represents a central strategic thrust: through targeted acquisitions, the development of new business areas and organic growth in agricultural trade, fruit, agricultural equipment and renewable energies, BayWa has succeeded in entering new corporate dimensions over the past few years. This means that the Group has taken a major step towards its aim of becoming Europe's leading agricultural trade, distribution and logistics provider with global reach. In fruit trade, BayWa is also setting its sights on its medium-term target of offering a diverse and attractive range of produce throughout the year by systematically expanding its procurement base in the southern hemisphere. In order to secure long-term growth opportunities in the agricultural equipment sector, the Group intends to take on a leading role as an independent provider of smart farming solutions for all farm sizes, alongside its geographic expansion. As one of Europe's largest providers of renewable energies, BayWa's focus is on driving forward the expansion of its renewable energies business on a global stage. Internationalisation forms the key foundations for the growth that reinforces BayWa's competitive position and opens up new markets. Other focuses include expanding digital offerings and strengthening the BayWa umbrella brand.

BayWa continually analyses its business portfolio – comprising the Agriculture, Energy and Building Materials Segments and their respective business units and business sectors – in view of future growth and earnings potential. Another important aspect is the further improvement of the business risk profile. The increasing internationalisation of business activities in the agriculture and energy industries reduces reliance on individual national markets. BayWa reorganised its agricultural trade activities in the reporting year in order to boost effectiveness in relevant markets. BayWa Agricultural Sales (BAV), which comprises collection and trade business involving operating resources and feedstuff, and the Agricultural Equipment and Digital Farming business units have been pooled in BayWa Agri Services. BayWa Agri Supply & Trade (BAST) encompasses BayWa's national and international trading, distribution and logistic activities involving grain, oilseed and co-products. It consists of three organisational units, BayWa Agricultural Products, BayWa Agricultural Trade and BayWa Agrar International. Effective as at 1 January 2016, BayWa Agricultural Trade's operating resources business was allocated to BAV. Produce trade is carried out by BAST. The newly established Digital Farming business unit has been housed in the Agriculture Segment since the fourth quarter of 2015.

At the same time, BayWa systematically pursues the strategy of restructuring, adapting or disposing of any activities with insufficient growth and/or earnings prospects. This way, BayWa counteracts the structurally driven decline in demand for heating oil for years by acquiring smaller competitors; in order to expand its market position moving forward, BayWa is also considering a corporate partnership under BayWa stewardship. BayWa is also aiming to find an effective solution to improve competitiveness and safeguard jobs in the medium term in its building materials business.

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

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

Control System

Strategic controlling of the corporate divisions is 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 2015 is described in the Financial Report in the section “Financial Performance Indicators”. Non-financial performance indicators are still of secondary importance at BayWa.

The value-driven management approach supports the medium- and long-term streamlining of the portfolio and the strategic 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. Return on average capital invested in the corporate divisions is calculated by applying the weighted average cost of capital (WACC) model. The return on invested capital (ROIC) of the corporate divisions is then measured against the respective cost of capital. There is economic profit if the return on invested capital is higher than the cost of capital specific to each business unit. The development of an efficient risk management system is particularly important in safeguarding long-term economic success, especially in international business. The risk management system is monitored and managed by a Risk Board established in 2009 and headed up by the Chief Executive Officer. The Agricultural Coordination Center (ACC), set up for this purpose in 2014, was developed further in the financial year 2015 and its instruments enhanced: In the newly created organisational unit Economics and Public Affairs Department (EPAD), market analysis is carried out for all of the BayWa Group's agriculture activities. In addition, a system to coordinate trade management has been created in the shape of the Global Book System (GBS), which reconciles and optimises trade and risk positions of individual product lines in grain, oilseed and co-product trade for national and international divisions.

FINANCIAL REPORT

Operative Business Development

Agriculture Segment

Market and industry development

Global grain production – excluding rice – increased in harvest year 2014/15 by just under 1.4% to a record-breaking 2,023 million tonnes. Harvest volumes exceeded the figure forecast at the start of 2015 by 22 million tonnes. In Germany, the harvest brought in 48.8 million tonnes of grain in 2015, down roughly 6% on the extremely high previous-year figure. Corn harvest volumes in Germany suffered a particular decline, falling by 26%, due to the hot summer and dry weather conditions. With overall weather conditions providing favourable worldwide, the first half of 2015 saw successive increases in forecasts for the global grain harvest in harvest year 2015/16 to a total of 2,000 million tonnes. As a result, the harvest only fell just short of the previous two years. On the back of the record-breaking harvest of 676 million tonnes in harvest year 2014/15, the oilseed harvest in 2015/16 is once again expected to be very high at 672 million tonnes. Due to the ample supply situation, prices of much agricultural produce declined even further in 2015 – with the exception of fruit and vegetables. The positive supply situation was primarily caused by the low number of weather-related failed harvests. The much-anticipated negative impact of El Niño on the southern hemisphere harvest failed to materialise. As a result, exchange-traded funds and speculative investors who had gambled on prices rising were forced to reposition themselves. This caused grain prices to plummet in the second half of the year, with price volatility increasing at the same time. Over the year as a whole, prices fell by roughly 12% to their lowest level in five years. This price trend meant that the willingness among German farmers to sell grain was subdued at times. The solid supply situation also meant that processors were also reticent when it came to their buying activities. At the end of the year, the price of wheat on the MATIF commodity futures exchange was some 10% down year on year at approximately €175 per tonne. All in all, the producer price index for agricultural produce in Germany had fallen by some 5% year on year by the end of the third quarter.

Global milk production increased even further in 2015. Production in the European Union (EU), the world's largest milk producer, rose by 1.1% to just under 162 million tonnes in 2015. The end of the milk quota as at 31 March 2015 led to considerable increases in production in some EU member states. By contrast, milk production decreased slightly in Germany in 2015. Global trading volumes of dairy products fell by 1.7% to roughly 71.3 million tonnes in 2015. This was primarily due to the decline in demand from China, as well as the ban on imports from Australia, the EU, Canada, Norway and the USA imposed by Russia in August 2014. The ample supply situation put prices on the dairy market around the world under pressure, which gave dairy-producing farms an increasing number of problems. The FAO (Food and Agriculture Organization) Dairy Price Index fell from the annual high of 185.9 points recorded in March by almost 20% to 149.5 points in December 2015.

Global meat production in 2015 rose by approximately 1.1% to 318.8 million tonnes. In the EU, meat production was up by 2.5% to 45.6 million tonnes, making it the second-largest meat producer after China. In Germany, meat production increased by roughly 1% to 8.8 million tonnes, with pork production increasing in particular and accounting for some 58% of German meat production. There were also slight increases in poultry production, whose share in overall production rose to approximately 21%. Beef production lost a small amount of its market share to poultry, but continues to account for roughly 14% of overall production. According to the FAO Meat Price Index, global market prices for meat fell by some 20% between October 2014 and early March 2015 and subsequently treaded water at this level. This stabilisation was due to the higher prices for beef, while prices for pork and poultry declined further. The development of prices in the EU and Germany largely followed the global trend. The financial situation of German animal feeding operations has deteriorated considerably as a result.

The price index for agricultural operating resources has declined in Germany over the past three years. At the end of the third quarter of 2015, costs for operating resources were down 0.8% year on year. This trend is likely to have actually increased in tempo in the fourth quarter, particularly due to the sharp fall in the price of crude oil. Seed prices fell by 2.3%. This was partly due to the fall in market prices for agricultural produce. The supply situation is guaranteed in most cases, in spite of the dry conditions in 2015. Cultivation areas for grain legumes for the 2015 harvest were increased in size significantly to meet rising demand caused by greening regulations. On average, fertiliser prices rose by 3% year on year. Prices for nitrogen fertilisers declined marginally in 2015, whereas phosphate fertilisers experienced a significant price rise due to the significant exploitation of phosphate reserves and the scarcity in supply worldwide. Sales of fertilisers fell by 6.2% on account of the lack of usage caused by the dry conditions in the reporting year. Sales of crop production products declined substantially year on year, as the dry weather meant that much lower volumes of products were required. Prices rose slightly by 1.9% year on year. Prices of feedstuffs were down 1.7% on the previous year on average.

Due to the less favourable weather conditions compared to the previous year, harvest volumes were down across almost all fruit produce in Germany in 2015. As anticipated in the forecast at the start of the year, the 2015 German apple harvest was down 13% on the exceptionally positive harvest in 2014 at 903,000 tonnes. Periods of dryness with some tropical temperatures hampered fruit growth and caused fruit sunburn. At roughly 12.0 million tonnes, harvest volumes in the EU were down by some 4% on the record-breaking harvest of the previous year. Prices in the previous year came under pressure from high harvest volumes and the Russian import embargo, whereas the lower harvest in 2015 caused producer prices to rise noticeably. In New Zealand, the 2015 apple harvest increased in volume by roughly 11% year on year to 543,146 tonnes; originally, an increase of 13% had been anticipated. New Zealand exports over 60% of its apple harvest, with roughly two-thirds destined for Asia – and rising.

Investment activities in agriculture declined considerably in 2015 due to the significant downturn in farmers' revenue and income situation compared to previous years. Low producer prices for milk and feeding pigs dampened farmers' investment propensity. According to estimates by the German Engineering Foundation (VDMA), revenues in the agricultural equipment sector fell by 4% to just under €7.4 billion. At the start of the year a decline in investments of 7% had been anticipated. Tractor revenues declined in Germany by a disproportionately high 9.7%, while new tractor registrations fell by 6.9%. Sales of other agricultural machinery developed considerably better, with revenues declining by just 2.5% in 2015. Development of mowers and lawnmowers and self-propelled forage harvesters, in particular, was extremely dynamic. There is enormous potential for growth in digital farming: just 39% of farmers have a digitalised acreage index and only 33% are able to apply different fertilisers to different areas.

Business Development

Revenues in the Agricultural Trade business unit increased by €90.7 million, or 1.1%, to €8,321.4 million in the financial year 2015. The rise in revenues was largely the result of the 4.5 million tonnes, or 30.4%, rise in BayWa's grain trading volume to 19.5 million tonnes, caused by company expansion. All in all, grain and oilseed turnover stood at roughly 30.2 million tonnes (2014: 26.8 million tonnes). This overcompensated for lower revenues due to considerably lower corn collection volumes, a lack of grain drying revenues due to the lack of rain in the summer and the sharp fall in prices for agricultural produce. There was also a slight 1.2 million tonnes decline in turnover volume of oilseed and other products to 10.7 million tonnes. In terms of operating resources, BayWa Group focuses on the sale of seed, fertilisers, crop protection and feedstuff. Demand was varied here in 2015. Sales of fertilisers went against the general market trend and stood at just under 2.5 million tonnes, an increase in volume of 5.7% – with prices also improving on the previous year. This was primarily the result of a significant rise in sales from Austrian subsidiary RWA Raiffeisen Ware Austria Aktiengesellschaft. Seed sales also increased in the reporting year, rising by 10.6% against the backdrop of stable prices. The dry weather in the summer cut short the period of effective crop protection application, meaning that many farmers were not able to perform as many treatments as in the previous year. Feedstuff sales fell in the reporting year by 12.3% as a result of the transition from in-house to external procurement. Earnings before interest, tax, depreciation and amortisation (EBITDA) in the Agricultural Trade business unit declined in the reporting year by €24.5 million, or 25.4%, to €71.9 million primarily as a result of the fall in produce prices. In addition, low water surcharges for freight led to a rise in logistics costs. Finally, start-up costs were incurred on account of the ongoing international expansion of business, which did not generate any revenues in the reporting year. At €30.3 million, depreciation and amortisation in this business unit was slightly up on the 2014 figure of €31.5 million, meaning that EBIT (earnings before interest and tax) fell year on year by €23.3 million to €41.6 million. This equates to a decline of 35.9%. Financial expenses declined by €1.5 million to €22.0 million largely as a result of the price-related fall in working capital employed. Overall, Agricultural Trade business unit's earnings before tax stood at €19.6 million in 2015, down by €21.8 million on the previous year's figure of €41.4 million.

As expected, total fruit sales at the BayWa Group rose significantly by 16.2% in 2015. Alongside the record-breaking harvest in New Zealand, this rise was primarily due to the first-time full-year inclusion of Apollo Apples Limited. International sales volumes of New Zealand company T&G Global Limited (T&G) rose by 40.5%, while marketing volume in Germany was 6.9% down on the previous year's figure. Revenues in the Fruit business unit increased marginally by 0.6% in 2015 to €567.4 million (2014: €563.9 million). The major decline in German fruit business was more than evened out by growth in international activities. EBITDA improved by €5.9 million, or 17.4%, to €40.0 million. This rise in earnings was primarily due to the marketing of the record-breaking harvest in

New Zealand, operating improvements at T&G and the full-year earnings contribution of the New Zealand company Apollo Apples Limited, which was acquired in December 2014. Depreciation and amortisation was down by €0.5 million at €13.0 million. As a consequence, the operating result (EBIT) rose by a disproportionately high 31.2%, or €6.4 million, to €27.0 million. In the course of growth investments and financing of the increased working capital, financing costs increased by €1.3 million to €5.7 million. Overall, earnings before tax in the Fruit business unit improved in the reporting year by €5.1 million, or 31.8%, to €21.3 million.

Business involving tractors and other agricultural machinery declined significantly in 2015 due to a fall in farmers' investment propensity. All in all, sales of new tractors were down 8.7% at 3,986. However, sales of used machinery rose by 2.3% to 1,789. In terms of farm and animal equipment, the business unit benefited from a high level of orders from 2014. However, the same high level of revenues recorded in the previous year was unable to be matched against the backdrop of a market-related fall in demand for buildings and systems in the reporting year. By contrast, sales rose in the service and repair business, which recorded a rise in demand for customer services on account of high tractor and combine harvester sales in previous years. The Agricultural Equipment business generated total revenues of €1,260.7 million in 2015, which equates to a €50.0 million, or 3.8%, decline year on year. EBITDA declined by €1.4 million, or 4.3%, to €31.9 million, above all because of a fall in business in new machinery. Depreciation and amortisation declined by €0.6 million, or 5.5%, to €10.4 million in the reporting year, resulting in a decline in EBIT of €0.8 million, or 3.7%, to €21.5 million. Financing costs fell by €1.8 million to €9.5 million as a result of the reduction in working capital. In total, earnings before tax in the Agricultural Equipment business unit climbed by €1.0 million to €12.0 million in 2015.

The new Digital Farming business unit, which was established in the fourth quarter of 2015, mainly comprises the business activities of PC-Agrar GmbH, acquired in April 2015, and its subsidiaries. In 2015, the Digital Farming business unit generates revenues of €5.2 million. BayWa has set itself the target of taking on a leading role as a component partner to the agricultural industry when it comes to smart farming and farm management solutions. Start-up costs were incurred due to the establishment of business unit structures and investments in future growth, which led to negative EBITDA of €2.2 million in the reporting year. After depreciation and amortisation of €0.7 million, EBIT came to €–2.9 million in 2015. The business unit's earnings before tax also came to this figure, as no major financing costs were incurred.

Revenues in the Agriculture Segment increased in the financial year 2015 by 0.5% to €10,154.7 million. The operating result before depreciation and amortisation (EBITDA) fell by €22.2 million to €141.6 million (2014: €163.8 million), particularly due to the fall in revenues in trade with agricultural produce. After depreciation and amortisation of €54.4 million in the reporting year (2014: €56.0 million), the segment's EBIT declined by €20.6 million to €87.2 million. The segment's financing costs fell in the reporting year by €2.0 million to €37.2 million. In total, the Agriculture Segment recorded earnings before tax of €50.0 million in financial year 2015, down from €68.5 million in the previous year.

Energy Segment

Market and industry development

The price of crude oil fell sharply over the course of 2015 on account of the ongoing situation of excess supply worldwide, the anticipated return to the oil market of Iran following the conclusion of the nuclear deal and the weaker than expected economic growth, particularly in emerging economies. Contrary to expectations of a rise to USD80 to 85 per barrel, the price of oil fell from roughly USD56 per barrel at the beginning of the year by just under 35% to under USD37 per barrel at the end of the year. Prices last fell to this level in late 2008 at the height of the financial crisis. The price of heating oil largely followed this trend and was considerably down on 2014 levels throughout 2015. In the German heating market, heating oil sales declined year on year by 3.7% in 2015. The fall in sales was the result of an ongoing structural decline in consumption as well the comparatively mild winter. Total fuel sales rose by 2.1% between January and December 2015 against the backdrop of a 1.8% increase in vehicle stock. Sales of Otto fuels declined by 1.4%, while diesel fuel consumption was up by 4.0%. Total lubricant sales in 2015 fell year on year by 2.4% despite the positive economic environment in Germany overall. This was primarily due to the decline in lubricating grease and hydraulic oil sales, while demand for engine oils rose by 5.5%.

The renewable energies trend accelerated worldwide in 2015. Investments in these energies rose to a total of USD329.3 billion in 2015, a 4.2% year-on-year increase from USD315.9 billion.

Photovoltaic capacity expansion worldwide was up 27% year on year in 2015 at 51 gigawatts (GW), and rose to a much greater extent than the anticipated 5%. Just under 30% of newly installed plants were located in China, with

Japan accounting for roughly a further 20% and the USA some 19%. Europe accounted for a share of just under 17% in worldwide capacity expansion in 2015. The largest individual markets are Great Britain, with expansion of 4.0 GW, and Germany with expansion of 1.4 GW, although capacities of newly installed solar power systems declined (2014: 1.9 GW). As a result, the German government missed its annual capacity expansion target of 2.4 GW to 2.6 GW for the second year in succession. This was primarily due to the fact that subsidies under the German Renewable Energy Sources Act (EEG) for free-standing plants of up to 10 megawatts (MW) were removed as at 1 September 2015. Since then, subsidies are only being granted through tender processes. At the end of 2015, the total output of the solar power plants compensated under the German Renewable Energy Sources Act (EEG) installed in Germany was 39.7 GW.

According to the World Wind Energy Association (WWEA), wind power capacity worldwide increased by 56.6 GW, a rise of roughly 7% on the previous year, and therefore exceeded forecast capacity expansion to 54.0 GW. Just under 29 GW, or roughly 51%, of newly installed capacity was attributed to China. The second-largest wind power plan market in 2015 was the USA with capacity expansion of 8.6 GW. Great Britain only recorded onshore wind power capacity expansion of some 0.4 GW in 2015. In Germany, wind power capacity expansion reached 3.5 GW (2014: 4.4 GW), significantly higher than the figure of 2.5 GW targeted by the German government. At the end of 2015, onshore wind power plants with a total output of 41.7 GW were operating in Germany. This equates to a year-on-year rise of some 9%.

Approximately 9,000 biogas plants were operating in Germany at the end of 2015, with a total output of roughly 4.2 GW. Some 200 of this amount were commissioned in 2015 – most of which consisted of small-scale manure-based plants with an output of up to 75 kilowatts (KW). Most plants have already been in operation for some 15 years, so subsidies under the German Renewable Energy Sources Act (EEG) are set to expire in five years. Since the application of the amendment to the German Renewable Energy Sources Act (EEG), new biomass projects are no longer attractive due to the massive cuts to subsidies in Germany. The only opportunities exist in repowering or using bio-energy plants as a standby source on the electricity market as well as in service business. Under these circumstances, it is doubtful whether the German government will reach its target of covering 6% of natural gas consumption through biomethane in 2020 and 10% of consumption by 2030.

Business Development

Heating oil sales in BayWa's conventional energy business increased by 2.5% in the financial year 2015. The increase in sales volume was primarily due to the fact that consumers seized on the falling prices to fill up their tanks. Heating oil sales also benefited from the positive performance of Austrian subsidiaries. Sales of wood pellets increased by 15.7%, with the market share increasing as a result of the construction of five specialist centres in southern Germany with sophisticated logistics concepts and nationwide delivery. BayWa Group fuel sales rose marginally by 0.4% year on year, with the market-related decline in Otto fuel sales more than compensated for by the increase in diesel sales. The lubricant business saw a 4.5% increase in sales in 2015 and was therefore able to outperform the market. The decline in first fills due to the fall in new tractor registrations was more than compensated for by growth in special products such as gas engine oils or AdBlue. BayWa has been able to acquire new customers in heat contracting, including the heating supply contract for Straubing Wallmühle Airport. Conventional energy sales declined by €456.4 million, or 16.9%, in the reporting year to €2,246.4 million primarily on account of the significant decline in heating oil and fuel prices. EBITDA improved by €9.1 million, or 61.1%, to €24.0 million as a result of increases in sales as well as positive margin development in the fuel business. Depreciation and amortisation of €8.6 million was €0.5 million down on the previous-year figure. There was therefore a disproportionately high increase in EBIT of €9.7 million to €15.4 million (2014: €5.7 million). Financing costs in the reporting year amounted to €0.2 million (2014: financing income of €1.1 million). Total earnings before tax more than doubled to €15.2 million (2014: €6.9 million).

The international orientation of activities in the Renewable Energies business sector in 2015 resulted in revenues rising to over €1 billion. The output generated by all wind power, solar power and biomass plants commissioned in 2015 rose by some 76% in the reporting year to 294.9 MW (2014: 167.1 MW). Of this amount, 205.2 MW was attributed to wind power plants, 86.6 MW to solar power plants and 3.1 MW to biomass plants. Completed systems were sold in 2015 in Germany, Austria, France, Spain, Great Britain and the USA. A total of 11 solar projects with a total output of 123.1 MW were sold, with 71.5 MW of this total output attributed to Great Britain, 35.8 MW to Spain and 13.3 MW to the USA. A total of 7 wind power plants were sold in Germany, Austria, Great Britain and the USA with a total output of 164.3 MW. The USA was the largest market, accounting for 79.6 MW of output, followed by Great Britain with 29.9 MW and Austria with 27.1 MW. BayWa r.e. assumes responsibility for the commercial and technical operations as well as the maintenance of most of these wind and solar power plants, too. Sales in trading with photovoltaic components rose by 19% to 245.6 megawatts peak power output (MWp), mainly as a result of activities in the USA and Switzerland. Total revenues in the Renewable Energies business sector increase in the financial year 2015 by €231.6 million, or 29.5%, to €1,017.8 million. EBITDA rose by €31.6 million, or 53.5%, to €90.8 million, with depreciation and amortisation rising less sharply than revenues of €6.4 million, or 28.1%, to €29.0 million. The €25.3 million, or 69.2%, rise in EBIT to €61.8 million was therefore greater than the increase in revenues. At €11.2 million, financing costs were down by €1.6 million, or 12.8%, on the previous year. All in all, the business sector's earnings before tax practically doubled year on year, rising by €26.9 million to €50.6 million.

In total, revenues of the Energy Segment fell by €224.8 million, or 6.4%, year on year to €3,264.2 million in the financial year 2015. The segment's EBITDA increased by €40.7 million to €114.8 million. Adjusted for depreciation and amortisation, which increased by €5.8 million year on year to €37.6 million, EBIT climbed by €34.9 million, or 82.6%, to €77.2 million. Financing costs declined by €0.3 million to €11.4 million. Overall, the Energy Segment's earnings before tax more than doubled to €65.8 million (2014: €30.6 million).

Building Materials Segment

Market and industry development

The German construction sector began 2015 more cautiously than 2014, more due to the lack of demand for commercial and public sector construction than poor weather conditions. The construction industry only expanded by some 1% over the year as a whole – instead of the 2% forecast at the start of the year. However, revenues in the main construction industry broke the €100 billion mark for the first time since 2000. Residential construction firms recorded a solid order situation throughout the year. However, at 2%, actual residential construction growth fell just short of the forecast figure of 3%. In public sector construction, revenues stagnated at the previous year's level, whereas commercial construction recorded a decline of 0.5%. Residential construction, which accounted for the largest share of 60.2% in total investment in construction, generated real investment growth of 1.5%. Growth was primarily due to a sharp rise in the construction of new multi-storey residential properties in major urban areas; building completion rose in 2015 by approximately 27% year on year. By contrast, construction of single- and multiple-family dwellings and construction outside of major urban areas developed sluggishly. Construction volume in refurbishment, renovation and modernisation business remained on a par with the previous year. There was a decline in energy-efficient renovation, partly due to the sharp fall in energy prices. Another reason was the high capacity utilisation in the construction industry. As a consequence, renovation orders were pushed aside by new construction business. Real investments in commercial construction declined by 1.9% in 2015. Even though capacity utilisation was up on the long-term average at some 84%, investments in expansion largely failed to materialise. Contrary to original expectations, public sector construction failed to rise in 2015. In fact, public-sector spending on construction declined by 1.7%.

Contrary to expectations of a slight rise in 2015, construction investment in Austria is actually estimated to have declined by 1% in 2015. The construction industry therefore performed considerably worse that the economy as a whole. The continual decline in the level of orders in the industry in almost all of Austria's federal states led to a major downturn in sentiment in the Austrian construction industry over the course of the year. Residential construction performed poorly, in spite of rising property prices, favourable financing conditions, high demand for living space and a record-breaking number of building permits. Another contributing factor is likely to have been that the residential construction subsidies offered by Austrian federal states have been too low in the past two years to inject momentum into the residential construction industry. In Vienna, Lower Austria and Salzburg, subsidies were actually cut. In terms of commercial construction, momentum remained limited to public-sector clients, who accounted for just under one-third of commercial construction activities. Thanks to investment of just under €600 million in the construction, development and renovation of public-sector buildings, marginal growth is likely to have been achieved in the commercial construction industry by the end of 2015. Civil engineering, in which some 60% of orders originate from the public sector, was only able to stabilise itself in the second half of 2015. Increases in order intake and trust in construction firms in the second half of the year may suggest recovery, but there has barely been any improvement in capacity utilisation. The civil engineering sector only generated growth of 1% to 2% in 2015 as a whole.

Business Development

Building materials activities were hampered by unfavourable weather conditions in the first few months of 2015, with construction business only really gaining momentum in the reporting year after Easter. Industry growth is solely driven by residential construction, which was focused in 2015 on multi-storey industrial properties, in which there is lower demand for materials. What's more, demand on European building materials markets outside of Germany declined significantly at the same time. This led to foreign producers stepping up their market presence in Germany, which, in turn, put pressure on prices for building and insulation materials in the reporting year. Even though sales in building materials trading rose overall, the Building Materials Segment's revenues declined in the financial year 2015 by €28.4 million, or 1.9%, to €1,496.4 million (2014: €1,524.8 million). Due to the ongoing optimisation of the site network, EBITDA only fell by €0.7 million to €42.2 million, while depreciation and amortisation was down by €0.2 million at €14.8 million. This resulted in a marginal decline in EBIT of €0.5 million to €27.4 million. Adjusted for the slight €0.9 million fall in financing costs to €10.0 million, earnings before tax were slightly above the previous-year level of €17.1 million at €17.5 million.

Development of the Other Activities Segment in 2015

Revenues in the Other Activities Segment declined in the reporting year to €12.8 million. The previous year's figure of €82.7 million primarily comprised building materials activities in Rhineland-Palatinate and North Rhine-Westphalia, until their disposal in the second quarter of 2014. EBIT resulting from Other Activities consists of the Group's administration costs, as well as consolidation effects; in 2015, it came to €–33.7 million, down from €–26.0 million in the previous year.

Earnings, Financial Position and Assets of the BayWa Group

Adjustment of Previous-year Figures

The consolidated financial statements and the management report on the Group of BayWa AG as at 31 December 2013 were subject to a random sample audit by the Deutsche Prüfstelle für Rechnungslegung (DPR) / Financial Reporting Enforcement Panel (FREP) pursuant to Section 342b para. 2 sentence 3 German Commercial Code (HGB). This audit resulted in a total of five findings, three of which had an effect on the assets, financial position and result of operations of the BayWa Group for the financial year 2013 and, consequently, also for subsequent years. Two findings solely concerned reporting and therefore had no impact on the assets, financial position and result of operations.

The audit findings concerning the assets, financial position and result of operations were as follows:

In the financial year 2013, BayWa AG disposed of 80 properties within the scope of a sale-and-lease-back transaction. The lease of these properties was classified by BayWa AG at that time as an operating lease within the meaning of IAS 17. FREP found in its audit that, considering the existing unilateral lease extension options on the part of the lessor, the lease back of all 80 properties constituted financial leases. For this reason, the properties should have been recognised in the consolidated balance sheet at fair value together with a corresponding lease liability at the start of the lease. The rental expenses recognised in BayWa AG's consolidated financial statements in the financial years 2013 and 2014 should have been replaced with depreciation on the properties and interest expense from the lease liability. The book values resulting from the disposal in the financial year 2013 should have been recognised as deferred income in other liabilities and distributed pver the term of the lease in consideration of the lessor's extension options (a total of 25 years).

In addition, FREP also found that, in WealthCap Portfolio Finanzierungs-GmbH & Co. KG, Grünwald, Germany, a company that has similar aims as the Group and whose risks and opportunities are fully apportionable to the Group was not reported as a special purpose vehicle in the sense of IAS 27.13 in conjunction with SIC 12.8 et seq. in BayWa AG's consolidated financial statements in accordance with the standards applicable to full consolidation. Instead of reporting the investment in the company, as was the case in the past, the loans granted by the company should have been reported on the balance sheet.

It was also found that, in the course of the purchase price allocation for Cefetra B.V., which was acquired in the financial year 2013, debt and therefore also goodwill resulting from this transaction were too high.

In addition to the adjustments presented here on the basis of FREP's audit findings, the consolidated financial statements in the previous year also required correction pursuant to IAS 8 in order to rectify the incorrect calculation of deferred tax assets and liabilities caused by an erroneous tax assessment. This resulted in a reduction in deferred tax assets of €4.447 million in the consolidated financial statements as at 31 December 2014 and a corresponding rise in tax expenses.

In the reporting year, the BayWa Group opted for the early adoption of amendments to IAS 16 (Property, Plant and Equipment) and IAS 41 (Agriculture) with regard to the recognition of bearer plants, which were endorsed in European law in November 2015. These kinds of bearer plants have been removed from the scope of IAS 41 into the scope of IAS 16, therefore enabling entities to measure them at cost subsequent to initial recognition or at revaluation. Bearer plants had been subject to recognition at fair value on an annual basis in the past. However, the produce growing on bearer plants continues to be accounted for under IAS 41. The early adoption of the amendments was implemented retrospectively, meaning that the fair values of bearer plants were corrected in the previous year's annual financial statements. Since 1 January 2014, bearer plants have therefore been accounted for at cost less accumulated depreciation as a component of property, plant and equipment. The fair value of bearer plants as at 1 January 2014 was recognised at cost for accounting purposes.

The aforementioned adjustments impacted the consolidated balance sheet as at 31 December 2013 as well as at 1 January 2014 in the following manner:

In € million	01/01/2014 unadjusted	FREP findings	First-time application of IAS 41/IAS 16	01/01/2014 adjusted
ASSETS				
Intangible assets	157.0	– 2.0	–	155.0
Property, plant and equipment	1,074.2	229.5	8.0	1,311.7
Other financial assets	320.4	– 68.9	–	251.5
Non-current biological assets	12.8	–	– 12.8	–
Deferred tax assets	128.1	25.5	–	153.6
Current biological assets	0.8	–	4.8	5.6
Other current receivables and other assets	1,018.7	–	–	1,018.7
Cash and cash equivalents	92.1	–	–	92.1
SHAREHOLDERS' EQUITY AND LIABILITIES				
Other reserves	150.7	– 67.0	–	83.7
Non-current financial lease obligations	6.7	159.8	–	166.5
Other non-current liabilities	23.7	83.8	–	107.5
Other current provisions	145.3	– 0.1	–	145.2
Current financial lease obligations	4.6	4.1	–	8.7
Current trade payables and liabilities from inter-Group business relationships	766.6	–	–	766.6
Other current liabilities	221.8	3.6	–	225.4

The effects of the adjustments on the consolidated balance sheet as at 31 December 2014 are as follows:

In € million	31/12/2014 unadjusted	FREP findings	First-time application of IAS 41/IAS 16	Miscorrection of deferred taxes	31/12/2014 adjusted
ASSETS					
Intangible assets	150.1	–2.0	–	–	148.1
Property, plant and equipment	1,163.3	220.1	13.1	–	1,396.5
Participating interests recognised at equity	196.9	–	–0.4	–	196.4
Other financial assets	250.4	–68.9	–	–	181.5
Non-current biological assets	26.2	–	–26.2	–	–
Deferred tax assets	187.6	26.1	–	–4.4	209.3
Current biological assets	0.9	–	8.3	–	9.2
Other current receivables and other assets	1,086.6	–2.2	–	–	1,084.4
Cash and cash equivalents	106.1	2.3	–	–	108.4
SHAREHOLDERS' EQUITY AND LIABILITIES					
Other reserves	145.8	– 68.6	–2.8	–4.4	70.0
Minority interest in equity	264.9	–	–1.0	–	263.9
Non-current financial lease obligations	6.0	155.4	–	–	161.4
Other non-current liabilities	41.4	80.2	–	–	121.6
Deferred tax liabilities	153.8	–	–1.3	–	152.5
Current financial lease obligations	3.5	4.4	–	–	7.9
Current trade payables and liabilities from inter-Group business relationships	745.0	–	–	–	745.0
Other current liabilities	199.9	4.0	–	–	203.9

The effects on the income statement for the financial year 2014 are as follows:

in € million	2014 unadjusted	FREP findings	First-time application of IAS 41/IAS 16	Miscorrection of deferred taxes	2014 adjusted
Other operating income	178.8	3.6	–	–	182.4
Cost of materials	–13,816.6	–	– 0.3	–	–13,816.9
Gross profit	**1,526.2**	**3.6**	**– 0.3**	**–**	**1,529.5**
Personnel expenses	–792.6	– 0.5	–	–	–793.1
Depreciation and amortisation	–117.8	– 9.4	– 0.5	–	–127.7
Other operating expenses	–506.5	18.9	– 3.9	–	–491.5
Result of operating activities	**109.3**	**12.6**	**– 4.6**	**–**	**117.3**
Income from participating interests recognised at equity	3.8	–	– 0.4	–	3.4
Other income from shareholdings	33.7	–2.3	–	–	31.4
Interest expense	–65.9	– 12.5	–	–	–78.4
Financial result	**– 21.7**	**– 14.7**	**– 0.4**	**–**	**–36.8**
Result of ordinary activities (EBT)	**87.6**	**– 2.2**	**– 5.0**	**–**	**80.4**
Income tax	2.8	0.6	1.3	– 4.4	0.3
Consolidated net income	**90.4**	**– 1.6**	**– 3.7**	**– 4.4**	**80.7**
of which: profit share of minority interest	20.2	–	–1.0	–	19.2
of which: due to shareholders of the parent company	70.2	– 1.6	– 2.7	– 4.4	61.5
EBIT	**146.8**	**10.3**	**– 5.0**	**–**	**152.1**
EBITDA	**264.6**	**19.7**	**– 4.5**	**–**	**279.8**
Basic earnings per share (in €)	2.03	– 0.04	– 0.08	– 0.13	1.78
Diluted earnings per share (in €)	2.03	– 0.04	– 0.08	– 0.13	1.78

The transition to the consolidated statement of comprehensive income for the financial year 2014 following the adjustments is as follows:

in € million	2014 unadjusted	FREP findings	First-time application of IAS 41/IAS 16	Miscorrection of deferred taxes	2014 adjusted
Consolidated net income	**90.4**	**– 1.6**	**– 3.7**	**– 4.4**	**80.7**
Sum of items not subsequently reclassified in the income statement	**–94.6**	**–**	**–**	**–**	**–94.6**
Differences from currency translation	10.2	–	–0.1	–	10.1
Sum of items subsequently reclassified in the income statement	**13.3**	**–**	**– 0.1**	**–**	**13.2**
Gains and losses recognised directly in equity	**–81.2**	**–**	**– 0.1**	**–**	**–81.3**
of which: profit share of minority interest	0.8	–	–	–	0.8
of which: due to shareholders of the parent company	–82.0	–	–0.1	–	–82.1
Consolidated total result for the period	**9.2**	**– 1.6**	**– 3.8**	**– 4.4**	**–0.6**
of which: profit share of minority interest	21.0	–	–1.0	–	20.0
of which: due to shareholders of the parent company	–11.8	–1.6	–2.8	–4.4	–20.6

The adjustments had the following effects on the cash flow statement for the financial year 2014:

in € million	2014 unadjusted	FREP findings	First-time application of IAS 41/IAS 16	Miscorrection of deferred taxes	2014 adjusted
Cash flow from operating activities	**– 112.4**	**21.1**	**0.7**	**–**	**– 90.6**
Cash flow from investing activities	**– 224.7**	**– 2.2**	**– 0.7**	**–**	**– 227.6**
Cash flow from financing activities	**351.0**	**– 16.6**	**–**	**–**	**334.4**
Cash-effective changes in cash and cash equivalents	13.9	2.3	–	–	16.2
Cash and cash equivalents at the start of the period	92.1	–	–	–	92.1
Inflow/outflow of funds due to changes in the group of consolidated companies and in exchange rates	0.1	–	–	–	0.1
Cash and cash equivalents at the end of the period	**106.1**	**2.3**	**–**	**–**	**108.4**

Earnings position

in € million	2011	2012	2013	2014	**2015**	Change in % 2015/14
Revenues	9,585.7	10,531.1	15,957.6	15,201.8	14,928.1	–1.8
EBITDA	251.3	306.6	281.4	279.8	288.3	3.0
EBITDA margin (in %)	2.6	2.9	1.8	1.8	1.9	–
EBIT	149.2	186.8	137.4	152.1	158.1	4.0
EBIT margin (in %)	1.6	1.8	0.9	1.0	1.1	–
EBT	95.4	122.6	75.1	80.4	88.1	9.5
Consolidated net income	68.1	118.0	54.3	80.7	61.6	–23.7

Revenues of the BayWa Group fell in the financial year 2015 by 1.8%, or €273.7 million, to €14.928.1 million. This trend was primarily due to the sharp fall in prices for heating oil and fuels and came in spite of a rise in trading volumes across almost all of the Group's business areas. In business with conventional energies, revenues declined substantially by €456.4 million to €2,246.4 million, despite an increase in sales volumes. This was offset by a €231.6 million rise in revenues from renewable energies to €1,017.8 million, which was primarily driven by further expansion in project management business. At €224.8 million, total revenues in the Energy Segment fell. Revenues in the Agricultural Trade business unit rose by €90.8 million to €8,321.4 million on account of an increase of grain trading volumes. Fruit trading revenues remained relatively stable year on year, while agricultural equipment revenues declined slightly. The new Digital Farming business unit contributed €5.2 million to total revenues in the segment. All in all, revenues in the Agriculture Segment climbed by €49.4 million to €10,154.7 million. The Building Materials Segment saw its revenues decrease by €28.3 million on account of falling prices for building and insulation materials.

Other operating income fell by a total of €24.6 million in the reporting year to €157.9 million. Of this amount, €7.5 million was due to a drop in income from asset disposals, which came to €26.5 million in the reporting year. The key factor in this development was the property sale of an Austrian subsidiary in the previous year. In addition, the previous year's other operating income had included negative goodwill from the acquisition of Apollo Apples Limited's business activities in New Zealand, which was recognised through profit and loss in the amount of €8.4 million. Other income declined from €47.2 million to €37.0 million due to the reversal of earn-out components from company acquisitions recognised through profit and loss. In addition, the lower income from the reversal of provisions of €10.0 million (2014: €13.9 million), from letting and leasing of €26.3 million (2014: €28.7 million) and from currency gains of €18.1 million (2014: €20.3 million) contributed a total of €8.6 million to this decline. Value adjustments of receivables or rather income from receivables written down of €7.5 million offset this decline (2014: €2.7 million). At €32.4 million, remaining other income increased by €5.2 million year on year, which was due in particular to an increase in income from the fair value measurement of biological assets of New Zealand Group companies.

The increase in inventories in the financial year of €86.7 million was largely due to the project developments in the Renewable Energies business sector during the financial year 2015.

Cost of materials fell in the reporting year by 1.8%, or €241.6 million, to €13,575.3 million, largely proportional to revenues. In spite of lower revenues and other operating income, the BayWa Group's gross profit rose by 4.7% largely as a result of increases in inventories – at €1,601.2 million, gross profit was up by €71.7 million on the previous year's figure of €1,529.5 million.

Personnel expenses climbed year on year by 4.0%, or €32.1 million, to €825.2 million, primarily due to the expansion of business activities. The acquisition of Apollo Apples Limited's business activities in December 2014 resulted in an increase in the number of employees and contributed to a corresponding rise in personnel expenses in the financial year 2015. The increasingly international orientation of agricultural trade activities, coupled with the expansion of activities in the Renewable Energies business sector, also resulted in personnel expenses increasing. Additional personnel expenses were also incurred in the new Digital Farming business unit and adjustments under collective bargaining agreements also contributed to development.

At €495.3 million, other operating expenses were up by €3.8 million, or 0.8%, on the 2015 figure of €491.5 million in the financial year 2015. The primary factors in this increase were rental and leasing costs of €51.3 million (2014: €48.3 million), travel expenses of €15.6 million (2014: €13.3 million), insurance expenses of €18.6 million (2014: €17.3 million), other expenses of €40.5 million (2014: €34.4 million) and a rise in consultancy, auditing and legal fees to €36.3 million (2014: €34.4 million). These were offset in particular by lower currency losses of €17.7 million (2014: €23.3 million), vehicle fleet costs of €73.9 million (2014: €77.2 million), energy and supply costs of €29.8 million (2014: €32.6 million) and reduced maintenance costs of €49.3 million (2014: €50.6 million). Total remaining other operating expenses came to €162.3 million, up €2.2 million year on year.

Earnings before interest, tax, depreciation and amortisation (EBITDA) rose by €8.5 million, or 3.0%, to €288.3 million in the financial year 2015 (2014: €279.8 million).

Scheduled depreciation and amortisation at the BayWa Group rose marginally by €2.5 million in the reporting year from €127.7 million to €130.2 million, which was largely the result of the unscheduled write-down on an existing plant in the Renewable Energies business sector.

All in all, earnings before interest and tax (EBIT) of the BayWa Group improved by €6.0 million, or 4.0%, in the financial year 2015 to €158.1 million.

The financial result comprises income from participating interests, which is allocated to EBITDA and EBIT, and net interest. The result of participating interests declined in the reporting year by €27.3 million to €7.6 million. Given that the equity result remained largely unchanged, this decline was the result of a reduction in the result from other participating interests and financial assets. In the previous year, this item had included accounting profit of €20.9 million from the contribution of shares in a joint venture. Furthermore, dividend income from Austrian Group company Raiffeisen Ware Austria AG also contributed to a higher result of participating interests in the previous year. The €1.6 million improvement to net interest to €–70.1 million was predominantly the result of a fall in interest expenses from pension obligations.

The BayWa Group's earnings before tax (EBT) increased by €7.7 million, or 9.5%, to €88.1 million. This increase was primarily caused by the €35.2 million rose in the Energy Segment's EBT, as the Building Materials Segment's earnings before tax only increased marginally by €0.4 million. By contrast, the revenue contribution from the Agriculture Segment declined by €18.6 million. The corresponding earnings indicators from the Other Activities Segment, together with the consolidation effects presented in the transition, came to €–45.2 million in the reporting year, down by €9.4 million on the previous year.

The BayWa Group generated tax expenses of €26.5 million in the financial year 2015 following tax income of €0.3 million in the previous year. The tax rate therefore came to 30.1% in the reporting year (2014: –0.4%). The previous year's tax income was largely the result of deferred tax liabilities resulting from the valuation differences in tax accounting and loss carryforwards from Group companies.

Taking account of income tax, the BayWa Group generated net income of €61.6 million in the financial year 2015 (2014: €80.7 million); compared with the previous year's figure, this represents a decline of 23.7%. The share in profit due to shareholders of the parent company went down by 21.6% from €61.5 million in the previous year to €48.2 million in the reporting year.

Earnings per share (EPS), which is calculated from the portion of the result attributable to the shareholders of the parent company in relation to the average number of shares outstanding of 34,643,344 (dividend-bearing shares less treasury shares), fell from €1.78 in the previous year to €1.39 in the financial year 2015.

Comparison of forecast business development with actual business development

In the Outlook section of the 2014 Management Report on the Group, BayWa forecast a moderate rise in consolidated revenues in the financial year 2015 and a noticeable improvement in the Group's relevant key earnings indicators, EBITDA, EBIT and EBT.

In agricultural trade, sales volumes for agricultural produce were set to rise considerably based on more-constant harvest marketing and fewer fluctuations in grain prices compared to the previous year. It was assumed that sales of operating resources would also rise on account of gains in market share. The operating result (EBIT) was also expected to profit from the extremely positive development of revenues and increase noticeably on the 2014 figure. In fact, actual development in the financial year 2015 differed from these expectations. High harvest volumes for many important types of agricultural produce saw trading volumes rise but also resulted in sharp falls in prices over the course of the year. In addition, sales of crop protection products also declined due to the extremely dry summer. As a consequence, original expectations regarding revenues and the operating result were not fulfilled; revenues only exceeded the previous year's figure by a small margin, while EBIT fell significantly year on year.
Significant revenue growth was anticipated in fruit trading thanks to the full-year inclusion of New Zealand company Apollo Apples Limited. However, due to one-off income in the previous year, the operating result (EBIT) was expected to decrease sharply in 2015. Revenues performed as expected, whereas the negative expectations failed to materialise in view of the major rise in earnings – above all from New Zealand Group companies.
Revenues in agricultural equipment business were expected to fall slightly, with a proportional decline in the operating result (EBIT). In fact, revenues declined by 3.8% and EBIT by 3.7%, which corresponded to the forecast figures.
Due to the performance of the business units, revenues in the Agriculture Segment only rose by 0.5% to €10,154.7 million, contrary to expectations of a significant increase. There was a significant decline in the operating result (EBIT) of 19.1% to €87.2 million.

Revenues from conventional energies business were forecast to remain on a par with the previous year, with the operating result (EBIT) rising moderately. Due to the sharp fall in the price of crude oil over the course of 2015, the business unit's revenues were down significantly on the anticipated figure for the financial year 2015 at −16.9%. The operating result counteracted this effect, performing considerably better than expected with an increase of €9.6 million.
According to the forecast, revenues in the Renewable Energies business sector were set to rise by a slight margin compared to the previous year. A moderate improvement in the operating result (EBIT) was also forecast. The 29.5% rise in revenues and the 69.2% increase in EBIT exceeded expectations considerably, as many more projects were realised and sold in the reporting year than initially anticipated thanks to the positive market climate.
Total revenues of the Energy Segment were down on expectations at −6.4%, with moderate growth having been forecast. The operating result (EBIT), however, exceeded expectations of moderate growth by climbing 82.6%.

Marginal revenue growth was anticipated in the Building Materials Segment. In fact, the segment's revenues fell by 1.9% due to falling market prices. A moderate improvement in the operating result (EBIT) had been assumed, but this figure fell just short of expectations by falling 1.9%.

No forecast was possible 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.

Based on the assumption of largely stable prices, a moderate rise in revenues and a noticeable improvement in earnings in the financial year were forecast for the BayWa Group in the 2014 Management Report on the Group. Seasonal effects meant that performance in the first and second quarters if 2015 was worse than expected. A significant improvement in business performance in the third and fourth quarters of the year was unable to make up for the shortfalls in the first half of the year. Against this backdrop, the original forecast for the financial year 2015 was adjusted with the publication of the third quarter interim report: full-year revenues and the operating result in 2015 were only expected to remain on a par with the previous year. Revenues then fell short of the forecast lowered midway through the year as a result of a further fall in prices for agricultural produce and in the conventional energies business. The operating result (EBIT) was somewhat better than expected in the adjusted forecast with a moderate rise of 4.0% thanks to an extremely strong final quarter.

Financial Position

Financial management

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

Forward exchange transactions and swaps are used selectively to hedge receivables and liabilities denominated in a foreign currency. These forward exchange transactions and swaps serve exclusively to hedge existing and future receivables and liabilities from underlyings in the purchase and sale of merchandise within the scope of customary business operations. Hedging transactions in the BayWa Group are designed to reduce the risks from fluctuating exchange rates. The volume of open positions arising from the respective underlyings and the resulting cash flows form the basis for currency hedges. Terms reflect those of the underlyings.
In the BayWa Group, financial management has been set up as a service centre for the operating units and not as a profit centre in its own right. In accordance with this conservative approach to providing services, the use of fungible financial products to generate original profit contribution in financial operations has been waived. In particular, there are no speculative risk positions in our financial operations.

Daily financial management is focused on liquidity management through cash pooling within the whole Group and the same-day provision of liquidity. The Treasury Department uses suitable IT systems and appropriate treasury management software for this purpose.
The procurement of funds is organised decentrally and based on the principle that the national entities refinance in the local currency of the respective country. This applies mainly to activities in Eastern Europe, the USA, New Zealand and the UK. Apart from this, however, the BayWa Group conducts its business mainly in euros. Treasury is responsible for the centralised monitoring of Group-wide financial exposures.

Financial management is subject to the most stringent requirements imposed by an internal control system, which includes the documentation of transactions, a hierarchy of approval and resolution procedures, comprehensive application of the principle of dual control as well as the segregation of Treasury front, 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. In addition, the project companies in the Renewable Energies business sector have access to separate non-recourse financing (without the lenders having access to the BayWa Group's assets and cash flows).

The management of working capital is a focal point at BayWa and comprises the optimisation of working capital as a net figure for current assets less current liabilities. For years, BayWa has placed great importance on the best possible working capital performance. Furthermore, in 2013, a Group-wide project began to further optimise working capital management. The aim of the project is to continue to drive forward the continual reduction of the current assets employed in the company and the resulting release of liquidity without jeopardising the company's profitability. Consistent process management along the entire turnover chain is the key to success. To this end, working capital responsibilities have been redefined, the systematic inclusion of relevant parameters has been anchored in internal reporting systems, specific training and coaching programmes have been carried out and existing guidelines and process descriptions have been adapted.

Interest rate risks inherent in short-term debt are covered by BayWa in the context of its risk management through the use of simple derivative instruments. Around 50% of the borrowing portfolio is to be secured against interest rate risk through the respective hedging instruments. This partial hedging takes account of the seasonally induced strong fluctuations in financing requirements.

Long-term interest rates were hedged naturally by issuing bonded loans in 2015, 2014, 2011 and 2010 as fixed-interest as well as variable-interest rate tranches were issued and the interest rate risk was reduced as a result.

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

Along with its integration into the cooperative financial association, the broad transnational diversification of the bank portfolio and the financial instruments, in particular, lower the financing risk within the BayWa Group.

Capital structure and capital base

in € million	2011	2012	2013	2014	**2015**	Change in % 2015/14
Minority interest	1,045.2	1,078.0	1,115.0	1,050.4	1,075.9	2.4
Equity ratio (in %)	26.6	24.2	21.4	18.6	17.8	–
Short-term borrowing [1]	1,697.4	1,974.2	2,421.7	2,493.5	2,769.3	11.1
Long-term borrowing	1,179.4	1,408.0	1,662.5	2,108.1	2,191.5	4.0
Debt	2,876.8	3,382.2	4,084.2	4,601.6	4,960.8	7.8
Debt ratio (in %)	73.4	75.8	78.6	81.4	82.2	–
Total capital (equity plus debt)	3,922.0	4,460.2	5,199.3	5,652.0	6,036.7	6.8

1 Including liabilities from non-current assets held for sale

As at the balance sheet date, the BayWa Group equity ratio stood at 17.8%. The equity base is a sound foundation for a trading company and a stable platform for business to develop. As an indicator, a rigid equity ratio is only of limited use for a trading company such as 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 asset coverage ratio II is used as a target indicator in the BayWa Group's capital management process. Equity and long-term borrowing should cover at least 90% of non-current assets. As at 31 December 2015, the asset coverage ratio stood at 100%. The year-on-year reduction in the equity ratio was due to the increase in total assets as a result of the Group's growth. Long-term borrowing was increased in November 2015 by the placement of a bonded loan with a nominal volume of €200.0 million. Existing investors accepted the swap offer with a nominal volume of €27.5 million, with the remaining €172.5 million able to be placed with new investors. In addition, short-term debt was taken out to expand international agricultural trade activities. Furthermore, the method in which actuarial gains and losses from provisions for pensions and severance pay in previous years are offset against equity without affecting profit or loss once again led to a reduction in equity. The reserve for actuarial losses from pension and severance pay obligations less deferred taxes came to € 215.7 million as at 31 December 2015. 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 21.4% (2014: 22.4%), which has been adjusted for this effect.

Short-term borrowing is used exclusively to finance short-term funds tied up in working capital. The status of short-term borrowing disclosed at year-end regularly reflects the highest level of utilisation. Due to seasonal influences, borrowing rises through preliminary storing of operating resources and through buying up harvest produce in the fourth quarter of the financial year. Short-term borrowing rose year on year by €275.8 million, or 11.1%, and includes a rise in current liabilities of €147.1 million. By contrast, long-term borrowing increased by just 4.0% or €83.4 million. This was largely the result of the issuing of a new bonded loan of €200.0 million by BayWa AG in the reporting year, €27.5 million of which was used to redeem bonded loans issued in previous years. At the same time, obligations from bonded loans that had already been issued in previous years were reclassified into current liabilities as they are due for repayment in the subsequent year. Borrowed funds were used to expand agricultural trade business activities and project business in the Renewable Energies business sector. In addition, three acquisitions were financed through subsidiary T&G Global Limited in New Zealand to expand tomato and asparagus trade activities. The acquisition of Apollo Apples Limited's business operations was also financed by New Zealand company T&G. Besides the rise in financial liabilities, an increase in trade payables and liabilities from inter-group business relationships and other liabilities also pushed up debt.

As at 31 December 2015, the BayWa Group's total assets climbed by €384.7 million in comparison with the previous year's figure. Borrowing increased by €359.2 million due to the placement of an additional bonded loan as well as the borrowing of short-term funds to expand business activities, while equity increased by €25.5 million.

Cash flow statement and development of cash and cash equivalents

in € million	2011	2012	2013	2014	**2015**
Cash flow from operating activities	– 27.5	150.0	230.3	– 90.6	19.0
Cash flow from investing activities	– 222.6	– 193.7	84.5	– 227.6	– 143.5
Cash flow from financing activities	273.9	37.4	– 297.0	334.4	98.7
Cash and cash equivalents at the end of the period	87.0	83.2	92.1	108.4	84.5

Cash flow from operating activities amounted to €19.0 million in the financial year 2015. With consolidated net income down by €19.1 million year on year, this increase largely resulted from a non-cash result of participating interests from the contribution of shares in a joint venture and deferred tax income, both of which were included in the previous year's figure. Besides other non-cash income recognised in the previous year's result, which was largely attributable to negative goodwill, the development of non-current provisions also contributed to a rise in operating cash flow, as did a reduction in income tax payments. A significant increase in inventories, in trade receivables and in other assets not attributable to investment and financing activities was financed by cash outflows and a rise in liabilities from operating activities, meaning that cash flow from operating activities was relatively even for the financial year 2015.

Cash flow from investing activities fell year on year by €84.1 million following cash outflow of €143.5 million in the reporting year. This was primarily due to lower payments for company acquisitions, which fell from €142.2 million in the previous year to €36.9 million in the financial year 2015 and were largely attributed to the acquisition of PC-Agrar Informations- und Beratungsdienst GmbH, Great Lake Tomatoes Limited and Rianto Limited and the acquisition of Wessex Grain Ltd.'s business activities. Investments in intangible assets and property, plant and equipment totalled €174.5 million (2014: €165.2 million). By contrast, incoming payments from the sale of intangible assets, property, plant and equipment and investment property declined by €30.3 million. Following the previous year's cash outflows of €31.5 million from additions and disposals of financial assets, the financial year 2015 saw cash outflows of €7.0 million. Furthermore, the dividend received, other income assumed and interest received led to cash inflows of €10.2 million.

Cash flow from financing activities came to €98.7 million in the financial year and was predominantly attributable to the placement of a long-term BayWa AG bonded loan in November 2015 of €200.0 million and a short-term bonded loan in May 2015 of €75.0 million. In addition, funds were borrowed to fund acquisitions in New Zealand and to finance project management business in the Renewable Energies business sector. A further €2.2 million was raised by the Group through capital increases. These were offset by the partial redemption of bonded loans issued in previous years of €150.0 million. In addition, cash outflows from dividend payments at the parent company and at subsidiaries totalled €33.5 million and interest payments €25.3 million. The year-on-year reduction in cash flow from financing activities was particularly the result of an increase in borrowing year on year and a simultaneous reduction in redemption payments.

In an overall analysis of the incoming and outgoing cash payments from operating activities, investing and financing activities, and in consideration of changes to the group of consolidated companies and changes in foreign exchange rates, cash outflow from operating activities was not able to be completely compensated by the incoming cash flow from operating activities and from financing activities. As a result, cash and cash equivalents at the end of the reporting year came to €84.5 million, which is €23.9 million lower than in the previous year.

Financial base and capital requirements
The BayWa Group's financial base is primarily replenished by funds from operating activities. Furthermore, the Group was allocated funds from the placement of a new bonded loan in the financial year 2015; these funds were used both for company acquisitions and to finance non-current and current assets. Moreover, the Group receives funds from measures to streamline portfolios, such as the disposal of real estate not essential to operations or non-strategic financial participation and sale-and-lease-back transactions.

Capital requirements are defined by investment financing and the ongoing financing of operations, the repayment of financial liabilities and ongoing interest payments. The overall view of liquidity and debt is determined through the calculation of adjusted net liquidity or net debt and used for internal financial management as well as for external communication with financial investors and analysts. Net liquidity and net debt is calculated from the sum total of cash and cash equivalents less outstanding commercial paper, bank debt and finance lease obligations, as reported in the balance sheet.

Matched to funds committed, the financing structure remains largely short term, but the ratio of of long- to short-term financing has evened out somewhat through the issuing of bonded loans in the last few financial years. Along with short-term borrowing, the Group finances also itself by way of a multi-currency Commercial Paper Programme, the total volume of which was expanded from €400.0 million to €500.0 million in the financial year 2015; as at the reporting date, drawdowns with an average term of 33 days came to €266.5 million (2014: €309.2 million). By the end of the reporting period, €121.8 million (2014: €141.9 million) had been financed from the ongoing Asset Backed Securitisation Programme.

Investments
In the financial year 2015, the BayWa Group invested around €174.5 million in intangible assets (€21.3 million) and property, plant and equipment (€153.2 million) together with its acquisitions. These investments were primarily for the purpose of repair and maintenance of buildings, facilities and office fixtures and fittings, as modern locations and seamlessly operating facilities are a precondition for efficient logistics processes.

BayWa will continue to invest in modern site infrastructure in future. This includes investments in land and buildings, wherever such investments are expedient and prudent. By contrast, real estate no longer used for operations is consistently sold off. The proceeds accruing from these transactions are used to reduce debt or to finance the Group's growth.

In 2015, roughly €64.4 million was invested in new business premises Group-wide. The main focus was on the completion of company operations and investment in sites' technical facilities.

Investments in the financial year 2015 included €5.1 million in a used machinery centre at the Bamberg agricultural equipment site. A further €5.2 million was invested in other agricultural equipment sites in Abersfeld, Riedlingen, Freystadt and Geretsried.

In the Agricultural Trade business unit, major investments were carried out at the sites in Leupoldsgrün (€1.7 million) and Schweinfurt-Hafen (€1.4 million), while a further €9.2 million was invested in the building materials centres in Bad Tölz, Saal an der Donau and Nördlingen. In addition, a plot of land in Großwallstadt was acquired for €1.9 million. In the Fruit business unit, a total of €3.8 million was invested in the sites in Kressbronn, Ravensburg and Ailingen.

In addition, a total of €10.0 million was invested in a biogas plant at the Hohenhameln site by r.e Bioenergie Betriebs GmbH & Co. Vierundzwanzigste Biogas KG within the scope of an asset deal. Austrian Group company "UNSER LAGERHAUS" WARENHANDELSGESELLSCHAFT m.b.H. carried out investments of €6.0 million, which were focused on a raw materials intake plant and the construction of a building materials centre in Klagenfurt.

Ultimately, investment measures totalling €47.9 million began in the financial year 2015; these concern BayWa AG sites as well as sites belonging to other Group companies and are to be completed in the financial year 2016.

Outgoing payments for company acquisitions came to €38.3 million in the financial year 2015 and were largely attributed to the acquisitions of Great Lake Tomatoes Limited and Rianto Limited by New Zealand Group company T&G Global as well as the acquisitions of PC-Agrar Informations- und Beratungsdienst GmbH and Wessex Grain Ltd.'s business activities.

Including acquisitions, roughly 62% of total investments in non-current assets in the BayWa Group were attributed to the Agriculture Segment. The high share in investments attributed to the Agriculture Segment reflects the international expansion of agricultural trade and the development of the Group's business portfolio with the addition of the Digital Farming business unit. Some 15% of total investments were made in the Energy Segment, while just under 12% was attributed to the Building Materials Segment and just under 11% to the Other Activities Segment.

Asset position

In the reporting year, non-current assets increased marginally year on year by 1.1%, or €25.5 million, to €2,287.2 million. Additions to intangible assets and property, plant and equipment amounting to €213.8 million within the scope of investing activities and changes to the group of consolidated companies in core business were offset by disposals of €23.7 million and transfers amounting to €20.9 million. Adjusted for scheduled depreciation and amortisation in the financial year of €128.2 million and exchange rate-induced increases of €1.0 million, intangible assets and property, plant and equipment increased by a total of €42.0 million. Shares in companies recognised at equity rose by €7.4 million to €203.9 million. Besides earnings contributions from associated companies, investment in a joint venture in renewable energies was a key factor in this development. Other financial assets declined by €13.3 million to €168.2 million, primarily as a result of the repayment of loans received from shareholders. Sales completed in the financial year 2015 or property sales planned for the coming financial year and the resulting recognition of the properties concerned under non-current assets held for sale led to a reduction in investment real estate of €16.9 million. Non-current liabilities and other assets rose by €5.5 million, whereas deferred tax assets were up by €2.3 million.

Project developments in the Renewable Energies business sector and the international expansion of agricultural trade activities saw the BayWa Group's inventories increase by €155.2 million year on year to €2,141.5 million. The increase in financial assets from €153.4 million to €222.4 million was due to the expansion of Group companies' commodity futures recognised as financial instruments due caused by the expansion strategy in agricultural trade. At €1,254.8 million, the value of other current receivables and other assets as at the reporting date climbed by €170.3 million year on year. This was due to a rise in trade receivables and receivables from financing activities in the case of sold project companies in the area of renewable energies. This was offset by the €8.7 million and €9.8 million reductions in non-current assets and disposal groups classified as held for sale respectively. This was due to the disposal of the assets of Raiffeisen Kraftfutterwerke Süd GmbH as part of an asset deal as at 1 March 2015. As at the reporting date, this item only contained real estate inventories, which are intended to be sold in the subsequent year. The BayWa Group's balance sheet increased by 6.8%, or €384.7 million, to €6,036.7 million as at the reporting date of 31 December 2015.

Traditionally, BayWa has always placed an emphasis on ensuring matching maturities in the financing of assets. Current liabilities of €2,769.3 million – consisting of current financial liabilities, trade payables, tax, other liabilities along with current provisions and liabilities from disposal groups – were offset by current assets and assets held for sale/disposal groups of €3,749.5 million. By the same token, there is roughly 143% coverage for non-current assets amounting to €2,287.2 million through equity and long-term borrowing of €3,267.4 million. Ensuring matched maturities in financing is an important quality criterion for the financing partners of BayWa in the context of raising short-term funds.

Composition of assets

in € million	2011	2012	2013	2014	**2015**	Change in % 2015/14
Non-current assets	1,623.4	1,783.3	2,094.0	2,261.7	2,287.2	1.1
of which land and buildings	642.0	530.1	775.4	814.4	845.4	3.8
of which financial assets	210.6	232.8	251.5	181.5	168.2	−7.3
of which investment property	63.6	86.2	82.4	72.8	55.9	−23.2
Non-current asset ratio (in %)	41.4	40.0	40.3	40.2	37.9	–
Current assets	2,039.8	2,444.4	3,061.8	3,371.8	3,739.7	10.9
of which inventories	1,165.4	1,432.6	1,836.0	1,986.3	2,141.5	7.8
Current asset ratio (in %)	52.0	54.8	58.9	59.5	61.9	
Assets/disposal groups held for sale	258.8	232.5	43.4	18.5	9.8	−47.0
Total assets	3,922.0	4,460.2	5,199.3	5,652.0	6,036.7	6.8

General statement on the business situation of the Group

At the time the Management Report of the BayWa Group was drawn up, the Board of Management continued to view the development of business as positive. Earnings development in the Agriculture Segment in 2015 was negatively impacted by a series of unusual external factors, but this situation did not change the medium- and long-term business outlook of the BayWa Group. In fact, BayWa benefited in 2015 from its strategic orientation in international markets and the development of new business sectors such as renewable energies by considerably expanding the basis of its business and noticeably reducing reliance on individual country markets. The BayWa Group has a well-balanced, fit-for-the-future business portfolio to underpin its success in the future.

Financial Performance Indicators

BayWa orients the short-term management of its corporate divisions with the development of key earnings indicators EBITDA, EBIT and EBT. Key earnings indicators for the segments of the BayWa Group developed as follows in the financial year 2015:

Key financial earnings figures

	Earnings before interest, tax, depreciation and amortisation (EBITDA)			Earnings before interest and tax (EBIT)			Earnings before tax (EBT)		
in € million 2015		Change (absolute)	Change in %		Change (absolute)	Change in %		Change (absolute)	Change in %
Agricultural Trade	71.9	−24.5	−25.4	41.6	−23.3	−35.9	19.6	−21.8	−52.6
Fruit	40.0	5.9	17.4	27.0	6.4	31.2	21.3	5.1	31.8
Agricultural Equipment	31.9	−1.4	−4.3	21.5	−0.8	−3.7	12.0	1.0	8.8
Digital Farming	−2.2	–	–	−2.9	–	–	−2.9	–	–
Agriculture Segment	**141.6**	**−22.2**	**−13.6**	**87.2**	**−20.6**	**−19.1**	**50.0**	**−18.6**	**−27.1**
Energy	24.0	9.1	61.1	15.4	9.6	> 100	15.2	8.3	> 100
Renewable Energies	90.8	31.6	53.5	61.8	25.3	69.2	50.6	26.9	> 100
Energy Segment	**114.8**	**40.7**	**55.0**	**77.2**	**34.9**	**82.6**	**65.8**	**35.2**	**> 100**
Building Materials Segment	**42.2**	**−0.7**	**−1.6**	**27.4**	**−0.5**	**−1.9**	**17.5**	**0.4**	**2.2**

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 2015	Agricultural Trade	Fruit	Agricultural Equipment	Energy	Renewable Energies	Building Materials
Net operating profit	41.6	27.0	21.9	15.4	61.8	27.4
Average invested capital [1]	1,158.5	291.7	388.2	40.1	899.2	305.3
ROIC (in %)	3.59	9.26	5.64	38.41	6.87	8.99
Weighted average cost of capital (WACC) (in %)	6.30	5.90	6.80	6.30	5.20	6.50
Difference (ROIC/WACC) (in %)	−2.71	3.36	−1.16	32.11	1.67	2.49
Economic profit by business unit	−31.4	9.8	−4.5	12.9	15.0	7.6
			Agriculture		Energy	Building Materials
Economic profit by segment			−26.1		27.9	7.6

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

In the financial year 2015, the BayWa Group's Energy and Building Materials Segments achieved positive economic profit (in other words, positive net income after respective capital costs). The Agriculture Segment posted negative economic profit of €−26.1 million. Agricultural trade's economic profit contribution to the Agriculture Segment was also negative at €−31.4 million. This was primarily caused by the low amount of summer rain in Germany, which resulted in a drop in the use of crop protection products, a sharp decline in the volume of corn collection volume and a lack of grain drying income. In addition, low water surcharges for freight led to a rise in logistics costs. The negative economic profit of the Agricultural Equipment business unit of €−4.5 million was chiefly caused by the decline in new machinery business. The Fruit business unit increased its economic profit to €9.8 million. International business was the key factor in this increase, with a record-breaking harvest in New Zealand, operating improvements at T&G Global Limited and the full-year earnings contribution of New Zealand company Apollo Apples Limited, which was acquired in December 2014. Economic profit cannot be calculated for the Digital Farming business unit yet, as it was only established in the fourth quarter of 2015. In the Energy Segment, the Renewable Energies business sector generated economic profit of €15.0 million thanks to strong project management business and an increase in the number of sold plants. Business with conventional energies generated positive economic profit of €12.9 million in the reporting year, primarily as a result of a rise in sales volumes. The Energy Segment's economic profit totalled €27.9 million. The Building Materials Segment generated positive economic profit of €7.6 million in the financial year 2015 due to successful optimisation of the site network.

Employees

The number of employees at BayWa rose once again in 2015. By the end of the year, the BayWa Group employed 16,229 employees (2014: 15,917). In terms of an annual average, the number of employees rose year on year by 537 to 16,609, equating to an increase of 3.3%. This change was due to a series of strategic measures. In the Agriculture Segment, for instance, the Fruit, Agricultural Trade and Agricultural Equipment business units were all strengthened internationally through targeted recruitment and acquisitions. In addition, the establishment of the new Digital Farming business unit also resulted in an increase in the number of employees. By contrast, the number of employees in the Building Materials Segment decreased due to that fact that BayWa sold off its building materials business in North Rhine-Westphalia and Rhineland-Palatinate. The number of employees in the Energy Segment remained largely stable, with the slight decline in conventional energies practically evened out by the slight increase in the Renewable Energies business sector.

Development of the average number of employees in the BayWa Group

					Change	
	2012	2013	2014	**2015**	2015/14	in %
Agriculture	8,730	9,038	9,489	10,094	605	6.4
Energy	1,564	1,720	1,830	1,825	−5	−0.3
Building Materials	4,868	4,718	4,178	4,093	−85	−2.0
Other Activities	518	498	575	597	22	3.8
BayWa Group	15,680	15,974	16,072	16,609	537	3.3

Personnel development – more than simply training

Motivated and highly qualified employees and managers are the cornerstone of BayWa's success. Strategically oriented personnel development and training is therefore essential.
Through its personnel development and training measures, the Group gives its employees the opportunity to make systematic and individual progress in their careers. Besides a range of training courses, the Group also offers numerous development programmes for a variety of target groups.

Well over 16,000 employees took part in training courses and seminars in 2015, completing over 29,000 days' training. This training was focused on developing personal / social skills (over 17,000 training days) and qualification in specialist subjects (over 12,000 training days).

Increasing internationalisation in personnel

In June 2015, an international meeting was organised for the first time with personnel managers from several international subsidiaries. This meeting laid the foundations for the further intensification of cooperation. Besides overarching international personnel measures that are already in place in certain areas, a number of international talent management projects are also planned.

Quality training for a successful future

Extensive, professional training provides the best platform for a promising future – both for trainees and for the BayWa Group. With more than 1,300 trainees in Germany and Austria, the BayWa Group ranks among the most important companies offering trainee programmes. The trainee ratio of 10.1% is much higher than the average. The quality of training in the 29 apprenticeships also remains at a constantly high level.

BayWa Foundation promotes knowledge of a balanced diet among children

Securing the welfare of future generations requires action today. This includes transferring knowledge of healthy eating to primary school children. "Planting vegetables. Harvesting health." is the name of the BayWa Foundation's latest project, which stands for switching the focus from fast food and on to fresh fruit and vegetables from the school garden. Many children don't know where food comes from, how it is made and why healthy eating is so important. The result? Poor and insufficient diets are becoming increasingly widespread and can cause tiredness, loss of concentration and poor performance at school. Long-term health issues and social problems can also be traced back to the wrong diet. For instance, the number of overweight children has increased by 50% over the past 30 years according to the KiGGS study published by the Robert Koch Institute in 2013; the number of obese children has doubled over the same period. Through its long-term education projects, the BayWa Foundation is striving to improve children's nutrition and make them fit for the future. More information about the BayWa Foundation's projects can be found at www.baywastiftung.de.

Healthy employees in safe workplaces

Employee health and safety and the protection of the environment are key issues at BayWa. As a result, measures are being taken to prevent accidents and damage to health and safety, such as the organisation of tailor-made training courses and the implementation of special protective equipment. Employees are also supported in their efforts to maintain their physical and mental health over their entire professional careers through a range of back therapy courses, exercise classes, company sport programmes, nutritional advice, occupational health advice and stress-prevention seminars.

Sustainability at BayWa

As an international trading and services group, BayWa assumes its ecological and social responsibility. With its products and services, BayWa covers the basic human needs for food, energy and shelter. It gears its business practices towards the needs of future generations and pursues strategic sustainability targets. BayWa's sustainability philosophy arises from its cooperative tradition and is based on binding values.

The Code of Conduct, adopted by the Board of Management in 2015, applies to the employees, managers and Board of Management or Board of Director members of all companies in the BayWa Group. It defines the standards for general business conduct, as well as for special topics, such as legal conformity or the avoidance of conflicts of interest. Other binding guidelines for fair conduct with integrity include BayWa's Articles of Association, its corporate guidelines, the management policy as well as the regulations on corporate governance.

As an integrated member of the business world and society, BayWa cultivates a continuous dialogue with its stakeholders, which it achieves through transparent communication as part of its investor and public relations activities, through personal dialogue with customers and employees, by attending events and by having efficient risk and complaints management.

BayWa demonstrates ecological responsibility in its core business, as well as in its operations. BayWa includes requirements in its range of products and services which climate change involves. In its operational processes, BayWa relies on renewable energies and renewable raw materials, environmentally friendly products, as well as an efficient use of resources and transport logistics. By providing them with advice and services, BayWa supports its customers and suppliers in their efforts to achieve their own environmental targets.

Within the scope of its social responsibility, BayWa pursues a policy of sustainable personnel management. Secure jobs and an occupational health management scheme are just as much a part of these efforts as continuous professional development for employees. BayWa is one of the leading companies in Germany where training is concerned.

BayWa's commitment to society is reflected in the work of the BayWa Foundation (www.baywastiftung.de), among other things. The BayWa Foundation supports long-term education projects on healthy eating and renewable energy. BayWa covers the Foundation's administrative costs and doubles the donations received. BayWa is tied through tradition to those regions where it operates. Here, too, BayWa contributes to society. In the reporting year, BayWa promoted the young sporting talent of the Bavarian Football Association (BFV) and supported the basketball players of FC Bayern as the main sponsor.

Since 2014, BayWa has published detailed information on its sustainability strategy and activities in the defined fields of action – Market, Environment and Climate, Employees and Quality of Life – in an annual Sustainability Report. This can be found online at www.baywa.com/en/sustainability/.

Takeover-relevant Information

Composition of subscribed capital

The subscribed capital of BayWa AG amounted to €89,046,988.80 on the reporting date and is divided up into 34,783,980 registered shares with an arithmetical portion of €2.56 each in the share capital. Of the shares issued, 33,419,593 are registered shares with restricted transferability and 121,136 recently registered shares with restricted transferability (dividend-bearing employee shares from 1 January 2016 onwards). 1,243,251 shares are not registered shares with restricted transferability. With regard to the rights and obligations transferred by the shares (e.g. the right to a portion of the unappropriated retained earnings or to participate in the Annual General Meeting of Shareholders), reference is made to the provisions laid down under the German Stock Corporation Act (AktG). There are no special rights or preferences.

Restrictions on voting rights and the transfer of shares

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

Affiliated companies with over 10% of voting rights

On the reporting date, the following shareholders held stakes in the capital that exceeded 10% of the voting rights:
Bayerische Raiffeisen-Beteiligungs-AG, Beilngries, Germany
Raiffeisen Agrar Invest GmbH, Vienna, Austria

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

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 Management Board is authorised to raise the share capital one or several times on or before 18 May 2020 by up to a nominal amount of €4,689,891.84 through the issuance of new registered shares with restricted transferability against cash contribution to the employees of BayWa AG and of affiliated companies within the meaning of Sections 15 et seq. of the German Stock Corporation Act (AktG). Shareholders' subscription rights are excluded. Subject to approval by the Supervisory Board, the Board of Management is authorised to specify the further content of the share rights and conditions under which the shares are to be issued.

Subject to approval by the Supervisory Board, the Board of Management is also authorised to raise the share capital one or several times on or before 31 May 2016 by up to a nominal amount of €12,500,000 through the issuance of new registered shares with restricted transferability against contributions in kind. The authorisation can be used in partial 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, subject to approval by the Supervisory Board, the Board of Management is authorised to raise the share capital on or before 31 May 2018 by up to a nominal amount of €10,000,000 through the issuance of new registered shares against contributions in kind. The authorisation can be used in partial 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 315 para. 4 items 8 and 9 of the German Commercial Code (HGB).

Significant Events after the Reporting Date

On 26 January 2016, the Bundeskartellamt (German federal antitrust authority) conducted a search in a number of offices at the BayWa AG headquarters in Munich, Germany, on the basis of a warrant issued by the District Court of Bonn. The investigation is based on the suspicion that employees of the company were allegedly involved in agreements aimed at restricting competition in the sale of agricultural equipment. According to the court order authorising the search, several companies from the industry are being investigated. No further details on the accusations were available to the company at the time of the conclusion of the consolidated financial statements. BayWa AG will cooperate fully with the German federal antitrust authority to clarify the matter.

BayWa AG, Munich, Germany, will take over the majority interest in the Dutch supplier of exotic fruits and vegetables, TFC Holland B.V. (TFC) based in De Lier, the Netherlands, subject to approval by the antitrust authorities. The Munich-based trading and services group will receive 68.4% of the shares for a purchase price of €28.7 million. The takeover is an important step for BayWa in its international growth strategy in the Agriculture Segment. TFC has long-standing international trade relations in all procurement markets for exotic fruits – mainly for avocado, mango, ginger and citrus fruits, as well as with the European food retail industry. By expanding its portfolio in the growth market for exotic speciality fruits, in particular in the “ready-to-eat” sector, BayWa AG is strengthening its position as a leading international supplier of exotic and pome fruit.

BayWa AG, Munich, Germany, acquired 100% of the shares in Evergrain Germany GmbH & Co. KG, Hamburg, Germany, on 29 January 2016. Evergrain is specialised in international trading with malting barley. With the takeover, BayWa is expanding its specialities business internationally and aims to take a leading role in the malting barley trade in future. The biggest market potential for malting barley lies in the European Union and increasingly in the growth markets of South America and Asia.

BayWa AG, Munich, Germany, acquired the project rights for a total of 31 wind energy projects from juwi, a project developer based in Wörrstadt, Germany, through the Group company BayWa r.e. Wind GmbH, Munich, Germany. The portfolio comprises an output of around 375 MW at different locations in Germany, for the most part in North Rhine-Westphalia and Rhineland-Palatinate. BayWa r.e. renewable energy GmbH will implement the projects and complete them in line with our business model. The projects are at different stages of development. BayWa r.e. is anticipating approval for nearly one third of these projects in 2016. Following this, the aim is to immediately commence construction. BayWa r.e expects the first wind farms from the new portfolio to be commissioned as early as 2017.

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 financial year 2015 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 35% and 50% of the salary most recently received). The retirement age has been set at 65 years (full year). Since 1 December 2012, all obligations from pension commitments have been transferred to an external pension fund in the form of an earned entitlement, or to a provident fund. Running payments made to the pension fund or provident fund are included in the overall remuneration disclosed for the Board of Management. There are no commitments in the employment 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 2015 came to €6.326 million (2014: €6.519 million); of this amount, €2.262 million (2014: €2.300 million) is variable. Contributions amounting to €1.105 million (2014: €1.230 million) were paid in benefits after termination of the employment contract (pensions).
The remuneration of the Board of Management is not itemised. Instead, it is divided up into fixed and variable/performance-related amounts and disclosed once a year in the Notes to the Consolidated Financial Statements. The relevant resolution was passed by the Annual General Meeting of Shareholders in accordance with Section 286 para. 5 of the German Commercial Code (HGB) on 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 situation 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. Moreover, Supervisory Board members will be included in any D&O insurance taken out in the interest of the company covering personal liability in an appropriate amount. The company pays the insurance premiums.

The total remuneration of the Supervisory Board comes to €0.702 million (2014: €0.686 million), of which €0.369 million is variable (2014: €0.351 million).
Disclosure of remuneration paid to the members of the Supervisory Board in the Notes to the Consolidated Financial Statements has not been itemised (reason given in the Declaration of Conformity).

Opportunity and Risk Report

Opportunity and risk management

The corporate policy of the BayWa Group is geared toward weighing up the opportunities against the risks of entrepreneurship in a responsible way. The management of opportunities and risks is an ongoing task of entrepreneurial activity designed to ensure the long-term success of the Group.
This enables the BayWa Group to innovate, secure and improve what is already in place. The management of opportunities and risks is closely aligned to the BayWa Group's long-term strategy and medium-term planning. The decentralised regional organisation and management structure of operating business enables the Group to identify trends, requirements, and the opportunities and risk potential of frequently fragmented markets at an early stage, analyse them and take action which is both flexible and market oriented. Internationalisation also allows BayWa to tap new business opportunities, which in turn reduces its dependence on the individual country markets and their risks. Moreover, the systematically intense screening of the market 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 the BayWa Group to identify and monitor risks specific to the business have been described in a risk management manual approved by the Board of Management. In addition, the Internal Audit Department regularly audits the internal risk management system which supports the processes. ISO certifications for the standardisation of workflows and for risk avoidance, as well as taking out insurance policies, supplement the Group's management of risk.

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

Opportunity and risk management within the BayWa Group

In 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 assessments, supported by the relevant management processes, and forms an integral part of core activities. It starts with strategic planning and proceeds through to procurement, sales and distribution and, finally, to counterparty risk management. As an extension of the planning process that takes place in the business areas, the procurement and 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 averting or reducing the risks.

A cornerstone of the risk management system is the risk reports, which are regularly prepared by the operating units. 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 early warning component makes an indispensable contribution to further strengthening and building up a Group-wide opportunity and risk culture in a targeted manner.

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

The Group-wide risk management system for the agriculture group implemented in 2014 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. The minimum requirements for risk management (MaRisk) contain regulations for identifying, assessing, managing and monitoring all major risk types, including counterparty risk as well as operational risks, such as quality and logistics risks. BayWa adapted the standards established in the financial services sector and at leading trading companies for its Agricultural Trade business unit due to the flexible and practical framework of the material regulations. Appropriate and effective risk management pursuant to the minimum requirements for risk management (MaRisk) comprises, in particular, the formulation of strategies and the establishment of internal control procedures, taking into account 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.

The positions, including spreads (basis risks), are determined and monitored for all Group companies for the purposes of market risk management on each trading day. Alongside volume limits, value-based procedures serve the risk-appropriate management of the positions. These procedures include the regular mark-to-market valuation of pending agricultural trade 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 effects that extraordinary market price changes have on profit and loss and, where necessary, implement measures to reduce risks. The trading positions of the agriculture group as well as the risks these pose are reported to the operating units local risk officers on a daily basis as well as to the Board of Management in the form of a weekly Risk Report.

These control mechanisms are supported by a standardised, Group-wide IT system solution for risk management that was introduced in 2014, which sees all functions and processes being monitored by an external auditing company within the scope of user acceptance testing.

The Agricultural Risk Committee is part of risk governance and serves as the highest decision-making body within the agriculture group. It is composed of members of the Board of Management and meets regularly and when warranted. The Agricultural Risk Committee decides on risk guidelines and limit systems for the Agricultural Trade business unit 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 agricultural trading companies to ensure that the provisions of the Agricultural Risk Committee, including compliance with the limits, are implemented in full. Group Risk Control 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 at the trading companies covers all risk processes within the company, including limit monitoring and reporting. The Agricultural Risk Controlling Board, which comprises Group Risk Control as well as the risk officers of the trading units, is also part of risk governance and aims to promote the regular, at least weekly, structured exchange on risk-relevant incidents.

The Agricultural Coordination Center (ACC) established for improving the commercial coordination of agricultural trading activities in the previous year underwent further development in the reporting year and was integrated into the newly created organisational unit known as the Economics and Public Affairs Department (EPAD). Alongside global market monitoring, EPAD is responsible for preparing market analyses for all agricultural activities of the BayWa Group. In order to coordinate trading management, a global book system (GBS) was established. It serves to coordinate the trading and risk positions of individual product lines with each other in addition to optimising them. It does so on an overarching scale that includes all national and international activities and regions in the trade of grain, oilseed and related products.

Macroeconomic opportunities and risks

General economic factors have an influence on consumer behaviour and investment patterns in BayWa's core markets. However, these factors have less of an influence on BayWa than on other companies. BayWa's business model is primarily geared to satisfying fundamental human requirements, such as the need for food, shelter, mobility and the supply of energy. Accordingly, the impact of cyclical fluctuations is likely to be less strong than in other sectors. As a result, BayWa is even able to turn certain opportunities arising in times of crisis to its advantage through, for instance, the identification and acquisition of suitable companies with a view to building up or expanding existing or new areas of business. BayWa is, however, unable to fully escape from severe setbacks to international economic development as a result of the global decline in prices for raw materials, for example.

Sector and Group-specific opportunities and 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 diversification in the Agriculture Segment, as this has reduced the dependence on individual markets and increased procurement and marketing flexibility. In addition, BayWa counters quality-related risks with sampling and controls. Risks that arise from deterioration in the quality of inventories are reduced through the application of professional storage standards. Logistics risks from a lack of available transport capacities due to weather or strikes are identified in good time thanks to early detection systems and subsequently managed. Global climate changes are also having a long-term effect on the agricultural sector. The global demand for agricultural produce, particularly grain, continues to grow. This may give rise to a sustained price uptrend. Fruit-growing activities pose a financial risk to the Group on account of the delay between cash outflow for buying, growing and maintaining the trees and vines and the costs of the harvest, on the one hand, and cash inflow from the sale of the fruit on the other. This risk is managed by actively monitoring net working capital. The development of income in the agricultural sector filters through directly to investment capacity and propensity and therefore to the sale of high-end agricultural equipment.

In the energy business, renewable energies are particularly affected by changes in support and subsidy measures. In light of this, geographic diversification stabilises the development of revenues and profit, while diversification across a number of different energy carriers – especially wind energy, solar power and biomass – mitigates risk in certain markets that remain strongly dependent on subsidisation. Climatic risks (wind, sunshine) also play a role for affiliated BayWa electricity-generating 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. Plant availability 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 energy efficiency and the construction of social housing. At the same time, the ageing housing stock in Germany will encourage growing demand for modernisation and renovation. In the Building Materials Segment, the BayWa Group is a franchiser of DIY and garden centres. After the inclusion of BayWa Bau- und Gartenmärkte in a joint venture with Hellweg, the newly established BayWa Bau- und Gartenmärkte GmbH & Co. KG, operational management was transferred to Hellweg. In light of this, the risk arises that the franchise company in the BayWa Group will no longer be able to fulfil its contractual service obligations towards franchisees in the previous manner and quality. Among other things, this may lead to claims for damages on the part of franchisees. This risk was countered by concluding long-term contracts with Hellweg.

Opportunities and risks 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 trading. 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. Provided these transactions are not concluded through a stock exchange, there is also a counterparty risk. By the same token, changes to interest rates, currency exchange rates or forward market prices can lead to unplanned opportunities.

Price opportunities and risks

BayWa trades in merchandise with very high price volatility, such as grain, oilseed, fertilisers, mineral oil, biomethane and solar components, especially in its Agriculture and Energy Segments. The warehousing of the corresponding merchandise 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, oilseed, fertilisers and solar components may incur greater risks owing to their warehousing if there is no matching in the agreements on the buying and selling of merchandise. Aside from absolute price risks, different developments in terms of local premiums, the price curve over time and in product quality can also influence the course of business. If there are no hedging transactions in place at the time when agreements are signed, the ensuing risk is monitored on an ongoing basis by the respective executive bodies. Whenever necessary, appropriate measures to limit risk are taken. BayWa also operates as a project developer in the field of renewable energies. This business harbours a risk that, for instance, the planning and building of solar power plants, wind farms and biogas plants are delayed and that they may be connected to the grid later than originally planned. 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.

The BayWa Group uses a portfolio-based value-at-risk method to measure and control risks from commodity futures, which are treated as financial instruments in the sense of IAS 39 (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 probability (95%) – will not be exceeded during a defined period of time (five trading days). The value-at-risk calculated as at 31 December 2015 amounted to €2.693 million and indicates that the potential loss from the commodity futures considered will, with a probability of 95%, not exceed €2.693 million within the next five trading days.

Foreign 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 funds denominated in foreign currencies is prohibited.

Share price opportunities and risks

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

Interest rate opportunities and risks

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

In the current financial year, the issuance of another bonded loan further reduced the share of variable-rate liabilities and increased the share of fixed-rate liabilities. As a result, it was possible to reduce the average interest rate for variable-rate financial liabilities to 1.0225% (2014: 1.5%). A change in this interest rate of plus 1.0% to 2.0225% would cause interest expenses to rise by €9.192 million.

Due to the present market environment with negative refinancing rates, a reduction of the interest rate would have no impact on the current interest expenses.

Legal and regulatory opportunities and risks

The companies of the Group are exposed to risks in connection with litigation in which they are currently involved or may be involved in the future. This kind of litigation comes about in the course of normal business activities, in particular in relation to the assertion of claims from services and deliveries that are not up to standard or from payment disputes. Legal risks can also rise from breaches of compliance regulations by individual employees. Antitrust investigations were conducted at various agricultural companies in Germany in 2015, including BayWa, with regard to crop protection wholesale operations. The investigation is ongoing. As at the time of the conclusion of the consolidated financial statements, the findings of the investigation were not available, even in part. Accordingly, no provisions have been made, aside from those for legal counsel, as the Board of Management is currently unable to assess the situation. BayWa establishes provisions for the event of such litigation risks if the occurrence of an obligation event is probable and the amount can be adequately estimated. In the individual case, actual utilisation may exceed the reserve amount.

Changes in the regulatory environment can affect the Group's performance. In particular, this includes government intervention in the underlying conditions for the agricultural industry and the renewable energies business. Negative impacts are related to 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 the regulatory environment 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 through a fall in potential disposal gains in the future or through lower incoming cash flow from the operation of the plants. BayWa combats the potential implications of such risks on earnings by pursuing a threefold diversification strategy in its business portfolio for renewable energies: by country, by energy carrier and by business unit (projects and service, on the one hand, and trade on the other).

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 debt monitoring system which spans all business units. To this end, credit limits are defined through a documented process of approval and monitored on an ongoing basis.

Alongside credit risks, counterparty risks are also reviewed on a regular basis in the Agricultural Trade business unit; this way, changes in market prices relating to outstanding sales and procurement contracts are measured in order to manage the risk of non-fulfilment of contractual obligations.

There is currently no discernible concentration of default risk from business relationships with individual debtors or groups of debtors. The maximum credit risk exposure on the reporting date corresponds to the book value of this class. The expected default risk amounts to €12.604 million (2014: €15.746 million).

Liquidity risks

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

Rating of the BayWa Group

BayWa 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 2015, the BayWa Group was again able to raise its credit facilities and issue a bonded loan. For reasons of cost effectiveness, BayWa deliberately dispenses with the use of external ratings.

Opportunities and risks associated with personnel

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

At the same time, BayWa AG promotes the ongoing training and professional development of its employees. With more than 1,300 trainees in Germany and Austria in 2015, 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 overall business activity of the BayWa Group. All key business processes are supported by IT and mapped using state-of-the-art software solutions. In a trading company with high numbers of employees, having work processes supported electronically is imperative. The continuous review and revising of processes, 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 realised. At the same time, the risk inherent in the system rises in tandem with the growing complexity and dependency on the availability and reliability of the IT systems.

To realise the opportunities and minimise the risks, the IT skills and expertise of the BayWa Group are always kept up to date. The resources are pooled in RI-Solution GmbH, a BayWa subsidiary that provides the Group companies with IT services at the highest standard. Extensive precautionary measures, such as firewalls, virus protection updated on a daily basis, disaster recovery plans and training in data protection, serve to safeguard data processing. Segregated in organisational terms, a data protection officer monitors compliance with security and data protection standards.

Overall assessment of the opportunity and risk situation by Group management

An overall assessment of the current opportunity and risk situation shows that there are no risks which could endanger the Group as a going concern. There are currently no such risks discernible for the future either. All in all, the risks to the BayWa Group are limited and manageable.

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

Internal Control System and Risk Management System in Relation to the Group Accounting Process

The Internal Control System (ICS), which monitors accounting processes, is a key component of opportunity and risk management. The BayWa Group has set in place a professional control system, which has been certified in many areas, comprising measures and processes to safeguard its assets and to guarantee the presentation of a true and fair view of the result of operations.

The consolidated financial statements are drawn up through a centralised process. Compliance with legal provisions and regulations pertaining to the Articles of Association during this process is guaranteed by the prescribed accounting standards. Corporate Accounting acts as a direct point of contact for the managers of the subsidiaries in matters pertaining to reporting and the annual and interim financial statements and draws up the consolidated financial statements in accordance with IFRS (International Financial Reporting Standards).

A control system which monitors the accounting process ensures the complete and timely logging of all business transactions in accordance with the statutory provisions and the regulations laid down under the Articles of Association. Moreover, it serves to guarantee that stocktaking is duly and properly performed and that assets and liabilities are recognised, valued and disclosed appropriately. The control system uses both IT-based and manual control mechanisms to fully ensure the regularity and reliability of accounting. Beyond this, suitable control mechanisms, such as strict compliance with the principle of dual control and analytical reviews, have been established in all processes relevant for accounting. In addition, Internal Audit, which is independent of these processes, audits all accounting-related processes.

The obligation of all subsidiaries to report their figures every month to BayWa on an IFRS basis in a standardised reporting format makes it possible to swiftly identify deviations from planned targets, thereby offering an opportunity to take action at short notice.

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

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

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

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

Outlook

Outlook for the Agriculture Segment

Expected market and industry development

The agricultural industry continues as a growth market. The long-term forces driving growth in demand include, in particular, the constantly expanding global population, whose need for food is continuously increasing. In addition to this, rising income levels lead to a change in consumption habits in favour of animal products. At the same time, 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 continue to incease, and the digitisation of agriculture, expanding at a dynamic rate, will have a significant impact on the optimisation of workflows and boosting income. At the same time, the need for operating resources is also growing in order to optimise yields per hectare. The global interconnection of markets for agricultural produce is widening the procurement and sales basis for internationally active companies and accordingly allows for the continuous supply of the markets. However, particularly good or poor harvests of certain agricultural products or 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 medium- and long-term perspectives.

Based on current forecasts for the harvest season 2015/16, grain and oilseed are set for another excellent harvest; grain harvest volume – excluding rice – is expected to amount to 2,000 million tonnes, only slightly below the record level of 2,023 million tonnes seen the previous year. Global consumption is expected to rise by just under 1% to 1,983 million tonnes, meaning that inventories are likely to increase by approximately 20 million tonnes to 475 million tonnes. As a result, the coverage of the inventory stocks will increase from 84 days in the grain year 2014/15 to 87 days in the grain year 2015/16. Overall, a good supply situation is also expected for the EU. While forecasts indicate that the harvest volume will be some 8% smaller in the grain year 2015/16, this nonetheless stands to be largely offset by lower wheat exports and higher corn imports. According to their most recent forecast, experts from the International Grains Council (IGC) anticipate a slight drop in the global harvest volume for wheat and corn in the grain year 2016/17. Compared over several years, grain prices are significantly down on the highs of 2011 and 2012. Owing to the good supply situation worldwide, grain prices are expected to fall slightly over the short term. A sustainable recovery of prices is likely to occur only if the harvest prospects for 2016/17 deteriorate. The weakening of the euro's exchange rate with respect to the US dollar could lead to lower levels of grain exports from the United States and benefit exports from the euro zone.

In the case of feedstuff grain, the US Department of Agriculture (USDA) forecasts a minor increase in inventories in the grain year 2015/16, as the anticipated consumption of 1,266 million tonnes is just below the production volume at 1,270 million tonnes. Following a slight price decline in 2015, a larger drop in prices for staple and mixed feed is not expected for 2016.

In the case of agricultural operating resources, a slight increase in demand is also expected for seed in 2016, as EU environmental, or greening, requirements became compulsory on 1 January 2015. Under these new regulations, agricultural operations must initially ensure that 5% their land is set aside as an Ecological Focus Area (EFA). Many farmers left this land fallow in the past year. However, the land may continue to be used for farming under certain conditions, including the cultivation of high-protein plants to bind nitrogen in the soil or the cultivation of catch and cover crops. Demand for seeds for legumes and other catch and cover crops is therefore likely to rise. Assuming that the cultivation structure remains largely the same in 2016 and that we will see normal weather conditions, the use of crop protection products is expected to be well above the previous year's level. In particular, the demand for fungicide is likely to go up again following the sharp drop during the previous year due to dry weather. Prices are expected to remain stable on the whole in 2016. Assuming that we will see normal weather conditions during 2016 as a whole, a moderate increase in fertiliser sales is anticipated, as the dry weather also limited the application of fertiliser in 2015. While the relatively mild winter 2015/16 allowed for an early start to fertilising, traders and farmers have been reticent so far concerning advance sales, especially with regard to nitrogen fertilisers. The German Fertiliser Ordinance (DüV) set to take effect in autumn 2016 could lead to a slight drop in demand. The ordinance limits the amount of fertilisers containing nitrogen or phosphates that can be used and extends the fertiliser blackout period from three months to four. Following an increase in fertiliser prices of approximately 3% in 2015, prices are expected to trend sideways until summer 2016. The fall in energy prices could also have a detrimental effect on fertiliser prices in the second half of the year. As in previous years, different types of fertiliser are expected to develop differently.

Assuming that we will see normal weather conditions in Germany, an average harvest yield for apples of some 965,000 tonnes is anticipated in 2016, which is largely on par with 2015. The political and regulatory framework is also the same as in the previous year. Demand is likely to experience virtually constant development. In light of this, fruit prices are expected to remain stable. Similar development is anticipated for the other EU countries. Based on current fruit development overall, the apple harvest in the southern hemisphere is expected to total some 5.3 million tonnes (previous year: approximately 5.4 million tonnes). Following last year's record harvest, apple production in New Zealand for 2016 is anticipated to be down by 1% year on year at some 548,000 tonnes. Exports, however, are likely to increase by around 1% to 337,000 tonnes. Due to an increasing focus on greater quality and a further rise in exports to Asia, apple prices are expected to either remain stable or rise slightly.

Revenues for many types of agricultural produce suffered a considerable decline in 2015. As a result, the agricultural sector's sentiment indicator took a marked turn for the worse over the course of 2015, and the assessment of the future situation also remains subdued. At 28%, the propensity of farmers to make investments in the first half of 2016 is down considerably from 34% the previous year. At €3.3 billion, planned investment volume is also down significantly from €4.7 billion in the previous year. The negative trend in terms of investment stretches across all sectors, from the construction of farm buildings to farm and animal equipment and from technical facilities and machinery to outdoor equipment. The only area in which investment volume is on par with the previous year, albeit at a low level, is electronic equipment. Against this backdrop, the German Engineering Federation (VDMA) anticipates a decline in investment in Germany in 2016 of approximately 5% to €7.0 billion (previous year: €7.4 billion). Over the medium and long term, the agricultural equipment industry will benefit, however, from the continued increase in the use of technology to step up agricultural production and boost efficiency. Increasing digitisation in the areas of smart farming, precision farming and farm management will open up additional business potential.

Anticipated business performance

Anticipated business performance

The business activities of the Agriculture Segment were restructured with effect from 1 January 2016: The activities of the Agricultural Trade business unit were split up into the new BayWa Agri Supply & Trade (BAST) and BayWa Agricultural Sales (BAV) business sectors. BAST combines BayWa's national and international trade, distribution and logistics activities for grain, oilseed and related products. The collection business and trade in operating resources and feedstuff have been pooled in the new business sector known as BAV. The Agricultural Equipment, Digital Farming and Fruit business sectors remain unchanged.

In 2016, the BayWa Group's volume of trade in agricultural produce – particularly grain and oilseed, as well as feedstuff – is expected to be up significantly on the previous year. This is based on the positive business from the subsequent collection and storage of the harvest, high grain inventories and the high harvest volume forecasts for the grain year 2015/16. In addition, the initial inclusion of Wessex Grain Ltd. and the newly opened trading offices in Ukraine, Russia and Argentina as part of BayWa's international expansion strategy is contributing positively to growth. With the acquisition of malting barley trader Evergrain Germany GmbH & Co. KG, BayWa is also further expanding its speciality business internationally. Altogether, this is likely to result in the expansion of the handling volume of grain and oilseed to more than 32 million tonnes.

In the operating resources business, sales volume in the BAV business sector in 2016 is set to climb primarily on account of better market penetration in existing sales regions. Owing to greening requirements, the sales volume for seed is expected to increase slightly. Following a weak performance for crop protection products in 2015 due to dry weather, demand is anticipated to return to normal again. Normal weather conditions in 2016 are also likely to lead to a moderate rise in sales in the fertiliser business as well. In terms of feedstuff distribution, the restructuring of the business with new own brands is poised to have a positive impact on sales.

In total, revenues for the BAST and BAV business sectors are expected to be significantly higher than revenues in the Agricultural Trade business unit in 2015. An unusually high improvement in the operating result (EBIT) is also anticipated, as the negative impact from start-up costs for grain trading activities in Italy, Spain and Romania will no longer apply and additional earnings can be expected thanks to the continued expansion.

In the fruit business, the entire marketing volume of the BayWa Group is set to increase noticeably. The acquisition of the majority interest in the Dutch supplier of exotic fruits and vegetables, TFC Holland B.V. (TFC), will play an important role in this regard. In New Zealand, improved prices and a moderate increase in exports to Asia are expected to overcompensate for the slight decline in the harvest volume of apples. Overall, the Fruit business sector is therefore likely to be able to considerably increase revenues year on year. Due to positive one-off effects at New Zealand-based subsidiary T&G, the operating result (EBIT) will likely see an exceptionally strong rise. In addition to the acquisition in the Netherlands, the optimisation of the network of locations in the German fruit business and the ensuing productivity gains also stand to contribute to an improvement of the result.

In the agricultural equipment business, the level of orders has dropped noticeably as a result of famers' lower propensity to invest. A considerable decline in sales concerning the trade in new machinery is therefore to be expected for 2016. However, the complete takeover of the Dutch Agrimec Group B.V. is likely to offset this effect, while the farm and animal equipment business volume will probably be down significantly year on year, as well. The service business, on the other hand, is poised to expand cnonsiderably due to the high sales figures for agricultural machinery. Overall, BayWa expects to see a slight increase in revenues for agricultural equipment in 2016. Upfront costs for the specialisation of sales operations at Massey Ferguson and the new central warehouse for replacement parts near Schweinfurt, the operating result (EBIT) is likely to fall significantly short of the previous year's level.

The Digital Farming business sector is likely to generate revenues measured in euros in the high single-digit millions. Due to the necessary investments to develop this scalable business, disproportionate upfront and start-up costs are expected until 2018 as part of medium-term planning. The operating result (EBIT) as measured in euros is likely to turn out negatively in the low, single-digit millions.

On the whole, BayWa anticipates an unusually high increase in revenues in the Agriculture Segment and a significant rise in the operating result (EBIT).

Outlook for the Energy Segment

Expected market and industry development

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 for the price of crude oil indicate that the current excess supply will persist into the third quarter of 2016. In light of this, a maximum price increase to approximately USD45 per barrel is expected. Heating oil consumption in BayWa AG's core regions is likely to see considerable further decline in 2016 due to structural factors, such as the rise of renewable energies, the increasing use of gas and energy savings through the use of modern technologies and energy-efficient building renovation. Sales of wood pellets are benefitting from the number of installed wood pellet-based heating systems, which continues to increase. The growth potential of this energy carrier is, however, limited by the regional availability of the raw material and the limited transportation distance in economic terms. Sales of fuels and lubricants are primarily dependent on economic development. In view of the forecast economic growth of 1.7% for Germany in 2016, demand can be expected to rise moderately.

In terms of renewable energies, the course has been set for long-term development: The energy concept introduced by the German federal government aims to gradually expand the proportion of electricity generated from renewable sources from the current level of around 33% to between 40% and 45% in 2025, then to 55% to 60% by 2035, and then to at least 80% in 2050. In the EU, the proportion of total energy consumed from renewable sources is to rise to at least 27% by 2030. However, renewable energy subsidies have been cut back or abolished in many countries on account of the European sovereign debt crisis.

In Germany, the amendment to the German Renewable Energy Sources Act (EEG) from August 2014 aimed to make the energy transition policy affordable for German citizens and the economy and to limit the negative impact on the entire energy provision system. As a result, direct distribution in a market premium model is becoming the norm for all operators of large-scale renewable energy plants. Surplus electricity from new plants with installed output greater than 500 kilowatts (KW) must be sold and traded on the energy exchange, usually by a direct distributor. The guaranteed feed-in tariff still applies to smaller plants with a term of 20 years. However, in the case of new plants, the EEG surcharge is also to be paid for self-generated and consumed electricity provided the de minimis thresholds of 10 KW of installed output or a generation of 10 megawatt-hours (MWh) for own consumption per year are exceeded.

An expansion corridor has been defined for onshore wind turbines – as was the case before for photovoltaic technology. Based on a feed-in tariff decline of 0.4% per quarter from 1 January 2016, the rates of reduction increase if the expansion corridor is exceeded and drop if expansion rates fall short of the defined corridor. The 2014 amendment to the German Renewable Energy Sources Act (EEG) removes all previous material-related one-off bonuses for new biomass plants. The expansion of biomass technology was focused on the use of residual materials such as slurry and refuse. The preparations for a new version of the German Renewable Energy Sources Act (EEG) are currently underway. The revised law is set to take effect already in early 2017. According to the current version of the draft, the funding of onshore and offshore wind turbines, as well as large photovoltaic systems, will occur through competitive tendering in future. The lowest bids will receive the allowance until the installed output in the invitation to tender has been reached. The only turbines/systems excluded from the invitations to tender are those with an installed output of up to 1 MW, for which the subsidy amount is determined by law. Funding for existing biomass plants is scheduled to be phased out gradually from 2020, which makes the construction, renovation or expansion of biomass plants unattractive from a financial perspective.

All in all, the expansion of capacities in the areas of photovoltaics, wind energy, solar and biomass is expected to slow considerably – as is the political intention – due to the amendment to the German Renewable Energy Sources Act (EEG). In some southern European countries, the expansion of renewable energies will also decrease sharply due to cuts to or the abolition of subsidisation. On the other hand, investments in renewable energies are expected to continue rising worldwide. China is poised to account for the largest share of this growth. The country aims to realise an increase of 150 GW in the photovoltaic sector by 2020. Forecasts project a worldwide increase of 64 GW for photovoltaics in 2016, equating to year-on-year growth of approximately 25%. The share of global photovoltaic demand attributable to the United States is expected to rise from 10% in 2015 to 15% in 2020 as a result of the extension of the solar investment tax credits (ITC) until 2019 for now. In Germany, forecasts indicate that at 1.4 GW, the expansion of new photovoltaic capacities will be on par with 2015. A major decline in investments is expected in the United Kingdom, as the Renewables Obligation Certification (ROC) funding expired at the end of March 2016.

China is by far the largest single market for wind energy as well. Installed output is set to grow there by an additional 200 GW by 2020. In the United States, which is the second-largest market in the world, rebates based on the production tax credits (PTC) have also been extended until 2019, meaning that a further increase of 9.4 GW in wind turbines can be expected there in 2016. In Europe, growth is set to subside considerably. In light of the subsidisation set to expire at the end of 2016, however, forecasts indicate an expansion in capacities of 1.2 GW in the United

Kingdom, which corresponds to a threefold increase year on year. In Germany, the installed output is expected to grow by a total of 3.6 GW in 2016, of which 2.6 GW is attributable to onshore and 1.0 GW to offshore wind turbines.

Anticipated business performance

Even though heating oil prices are at their lowest level in eleven years, it is unlikely that demand will rise, as many consumers took advantage of the sharp drop in prices over the course of 2015 to refuel. As a result, heating oil tanks are still relatively full, which is also due to the mild 2015/16 winter. In addition, the structural decline in demand in heating oil business is set to continue. The slight increase in market share is not expected to compensate for the resulting significant fall in sales. In the business with fuels and lubricants, a slight increase in sales is anticipated owing to the expected positive economic development. In terms of the sale of wood pellets, significant growth opportunities have opened up following the establishment of five specialised centres in southern Germany and warehousing locations with sophisticated logistics, as well as an online shop that provides free delivery on shipments across Germany. In addition, the takeover of the wood pellet business at Hofgut Mauer in Württemberg in autumn 2015 enhanced market penetration. In 2016, revenues in fossil and renewable heating fuels, fuels and lubricants trading are set to be up considerably in a year-on-year comparison across all product areas as based on current prices. From today's perspective, a significant decline in the operating result (EBIT) is expected based on existing business activities. It may be possible to mitigate this drop in earnings through a gain in market share above all in Austria.

The Renewable Energies business sector is set to continue down its path towards growth in 2016 through organic developments and acquisitions. The opening of branches in Japan and Singapore represents a first step in entering the market in South East Asia. Declines in some European countries or technology industries will be more than compensated for by growth in other markets. The project pipeline for commissioning and turbine/plant sales with respect to wind and solar energy currently amounts to a total of around 375 MW, of which some 200 MW is attributable to the photovoltaic business and some 175 MW to wind power. The focus of photovoltaic business in 2016 will be on new projects in the United Kingdom and the United States. With respect to wind turbines, activities are focused on Germany and France. In terms of biomass business in Germany, the focus continues to be on the repowering of existing plants, consultancy services and raw materials management. Following several years of consolidation in photovoltaic component trading in continental Europe, 2016 is likely to see this period come to an end and mark the road to recovery.

BayWa r.e.'s business in Germany is benefiting from innovative system solutions. Further increases in sales in the United States are also expected, though it is unlikely they will be able to fully compensate for declines in other regions, especially the United Kingdom. The development of revenues and earnings depends primarily on the number and capacity of project sales concluded. In contrast to the number of systems, the capacity of project sales is unlikely to reach the high level achieved the previous year in 2016. Overall, the revenues of the Group company BayWa r.e. are expected to increase considerably on 2015. As a result of lower year-on-year margin potential due to increasing competition, the operating result (EBIT) is expected to see a considerable decline, though it is expected to significantly exceed the EBIT level from 2014.

Overall, there is likely to be a significant increase in the Energy Segment's revenues for 2016 on the basis of anticipated development in individual areas. The operating result (EBIT) is expected to be below the exceptionally high figure achieved in 2015.

Outlook for the Building Materials Segment

Expected market and industry development

According to industry association Hauptverband der Deutschen Bauindustrie, the pace of growth in the German construction industry is likely to rise year on year; the construction industry's revenues are expected to increase by 3.0% to €103 billion overall. Based on the 4.6% increase in the number of building permits for residential construction in 2015, accelerated growth of real investments in residential construction by 5.0% is expected for 2016. New construction is set to be nearly 10% higher than in 2015. Factors contributing to this growth also include the doubling of funding provided by the German federal government for residential construction for 2016–2018 to €1 billion per year, as well as planned additional tax incentives to stimulate investment. Forecasts indicate a rise of 3.0% for investments in modernisation measures. The tightening of requirements from the German Energy Saving Ordinance (EnEV) and improvements made to the KfW subsidy programmes are providing positive stimuli where this matter is concerned. Following a slowdown in 2015, commercial construction is expected to stage a moderate recovery with growth of 1.6%. Investments in public-sector construction are set to expand by 2.2%, driven primarily by greater investments by the German federal government in streets, railways and waterways.

In contrast, the construction industry in Austria is expected to continue seeing weak development in 2016, according to forecasts from the Austrian Institute of Economic Research (WIFO), which anticipates an increase in construction activity of merely 0.8% in real terms. As a result, growth in the construction sector is poised to be well below the rise in macroeconomic output in 2016. This increase will be driven by a slight improvement in the order situation for structural engineering, while a lower year-on-year volume is expected for civil engineering.

Anticipated business performance

As was the case already in previous years, a large portion of growth in the construction sector is attributable to the construction of multi-storey dwellings in major urban areas, as living space in these locations remains highly scarce. In rural areas, the underlying conditions will remain a mixed bag. As a result, the construction volume of commercial buildings in the agricultural sector is expected to drop sharply. Building permits for commercial structural engineering projects also continue to face a slight decline, meaning no positive momentum can be anticipated there as well. The moderate rise in the number of building permits for new owner-occupied homes is the only factor that could lead to growth in regions outside of major urban areas. In light of this, BayWa's trade in building materials stands to participate in the generally positive industry development to only a lesser extent in 2016. In contrast, BayWa is benefiting from the growing prefabrication trend and the expansion of the business with "mobile generalists" in terms of crafts- and tradespeople. Through the continued expansion of e-commerce, additional growth opportunities are opening up beyond the existing market area. Due to the reduction in the number of building materials sites, revenues in the Building Materials Segment are expected to fall year on year by a small margin. The operating result (EBIT) is likely to be down slightly on that from 2015 due to increased costs in some areas, such as the costs of wages. Insufficient growth prospects in the medium to long term coupled with foreseeable cost increases is forcing the search for a strategic partner for building materials trading activities in Germany.

Other Activities

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

Outlook for the BayWa Group

Prospects for the BayWa Group are positive, though restrained for 2016. Group revenues are expected to increase significantly in 2016 on the basis of the expected underlying conditions in the segments. The Group's operating result (EBIT) is anticipated to improve slightly year on year. From today's perspective, the earnings indicators EBITDA and EBT are likely to see development which is similar to that of EBIT. BayWa is continuing its strategy of strengthening profitability sustainably in order to safeguard the independence of the company over the long term and ensure that it is fit for the future.