Management Report on the Group in the Financial Year 2016

OVERVIEW

Faced by a globally challenging market environment with highly volatile prices in some cases for raw materials and agriculture produce, the BayWa Group once again benefited from its international positioning and widely diversified portfolio in the reporting year 2016. While development in the Energy Segment, Building Materials Segment and the Fruit business unit was highly successful, unfavourable conditions affected agricultural trade activities and the agricultural equipment business. Overall, the Board of Management still regards the business performance of the BayWa Group in 2016 as satisfactory.

BayWa pressed ahead with its strategy in the financial year 2016 as well with a number of measures. For example, BayWa acquired 100% of the shares in Evergrain Germany GmbH & Co. KG, Hamburg, Germany, in January 2016, as part of its specialisation strategy with regard to trade in agricultural produce. Evergrain is specialised in international trading with malting barley. This was followed in January 2017 by the acquisition of the Thegra Tracomex Group, Oosterhout, Netherlands, by the Dutch Group company Cefetra B.V. The Thegra Tracomex Group trades in specialities, such as barley, oats, legumes and organic produce. BayWa significantly strengthened its position as a leading international provider of exotic and pome fruit by expanding its portfolio in the growth market for exotic speciality fruits in the “ready-to-eat” sector in 2016 through the majority interest in the Dutch supplier TFC Holland B.V. (TFC). In the Agricultural Equipment business unit, BayWa entered into a partnership for marketing CLAAS products in Canada. BayWa also acquired the remaining 51% of the shares in the Agrimec Group B.V., which is based in the Netherlands and operates in agricultural machinery sales and service, in July 2016. In January 2017, BayWa entered into another joint venture with Barloworld South Africa to expand the partnership for agricultural equipment and logistics technology in South Africa and other neighbouring markets. This marks the systematic continuation of the business unit’s path towards internationalisation to secure long-term growth opportunities. In the field of renewable energy, BayWa r.e. renewable energy GmbH (BayWa r.e.) established two new companies in Singapore and Bangkok in 2016 to have a hand in South-East Asia’s dynamic growth with regard to project planning as well as trading in photovoltaic components. With the establishment of a new subsidiary in Luxembourg, involving the partial takeover of existing business operations, BayWa r.e. is also expanding its photovoltaic sales activities in Belgium, the Netherlands, Luxembourg and France. The acquisition of the photovoltaic wholesale distributor Solarmatrix, Perth, Australia, marks another step forward on the path towards strategic growth as well. In addition to this, BayWa r.e. took over several companies in Italy, Spain and the UK focused on the technical and commercial management of solar power plants and wind turbines. As a result of these acquisitions, BayWa r.e. now oversees system output of more than 2.3 gigawatts (GW) worldwide. In terms of conventional energy, BayWa significantly increased its market share in the heating business with wood pellets by acquiring the sales activities of Dr. Gies Vermögensverwaltung Future Energies GmbH. The Buildings Materials Segment expanded its online range by adding a room designer, and it is involved in the creation of the “Mr+Mrs Homes” property configurator. What is more, the online portal for building materials launched in January 2017. Finally, BayWa has plotted an even clearer course into the digital future by establishing the independent Innovation & Digitalisation Segment, which is responsible for developing and marketing digital products and services for enhancing productivity in agriculture. It also pools the BayWa Group’s e-commerce activities in the BayWa Online World.

Overall, revenues in the Agriculture Segment increased in the financial year 2016 by 7.2% to €10,884.5 million. However, EBIT for the segment declined by €19.9 million to €70.1 million. Revenues for the new BayWa Agri Supply & Trade (BAST) and BayWa Agricultural Sales (BAV) business units stood at €8,968.4 million for 2016, which is 7.8% higher overall than the 2015 figure for the former Agricultural Trade business unit. The increase was due primarily to the expansion of international grain and oilseed trading activities by some 12% to 33.8 million tonnes. Owing to negative effects that impacted the trading result, stiff competition in new markets and weaker business with operating resources in the reporting year, EBIT stood at €17.2 million, down €24.4 million year on year compared to the 2015 Agricultural Trade result. The Fruit business unit saw excellent development in 2016, recording a considerable increase in revenues by 16.2% to €659.3 million. In particular, higher prices for fruit from New Zealand and increased sales volumes for soft and stone fruit, tropical fruit and fruiting vegetables contributed to this rise. The acquisition of the majority interest in Dutch TFC in March 2016 had an especially positive impact, resulting in the significant increase of the tropical fruits offered. Due to an improved product mix featuring more produce with higher margins, EBIT increased by 56.5% to a new record of €42.3 million. Revenues in the Agricultural Equipment business unit fell by 0.3% to €1,256.8 million as a result of a considerable decline in the willingness of farmers to invest. EBIT saw a decrease down to €10.6 million, primarily due to the drop in new machinery business.

For the Energy Segment, 2016 was another record-breaking year. The output generated, which includes all wind turbines, solar power and biomass plants commissioned in 2016, came to 265.0 megawatts (MW) in the reporting year. Revenues for the Renewable Energies business unit declined in particular on account of lower market prices for solar components by 7.1% to €945.9 million. However, with an 8.9% increase in earnings to €67.3 million, the business unit's EBIT set a new record. Conventional Energy revenues decreased by 9.6% to €2,030.1 million, primarily on account of heating oil and fuel prices, which were down on average year on year. EBIT improved in particular due to the positive development of margins in the fuel business, increasing by €0.4 million to €15.8 million. Altogether, at €2,976.0 million, the Energy Segment's revenues for the financial year 2016 were down year on year by €288.2 million, or 8.8%. It was possible to increase EBIT by 7.7% to €83.1 million, however.

In the financial year 2016, the Building Materials Segment generated revenues of €1,530.1 million, which amounts to growth of 2.3%. This rise was primarily due to higher sales volumes resulting from a bustling construction sector. Sales volumes of the entire building materials portfolio benefited from a booming housing construction market in particular, which also led to a spike in demand for prefabricated components, such as stairs, ceilings and garages. Products from the ranges for civil engineering and road construction work saw growing demand over the course of the year on account of the increase in repairs and modernisations carried out on motorways, bridges and tunnels. EBIT improved by €1.1 million to €28.5 million on the back of expansion efforts focused on private brands, the ongoing optimisation of the site network and lower logistics costs due to oil prices.

The range of the Innovation & Digitalisation Segment, created in the second half of 2016 from the former Digital Farming business unit, covers the software products Agrar Office and NEXT Farming from the subsidiary FarmFacts, which provides digital maps, analyses and advisory services with regard to the digitalisation of agriculture. E-commerce combines all of the BayWa Group's online activities. BayWa has set itself the target of taking on a leading role as a professional partner to the agricultural industry when it comes to digital farming and farm management solutions. The Innovation & Digitalisation Segment generated revenues of €6.0 million in the reporting year, representing an increase of 14.9%. Due to the high level of investments in the development of digital farming solutions and the new BayWa Online World, and due to the operating business units' service function with no direct income, the Innovation & Digitalisation Segment reports EBIT of €−8.6 million (2015: €−2.9 million) that falls within the scope of planning.

In total, the BayWa Group generated revenues of €15,409.9 million in the reporting year, which represents a year-on-year increase of 3.2%. The BayWa Group's operating result (EBIT) decreased by 8.5% to €144.7 million. The decline in earnings is due above all to the unfavourable market conditions in the Agriculture Segment. Consolidated net income decreased by 14.4% to €52.7 million. Earnings per share attributable to the shareholders of BayWa AG amounted to €0.90 (2015: €1.39). 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. In light of this, the Board of Management and Supervisory Board will propose an unchanged dividend of €0.85 per share to the Annual General Meeting.

BACKGROUND TO THE GROUP

BayWa Group Business Model

Group structure and business activities

The BayWa Group

2016	Revenues (in € million)	Employees (annual average)
Agriculture	10,884.5	10,212
Energy	2,976.0	1,911
Building Materials	1,530.1	4,081
Innovation & Digitalisation	6.0	126
Other Activities	13.3	630
Total	**15,409.9**	**16,960**

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, divided into the three operating segments Agriculture, Energy and Building Materials, as well as the new Innovation & Digitalisation Segment focused on development, encompass wholesale, retail, logistics, as well as extensive supporting services and consultancy. The BayWa Group has registered places of business in 40 countries, either through itself or through Group companies.

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 developing in an omnichannel direction. 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. BayWa identified this trend at an early stage and integrated it into its strategy 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. In order to do justice to this, BayWa established the new Innovation & Digitalisation development segment in the second half of 2016.

BayWa AG conducts its business in the three operating segments and the Innovation & Digitalisation development segment both directly and through its subsidiaries, which are included in the group of consolidated companies. Besides the parent company BayWa AG, the BayWa Group comprises 298 fully consolidated Group companies. Furthermore, 33 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 2016, it accounted for roughly 71% of revenues. The business activities of the Agriculture Segment were restructured with effect from 1 January 2016: The former Agricultural Trade business unit was split up into the new BayWa Agri Supply & Trade (BAST) and BayWa Agricultural Sales (BAV) business units. 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 feedstuffs are pooled in the business unit known as BAV. These Fruit and Agricultural Equipment business units remain unchanged. The Digital Farming business unit, which was part of the Agriculture Segment since its establishment in the fourth quarter of 2015, has been managed separately since the second half of 2016 as the independent Innovation & Digitalisation Segment. The previous year's figures for the Agriculture Segment have been adjusted accordingly for the purposes of comparability.

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

BAST

BayWa is the leading European company in agricultural trade with a global reach. In the BAST business unit, BayWa acts as a supply chain manager in the case of grain and oilseed. It covers the entire value chain from procurement and logistics to sales, and it is continuing to expand its international grain trading activities. The business unit pools activities that are not tied to a specific location, particularly national and international grain trading, and is geared primarily towards grain or oil mills, producers of starch and feedstuffs, malt houses, breweries and biofuel manufacturers. BayWa sells products to local, regional, national and international companies in the foodstuff, wholesale and retail industries through its in-house trade departments. In January 2016, BayWa acquired 100% of the shares in Evergrain Germany GmbH & Co. KG, Hamburg, Germany, as part of its specialisation strategy with regard to trade in agricultural produce. Evergrain is specialised in international trading with malting barley. Through the acquisition, BayWa is assuming a leading role in the malting barley business. The biggest market potential for malting barley lies in the European Union and increasingly in the growth markets of South America and Asia. Another step in the process of expanding the speciality business followed in January 2017 with the acquisition of 100% of the shares in the Thegra Tracomex Group, Oosterhout, Netherlands, by BayWa's Dutch Group company Cefetra B.V. Consisting of the five companies Thegra Tracomex B.V., Thenergy B.V., Thegra Polska Sp. z.o.o., Biocore Holding B.V., which includes Biocore B.V., and Riveka BVBA, the Thegra Tracomex Group has locations in the Netherlands, Belgium and Poland, and trades in specialities, such as barley, oats, legumes and organic produce. BayWa is expanding trade in specialities to further diversify the overall portfolio.

BAV

The BayWa Agricultural Sales (BAV) business unit directly covers the stages of the value chain with farms: collection, sales and service. It supplies farmers with operating resources such as seed, fertilisers, crop protection and feedstuffs throughout the entire agricultural year and collects harvested produce. For its collection activities, BayWa maintains a dense network of high-performance locations in its core regions with significant transport, processing and storage capacities that ensure seamless goods delivery, quality inspection, processing, correct storage and handling of agricultural produce. When it comes to the procurement and marketing of produce, BayWa possesses a global network comprising both inland and deep water ports.

In its traditional core regions, BayWa's agribusiness is embedded in the agricultural cooperatives trading structure. In Germany, this business is focused on specific regions on account of historical structures. BayWa has 218 sites in its regional core markets, particularly in Bavaria, Baden-Württemberg, Mecklenburg-West Pomerania, Thuringia, Saxony, Saxony-Anhalt and southern Brandenburg, which form part of an extensive and dense network. By expanding its digital activities, BayWa is also acquiring new customers beyond these regions. Through its Austrian subsidiary RWA Raiffeisen Ware Austria Aktiengesellschaft (RWA AG), which maintains close business relations across the whole of Austria with 469 cooperative warehouses, BayWa is represented throughout the country. Numerous privately owned medium-sized trading enterprises, mainly operating locally, make up the competitive environment for agricultural produce. In contrast, there are also a number of wholesalers operating nationwide that offer operating resources. All in all, BayWa has established a leading market position for itself in the agricultural trade in Germany and Austria.

Fruit

The Fruit business unit is one of the BayWa Group's business units with the greatest international focus. With the acquisition of T&G Global Limited (T&G) in 2012, BayWa has not only tapped into the New Zealand market, but also gained access to the American continents, Australia and Asia through its network of international trade links. Together with its subsidiary Apollo Apples (2014) Limited, T&G Global Limited is the leading provider of apples in New Zealand with international trade links to Asia, Europe, Australia and the Americas, which makes BayWa one of the most important pome fruit traders worldwide. In Germany, BayWa is the leading single seller of dessert pome fruit to wholesalers and retailers in the food industry and the largest supplier of organic pome fruit. Furthermore, BayWa also collects, stores, sorts, packages and trades fruit for customers in Germany and abroad as a marketer under contract at its seven sites in the Lake Constance, Neckar and Rhineland-Palatinate regions. BayWa expanded its portfolio in the growth market for exotic speciality fruits in the "ready-to-eat" sector in 2016 through the majority interest in the Dutch supplier TFC Holland B.V. (TFC), significantly strengthening its position as a leading international supplier of fruit and pome fruit. TFC has long-standing international trade relations in all procurement markets for tropical fruits – mainly for avocado, mango and citrus fruits – as well as with the European food retail industry. By taking this step, BayWa systematically continued its specialisation in the national and international fruit business. Using an attractive product portfolio featuring specialities to set yourself apart from the competition is also playing an increasingly significant role in the German market, which is marked by a high concentration on the demand side.

Through the reciprocal marketing of dessert fruit and pome fruit between the northern and southern hemispheres, BayWa is in the position to provide trade partners in Europe with fresh produce all year round, expand its product range and seize sales opportunities for German fruit on the international growth markets. The sales structures of T&G and its affiliates offer the potential to open up additional sales markets, particularly in Asia.

Agricultural Equipment

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

For products made by AGCO – with the brands Fendt, Massey Ferguson, Challenger and Valtra – and CLAAS, BayWa is the world's largest sales partner, and it maintains a closely linked network of in-house workshops in southern and eastern Germany, as well as the Netherlands, that are tailored to manufacturer brands. The range of workshop services is also complemented by mobile service vehicles to provide maintenance and repair services, as well as by the supply of replacement parts and trade in used machinery. BayWa also sells used machinery via an online platform. In 2016, BayWa expanded sales structures for Massey Ferguson-branded products to significantly increase their market share in the years ahead. Specialised Massey Ferguson sales activities launched at the first location in Münchberg, Upper Franconia, Germany, in November 2016. A total of 18 establishments are planned for Massey Ferguson sales in Bavaria and Saxony. These locations will continue to provide services for all AGCO brands, however. Customers can have products from each of the brands repaired and serviced there, as well as obtain spare parts.

In BayWa's core regions, the market for agricultural equipment is focused primarily on replacement investments and the modernisation of machinery and systems. In light of this, tapping into international markets that harbour above-average growth potential is becoming more important, which is why BayWa entered into a partnership with CLAAS in Canada, for example. The partnership focuses on marketing CLAAS products in the province of Alberta. BayWa and CLAAS are planning to expand the dealer footprint in the region. The first location opened in 2016, and another is scheduled for 2017. In July 2016, BayWa also acquired the remaining 51% of the shares in the Agrimec Group B.V., a joint venture established together with the Agrifirm Group B.V. in 2014. The joint venture operates in agricultural machinery sales and service. In 2015, BayWa partnered with Barloworld Limited, Johannesburg, South Africa, to establish the joint venture BHBW Zambia Limited for distributing agricultural equipment in sub-Saharan Africa. This partnership resulted in a second joint venture for agricultural equipment and logistics technology in South Africa and other neighbouring markets in January 2017. BayWa and Barloworld each hold a 50% stake in both joint ventures. BHBW Holding holds licences to distribute AGCO brands Massey Ferguson and Challenger in the agricultural sector and the Hyster-Yale brands Hyster and UTILEV with regard to lift trucks and materials handling equipment. This marks the systematic continuation of the business unit's path towards internationalisation to secure long-term growth opportunities.

Energy Segment

In the financial year 2016, the Energy Segment accounted for around 19% of consolidated revenues. The segment's business activities are divided into the conventional energy business and the Renewable Energies business unit, which is housed in BayWa r.e. renewable energy GmbH.

Conventional Energy

In its conventional energy business, BayWa predominantly sells heating oil, fuels, lubricants and wood pellets in Bavaria, Baden-Württemberg, Hesse, Saxony and Austria. In the heating business, heating materials are primarily sold through in-house sales offices. Diesel and Otto fuels, as well as AdBlue, are sold through a total of 239 Group filling stations and partner stations in Germany. In addition, fuels are supplied to resellers and wholesalers. In Austria, more filling stations are managed by subsidiaries. The Group company GENOL Gesellschaft m.b.H. & Co. KG acts as a wholesale fuel supplier to cooperative filling stations. BayWa sells lubricants to commercial and industrial customers, as well as to farmers and operators of combined heat and power plants. BayWa has also positioned itself as a market leader in lubricants for biogas CHP units and with regard to multifunctional oils. The subsidiary BayWa Energie Dienstleistungs GmbH offers extensive and individual solutions for energy provision to residential properties, municipal and commercial buildings and the healthcare and industrial sectors.

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

Renewable Energies

The Group pools the lion's share of the renewable energy value chain in BayWa r.e. renewable energy GmbH. BayWa r.e. pursues a three-pronged diversification strategy for its business portfolio: by country, by energy carrier and by business activity. Business activities are divided into four areas: project development/implementation, services, photovoltaic trade and energy trade. Project development/implementation encompasses project planning, management and the construction of wind turbines, solar power, geothermal and biomass plants through to the sale of finished plants. In January 2016, for example, the purchase of project licences for 31 wind power projects with a total output of some 375 megawatts (MW) at various locations in Germany, mainly in North Rhine-Westphalia and Rhineland-Palatinate, was concluded. Services comprise planning and technical services, the provision of consumables, operational management and maintenance of the turbines and plants. BayWa r.e. acquired Italian service provider Kenergia Sviluppo S.r.l. in 2016. The company's operations focus on the technical and commercial management of solar power plants and wind turbines. The takeover means that BayWa r.e.'s operational management contracts in Italy are increasing by 270 MW to more than 500 MW, making BayWa r.e. one of the leading companies in the Italian market. In the United Kingdom, BayWa r.e. integrated the Green Hedge Operational Services Limited's service business, which involves support and maintenance for photovoltaic systems with a total output of 160 MW. In Spain, BayWa r.e. took over technical management of five solar power plants as part of the partnership with the asset and investment manager KGAL. BayWa r.e. now oversees system output of more than 2.3 gigawatts (GW) worldwide. In addition, the company also trades in photovoltaic systems and components and markets electricity, gas and heat generated from renewable sources. This business unit has had a strong international focus from the outset in order to reduce reliance on individual national markets. In 2016, BayWa r.e. established two new companies in Singapore and Bangkok to have a hand in South-East Asia's dynamic growth with regard to project planning as well as trading in photovoltaic components. Focus will initially be on the Thai, Philippine, Malaysian and Indonesian markets. With the establishment of a new subsidiary in Luxembourg – including the partial acquisition of an existing business – BayWa r.e. also expanded its photovoltaic sales activities in Belgium, the Netherlands, Luxembourg and France. The acquisition of Solarmatrix, which is a photovoltaic wholesale distributor located in Perth, Australia, marked another step forward on the path towards strategic growth as well. As a result, BayWa r.e. is now represented in all major European markets, North America, Japan, Singapore, Thailand and Australia, amounting to a total of 24 countries.

The market for renewable energies is a largely regulated market where energy is produced and fed into the grid at prices set by the government. Developments in the market are therefore largely determined by changes in the structure and size of state subsidies. In terms of wind and solar energy, BayWa r.e. operates in Australia, Austria, Croatia, Denmark, France, Germany, Greece, Hungary, Indonesia, Italy, Japan, Luxembourg, Malaysia, Mexico, Poland, the Republic of El Salvador, the Republic of Singapore, Romania, Spain, Sweden, Switzerland, Thailand, the UK and the USA. This ensures that BayWa r.e is highly diversified both in terms of its range of energy carriers and its geographic distribution. By consolidating various Group companies in the umbrella brand BayWa r.e. renewable energy and setting up a clear business structure in the areas of wind energy, solar power and 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 expected market growth. Generally, investment incentives through guaranteed feed-in tariffs or tax breaks affect demand. In Germany, the structuring of subsidies in the German Renewable Energy Sources Act (EEG) is a major factor influencing demand for wind turbines, solar power and biomass plants, as the profitability of these turbines and plants is determined by the statutory feed-in tariffs. Similar subsidy mechanisms usually exist in foreign markets. Furthermore, regulatory intervention in free trade also influences prices for systems components. Changes to relevant legislation can therefore have significant effects on investments in renewable energy.

Building Materials Segment

Approximately 10% of consolidated revenues are generated in the Building Materials Segment. The segment primarily comprises building materials trading activities in Germany and Austria. In addition, BayWa serves a number of franchise partners in the building materials and retail business in Austria through its Austrian subsidiary AFS Franchise-Systeme GmbH. The BayWa Group is Germany's number two in the building materials trade with a total of 128 locations and ranks among the leading suppliers in Austria with 27 sites. The number of franchise locations currently totals 1,029.

In the building materials trade, BayWa mainly caters to the needs of small and medium-sized construction companies, tradesmen, commercial enterprises and municipalities. Private developers and homeowners are also important customers. The key success factors in this business are physical proximity to the customer, the product mix, advisory services and close relations with commercial customers. BayWa takes these factors into account with a targeted focus on its customer groups when it comes to sales and customer consulting services. One example of this is the online portal for building materials, launched in January 2017, which enables business customers to place orders 24/7. Customers also have the option to schedule delivery dates online as well. If customers choose to collect the goods themselves, they can create their own delivery note after completing their order. This enables them to pick up the materials straightaway without any wait. A tool known as the room designer has also been added to the online range of products and services. Further areas of focus include healthy construction and energy efficiency. BayWa offers a wide range of emissions-tested building materials plus solutions for energy-efficient construction or renovation. Thanks to its private brand lines casafino for construction components and landscaping; Formel Pro for structural and chemical products, as well as insulation materials; Formel Pro Green for healthy-living building materials and cleaning agents; as well as Valut for roofing accessories, BayWa is increasingly becoming an initiator of new products. In the case of conventional construction materials, being close to the customer is a significant competitive advantage. At the same time, the cost of transporting heavy or bulky construction materials with relatively low added value necessitates excellent location structures and optimum logistics.

The building materials market is strongly fragmented both in Germany and in Austria. In Germany, there are nearly 850 companies in total with some 2,270 locations specialised in the building materials trade. The majority of these are small or medium-sized enterprises, which often join forces in the form of procurement groups and similar organisations.

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

Finally, the building materials business depends on weather conditions. In particular, heavy precipitation and periods of frost can severely limit construction activities.

Innovation & Digitalisation Segment

BayWa has plotted a clear course into the digital future by establishing the independent Innovation & Digitalisation Segment, which is responsible for developing and marketing digital products and services for enhancing productivity in agriculture. It also pools the BayWa Group's e-commerce activities in the BayWa Online World. With its software product Agrar Office, Group company FarmFacts GmbH offers farmers a future-oriented and interoperable farm management system. A number of modular tools and solutions are also available. The next innovative step is the networking of entire areas of farms and processes with upstream and downstream stages. To this end, FarmFacts GmbH offers an overall concept for medium-sized and small farms with the NEXT Farming product generation, which enables farmers to seize the opportunities of smart farming across all types of machinery and operating resources, irrespective of farm size. BayWa is striving to secure a leading market role in this field across Europe. Digitalisation is changing agriculture as we know it. Nowadays, potential for optimisation at farms is more about optimising whole processes instead of implementing individual measures. For example, site-specific farm management allows costs for operating resources to be reduced significantly. Machinery and system maintenance costs can also be reduced through the rapid collection, assessment and transmission of technical data.

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 2016, the Board of Management consisted of five members: Prof. Klaus Josef Lutz (Chairman, responsible for BayWa Agri Supply & Trade and Fruit), Andreas Helber (responsible for finance and the Building Materials Segment), Roland Schuler (responsible for BayWa Agricultural Sales, Agricultural Equipment and Digital Farming), Matthias Taft (responsible for the Energy Segment) and Reinhard Wolf (responsible for RWA Raiffeisen Ware Austria Aktiengesellschaft). 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 (MitbestG), shareholder and employee representatives have an equal number of positions on the Supervisory Board of BayWa AG. The Supervisory Board has formed six committees in order to boost efficiency.

Details on cooperation between the Board of Management and the Supervisory Board and on corporate governance at BayWa AG are presented in the Supervisory Board report and the Statement on Corporate Governance. They are publicly available at www.baywa.com/en/investor_relations/financial_reports/annual_reports/.

The main task of the Corporate Compliance organisational unit is to perform preventive 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 Group 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 Corporate Audit. Corporate Compliance and Corporate Audit work together closely in internal investigations of an antitrust or criminal nature. There is also an extensive range of compliance controls to review and guarantee adherence to compliance principles. Corporate Compliance is managed by the Chief Compliance Officer, who reports directly to the Chief Executive Officer. Compliance Officers are also appointed in BayWa's business sectors, 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 within the company.

Corporate Goals and Strategy

As a strong partner to its customers, BayWa intends to ensure that the company is fit for the future and independent. Its corporate governance has a long-term focus and is shaped by the company's responsibility towards customers, employees, other stakeholders and society 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 seizing market opportunities, BayWa acts with entrepreneurial foresight while remaining decisive, quick-thinking and flexible. The company achieves its growth targets through the organic development of existing business 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 the central strategic focus: 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. In the agricultural sector, the Group is underpinning its aim of becoming Europe's leading agricultural trade, distribution and logistics provider with global reach. Another focus is on the expansion of activities with agricultural speciality products, such as malting barley, hops and legumes (peas, beans and lentils). Through these efforts, BayWa continues to diversify its product portfolio and stabilise profitability, given that it is usually possible to achieve higher margins by trading in specialities than in standard agricultural staples. In the fruit trade, BayWa's objective is to offer retailers in Europe a diverse and attractive range of produce throughout the year by systematically expanding its procurement base in the southern hemisphere. In addition, T&G Global Limited in New Zealand is being used as a platform for expanding exports to countries in Asia and tapping into new national markets. In order to secure long-term growth opportunities in the agricultural equipment sector, the Group intends to take on a leading role across Europe 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 the renewable energies business on a global stage. Internationalisation thus forms the crucial basis for BayWa's further growth that will reinforce BayWa's competitive position and make it possible to tap into new markets. In the Building Materials Segment, the extensive restructuring measures taken in the past years have created the conditions necessary for successfully continuing business independently.
In early 2016, detailed analyses revealed that a joint venture solution in the German market does not harbour enough potential to sustainably increase profitability. In light of this, BayWa has adopted a strategy of further developing its current position by strengthening sales, expanding online offerings and optimising processes, costs and locations. At Group level, the overarching areas of focus across all segments and business units include expanding digital solutions 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, as well as the development segment Innovation & Digitalisation – with regard to future growth and earnings potential. Strengthening the market position and optimising the business portfolio serve the same goal: increasing the profitability of the BayWa Group's business activities over the long term. This also includes the continuous improvement of cost structures. The focus 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. Through a project launched in August 2015, targeted measures have since been taken to increase process transparency, leverage short-term savings potential and reduce costs in the long term. In 2017, greater focus will be placed on optimising processes and structures.

BayWa systematically pursues a strategy of restructuring, adapting or disposing of any activities with insufficient growth and/or earnings prospects. A portfolio optimisation project was launched in 2016. The project aims to identify business units at the Group with significant and repeated deviations from planned targets or those that fail to earn their cost of capital. EBIT, capital employed and return on capital employed (ROCE) for 2013 to 2016 are the key figures taken into consideration. If ROCE is lower than capital costs in the period under review and/or the units generate negative EBIT, business measures are taken that can range from modifications to the business model and the reduction of capital employed to divestment.

The development of the BayWa Group is accompanied by a solid and proactive financing strategy. It is shaped by the caution traditionally exercised by companies in the cooperative and agricultural sectors, but also takes into account the changing requirements of an established international group. With its corporate financing, BayWa puts its faith in tried-and-tested, reliable partners in the cooperative federation.

Furthermore, it makes sure that there is sufficient diversification in terms of financing sources, so as to guarantee its independence and limit risks. Efficient management of working capital is vital at the BayWa Group as it represents a net figure for current assets less current liabilities. BayWa aims to maintain a balanced capital structure.

Control System

Strategic controlling of the corporate divisions is based on value-oriented corporate governance and integrated risk management. Operational management of the corporate divisions is conducted based on targets; the key earnings figures EBITDA, EBIT and EBT are primarily used as the most significant financial performance indicators. The development of financial performance indicators in the financial year 2016 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. Interest on average capital invested in the corporate divisions is charged by applying the weighted average cost of capital (WACC) model. The return on invested capital (ROIC) of the corporate divisions is then measured against the respective cost of capital. There is economic profit if the return on invested capital is higher than the cost of capital specific to each business unit. The further development of an efficient risk management system is particularly important in safeguarding long-term economic success, especially in international business. The risk management system is monitored and managed by a Risk Board established in 2009 and headed up by the Chief Executive Officer. In addition, a system to coordinate trade management was created in 2014 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. Fundamental market analyses are performed within the scope of the market research activities to estimate the global supply and demand situation; these analyses are discussed in weekly meetings with the trade departments.

Research and Development

	2016
Research and development expenses (in €)	157,000
Number of employees	35
Own work capitalised (in €)	1,536,000

Research and development activities were previously of secondary importance at BayWa, a trading and logistics group, and primarily relate to the formation of the new Innovation & Digitalisation Segment in the second half of 2016. Research is being conducted in pilot projects on the topics of site-specific sowing and fertilisation. Development pertains in particular to software and digital applications for digital farming. It is carried out at the subsidiary FarmFacts GmbH and includes software modules for controlling agricultural processes, as well as telematic applications and management software for the automated steering of agricultural machinery. Headcount for research and development stood at 35 employees as at 31 December 2016. This figure comprised 29 software development employees, 2 project management employees and four external specialists. All of the employees mentioned work at or for the Group company FarmFacts GmbH. The BayWa Group's research and development expenses totalled €157,000 in the financial year 2016. Own work capitalised with regard to new digital farming products amounted to some €1.5 million.

FINANCIAL REPORT

Operative Business Development

Agriculture Segment

Market and industry development

In 2016, global agricultural markets continued to be shaped by large inventories of grain and oilseed, as well as by the very high harvest volume of the grain year 2015/16, which totalled 1,984 million tonnes, excluding rice. Harvest volumes therefore fell within the scope of the forecast of 2,000 million tonnes made in early 2016. The comfortable supply situation with agricultural commodities worldwide led to strong pressure on prices, which was further boosted in wheat and corn by major short positions by institutional investors. According to the latest forecasts from the United States Department of Agriculture (USDA), global grain production in grain year 2016/17 – excluding rice – is set to hit a new record level of approximately 2.077 million tonnes, which will see further increases in inventory stocks. This is primarily due to the rise in corn volume by some 8% to 1,040 million tonnes, while the wheat harvest volume is only set to increase by a small margin of just under 2% to roughly 748 million tonnes. In the European Union, harvest volume for 2016 was down by roughly 5% year on year at just under 297 million tonnes. In addition, persistent precipitation in spring and summer negatively affected wheat quality in some cases. In Germany, the harvest brought in 45.3 million tonnes of grain in 2016, down roughly 7% on the figure for the previous year and around 3% below the mean for the years 2010 to 2015. The smaller harvest is due primarily to lower hectare yields as a result of unfavourable growing conditions in early summer 2016 and a slight decline in the amount of land available for cultivation. Following a harvest of 676 million tonnes in the harvest year 2015/16, worldwide oilseed harvest volumes are also expected to rise by around 5% to 712 million tonnes in 2016/17, which will make it possible to just meet rapidly rising global demand, contrary to previous concerns. However, the global supply and demand situation, which is difficult to predict, led to irrational price trends. Spring rallies, in particular in the prices of soya and corn, were followed by major slumps beginning in June. Overall, prices of agricultural produce declined even further in 2016 due to the ample supply situation. Over the year as a whole, grain prices fell by roughly 10% to their lowest level in six years. At the end of the year, the price of wheat on the MATIF commodity futures exchange was down some 4% year on year at approximately €168 per tonne. In Germany, the producer price index for agricultural produce saw a year-on-year rise of just over 2% at the end of the third quarter of 2016; however, this was due primarily to considerably higher prices for ware potatoes, pork, vegetables and fruit.

Global milk production increased even further in 2016 by 1.1%. Production in the European Union (EU), the world's largest milk producer at around 166 million tonnes, experienced a disproportionately low increase in 2016 of just 0.6%. However, extremely low milk prices as a result of the milk crisis led to a reduction in the number of dairy cattle from June 2016, which meant that milk production in the second half of the year was down on the figure for 2015. However, milk production in Germany still rose slightly until September 2016 by 0.5%. Global trading volumes of dairy products increased by 0.4% to roughly 72.3 million tonnes in 2016. This was primarily due to higher demand from Asia – especially China – and more imports by Russia. The ample supply situation put prices on the dairy market around the world under pressure in the first half of 2016, which gave dairy-producing farms an increasing number of problems. The Food and Agriculture Organization (FAO) Dairy Price Index fell to a low of 130 points by March 2016. It had recovered to 192 points by the end of the year, however.

Global meat production rose only slightly by 0.2% to 319.8 million tonnes in 2016. In the EU, meat production was up by approximately 2% to 47.1 million tonnes, which means it remains the second largest meat producer after China. Meat production in Germany fell by nearly 2% to 8.6 million tonnes. The decline is due in particular to lower pork production, as its share of German meat production shrank by just under 1 percentage point to 57%. Beef production remained on par with 2015 and accounts for a stable share of around 14% of total meat production. Poultry production saw slight gains, however, and now accounts for around 21% of total production. Global market prices for meat fell by approximately 20% in 2015, but then began to stage a recovery beginning in April 2016. According to the FAO Meat Price Index, global market prices for meat were up by around 3% year on year in October. Pork prices rose by some 9%, and poultry prices increased by around 3%, while the price of beef trended sideways. Producer prices for pork in the EU and Germany were only slightly above the figure for 2015; beef prices dropped by around 3% and poultry prices by 4%. The financial position of German animal feeding operations has seen scant year-on-year improvement as a result.

The price index for agricultural operating resources has declined in Germany over the past four years. At the end of the third quarter of 2016, costs for operating resources were down 2.6% year on year. This trend is not likely to have continued in the fourth quarter, however, due to the sharp rise in the price of crude oil. Seed prices fell by

4.1%. This was partly due to the reduction in market prices for agricultural produce. In 2016, higher demand and rising seed sales overall were expected due to greening regulations. However, seed sales declined, because farmers opted for varieties of legumes, among others, that they replanted themselves over ones they purchased. Fertiliser prices were down nearly 10% year on year on average. The drop in prices was due in particular to oversupply on the international fertiliser market and affected all types of fertilisers. Contrary to seeing rising sales, as originally expected, fertiliser sales volumes were below average in the first half of 2016 owing to the fact that many fields were too wet to service. In addition, low producer prices also led to farmers making cutbacks to the use of fertilisers, reducing basic fertilisation to an absolute minimum. Sales declined overall by 2.5% in the reporting year. Contrary to what was forecast, the use of crop protection products decreased in 2016 by around 11% on average for all crops. Very wet conditions in some areas meant fields could not be accessed, which negatively impacted volume sales. In addition, generally sparing use of operating resources led to subdued demand. On average, prices remained on par with those from 2015. According to the German Farmers' Association (Deutscher Bauernverband – DVB), prices of feedstuffs were down 6.3% on the previous year on average.

Compared to the previous year, 2016 experienced less favourable weather conditions, which led to lower harvest volumes across almost all fruit produce in Germany in 2016. At slightly more than 1 million tonnes, only the German apple harvest outperformed 2015, seeing a year-on-year increase of some 6% and exceeding the forecast by 68,000 tonnes. However, the quality of the fruit varied depending on the growing region. For example, the Lake Constance region ended up with a smaller amount of high-quality dessert apples compared to 2015 due to hail and frost damage. Prices for German apples remained approximately on par with the previous year's prices. The harvest yield in the EU fell nearly 3% year on year to around 12 million tonnes. The Eastern Alps and Balkan regions in particular saw lower volumes. In New Zealand, the 2016 apple harvest decreased in volume by roughly 3% year on year to 539,000 tonnes; a decline of 1% had originally been anticipated. New Zealand exported over 60% of its apple harvest, with roughly two-thirds destined for Asia – and rising. Price increases were recorded in the sales campaign for dessert fruit from the southern hemisphere. Demand for New Zealand fruit was particularly high worldwide; as a result, its marketing season concluded with the highest export volumes observed over the past ten years.

For the second consecutive year, investment activities in agriculture declined considerably in 2016 due to the significant downturn in farmers' revenue and income situation compared to previous years. Low producer prices for milk and feeding pigs, in addition to lower farming revenues on the back of smaller harvests and lower prices, have dampened farmers' investment propensity. According to estimates from the German Engineering Foundation (DVMA), revenues in the agricultural equipment sector fell by just over 2% to roughly €7.2 billion in 2016. A 5% decrease in investments had been expected at the beginning of the year. While overall tractor sales, including exports, were down 3% at the end of the year, new tractor registrations in Germany fell by 10.8%. Sales of harvesting machinery, milking and transport equipment fell even more sharply in 2016 than sector revenues. In contrast, drill, sowing and crop protection equipment saw a nearly two-digit percentage rise.

Business Development

Effective 1 January 2016, the Agricultural Trade business unit was split up into the two new BayWa Agri Supply & Trade (BAST) and BayWa Agricultural Sales (BAV) business units. Given that the previous year's figures cannot be retrospectively divided between the two new business units in full, figures for the two new business units have been collated for reasons of comparability against the former Agricultural Trade business unit. Revenues for BAST amounted to €6,144.4 million in the reporting, while earnings before interest, tax, depreciation and amortisation (EBITDA) for the business unit stood at €–8.0 million. After depreciation and amortisation, there was a shortfall of €11.5 million for earnings before interest and tax (EBIT). Financial expenses stood at €6.7 million, which resulted in an overall loss of €18.2 million for the BAST business unit's earnings before tax (EBT). The BAV business unit generated revenues of €2,824.0 million in 2016. Earnings before interest, tax, depreciation and amortisation for BAV reached €54.6 million. After depreciation and amortisation, the business unit generated earnings before interest and tax (EBIT) of €28.7 million. Financial expenses stood at €15.9 million, resulting in earnings before tax (EBT) of €12.8 million for the BAV business unit.

In total, revenues for the new BAST and BAV business units stood at €8,968.4 million for 2016, which is 7.8% higher than the 2015 figure for the former Agricultural Trade business unit. The increase was due primarily to the expansion of international grain and oilseed trading activities by some 12% to 33.8 million tonnes. Due to price factors, the rise in revenues was somewhat lower than anticipated at the beginning of 2016, although the growth in volume was greater than forecast. At €46.6 million, earnings before interest, tax, depreciation and amortisation (EBITDA) for the BAST and BAV business units was down by €25.3 million, or 35.2%, on the Agricultural Trade business unit's figure for 2015. The decline in earnings was due primarily to unfavourable price developments regarding soya, which had a significant negative impact on the trading result. The soya harvest forecasts at the beginning of the year predicted a new record harvest. In light of this, the BayWa Group – like many other market participants – did not purchase enough inventories to completely meet its delivery obligations, as it was assumed that prices would generally decrease. Persistent rainfall in South America at the start of the second quarter led to a deterioration of the fundamental market estimates. The anticipated crop losses and unexpectedly high demand from Asia led to a rapid rise in soya prices. The upward trend was only intensified further by many market participants who took open short positions and by technical market forces. The price of soya meal consequently rose by more than 60% from early April to mid-June. However, it started to become apparent in the middle of the year that not only were the failed harvests in South America smaller than anticipated, but also that North America would see an excellent harvest, making it possible to meet global demand. The price of soya subsequently dropped by around 30% by the end of the third quarter. Prices exhibited extremely volatile development by historical standards, which triggered price hedging mechanisms in trading systems to limit negative earnings contributions. Efforts to expand market share at the new trade locations, such as in Italy and Romania, also led to a smaller margin on account of stiffer competition.

Finally, low prices for agricultural produce also continued to put pressure on collection business margins. The operating resources business suffered from unfavourable weather conditions in spring, as heavy precipitation and flooding in parts of Germany made it impossible to apply operating resources in many cases. In addition, farmers made targeted cutbacks as a result of the strained liquidity situation of their farms. Sales volumes of crop protection materials and fertilisers were therefore down overall on the previous year's levels. Fertiliser sales decreased year on year by roughly 2% to 2.4 million. Declining prices and prices down on the previous year on average for both urea and nitrogen fertilisers in the reporting period also led to considerable pressure on margins. With regard to seed as well, sales decreased overall by 4.9% for cereal seed due to a growing trend among farmers to replant their own stocks and on account of price pressure. Feedstuffs saw a 24% decrease in sales to 1.6 million tonnes, which was related primarily to lower prices in milk and meat production. In addition, low water surcharges for freight led to a rise in logistics costs in the fourth quarter. These effects were reflected in EBIT, which, after depreciation and amortisation of €29.3 million (2015: €30.3 million), stood at €17.2 million in the reporting year, down €24.4 million year on year compared to the former Agricultural Trade business unit. The result therefore fell short of the original forecast. After financing expenses of €22.7 million (2015: €22.0 million), earnings before tax (EBT) for the two new business units recorded a €25.0 million decrease to €–5.4 million.

At approximately 332,000 tonnes, the BayWa Group's overall fruit sales in 2016 were approximately on par with the previous year, contrary to expectations at the beginning of the year predicting considerable growth. This development was due to a smaller apple harvest in New Zealand and a harvest yielding apples of poorer quality in the Lake Constance region, where hail and frost damage meant a loss of marketing opportunities for dessert fruit. This reduced the marketing volume of German trading activities with dessert pome fruit by 19.9% year on year. International apple sales of New Zealand company T&G were down 10.0% on the record figure from 2015. A significant increase in marketing volumes for soft and stone fruit, tropical fruit and fruiting vegetables by more than 28% nearly offset these decreases. The acquisition of the majority interest in Dutch TFC began having an especially positive impact from March 2016, which resulted in a considerable expansion of the tropical fruits offered. As expected, revenues in the Fruit business unit increased significantly in 2016 by 16.2% to €659.3 million (2015: €567.4 million). In particular, higher prices for fruit from New Zealand and increased sales volumes for soft and stone fruit, tropical fruit and fruiting vegetables contributed to this rise. Owing to the addition of fruit with higher margins to the portfolio, EBITDA improved by €17.1 million, or 42.8%, to €57.2 million. In addition, the sale of T&G's packaging logistics provider (Fruit Case Company) in New Zealand resulted in a non-recurring earnings contribution of some €7.5 million. Depreciation and amortisation experienced a disproportionately small increase compared to the rise in EBITDA of 14.4% to €14.9 million. As a result, the operating result (EBIT) rose, as forecast, by a disproportionately high 56.5%, or €15.3 million, to €42.3 million. Financing expenses remained on a par with the previous year at €5.8 million. Overall, earnings before tax (EBT) for the Fruit business unit rose by 71.3%, or €15.1 million, in the reporting year, setting a new record of €36.4 million.

The strained liquidity situation for many farms once again led to a considerable decline over the course of 2016 in the willingness of farmers to invest. In total, BayWa sold 3,529 tractors in 2016, representing an 11.5% decline year on year in new machinery sales. At 1,663 tractors, sales of used machinery also decreased by 7.0%. In terms of farm and animal equipment, the Agricultural Equipment business unit benefited from the level of orders from 2015. However, the same high level of revenues recorded in the previous year could not 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 unit generated total revenues of €1,256.8 million in 2016, which equates to a slight 0.3% decline year on year. Above all, the lower level of new machinery business led to a €10.1 million, or 31.6%, decrease in EBITDA to €21.8 million. Depreciation and amortisation increased in the reporting year by 7.9% to €11.2 million. This resulted in a decrease in EBIT by €10.9 million, or 50.7%, to €10.6 million. Financing expenses grew slightly by €0.3 million to €9.8 million. Earnings before tax (EBT) for the business unit declined to €0.8 million in the reporting year, down from €12.0 million in 2015.

Overall, revenues in the Agriculture Segment increased in the financial year 2016 by 7.2% to €10,884.5 million. The operating result before depreciation and amortisation (EBITDA) fell by €18.2 million to €125.6 million (2015: €143.8 million), particularly due to lower revenues from trade in agricultural produce. After depreciation and amortisation of €55.4 million in the reporting year (2015: €53.7 million), the segment's EBIT declined by €19.9 million to €70.1 million, while its financing expenses increased by €1.1 million to €38.3 million. In total, the Agriculture Segment recorded earnings before tax (EBT) of €31.8 million in the financial year 2016, down from €52.8 million in the previous year.

Energy Segment

Market and industry development

In light of persistent global oversupply, Iran's return to the oil market and subdued economic growth – particularly in emerging economies –, the price of crude oil reached a 12-year low in January 2016 of approximately USD28 per barrel. Starting from this level, prices then began to stage a recovery that continued through the end of 2016. The price of oil closed the year at its highest value for 2016 of around USD57 per barrel, exceeding the expectations for 2016 made in the forecast of no more than USD45 per barrel. This development was due to an uptick in the global economy over the course of the year and OPEC's decision to curb production. The price of heating oil largely followed this trend and was down on 2015 levels until October 2016. In the German heating market, heating oil sales declined year on year by 2.3% in 2016. The fall in sales was the result of an ongoing structural decline in consumption as well as the comparatively mild winter. Total fuel sales rose by 3.1% between January and December 2016 against the backdrop of a 1.9% increase in vehicle stock. Sales of Otto fuels increased by 0.2%, while sales of diesel fuels increased by 4.5%. Total lubricant sales in 2016 fell year on year by 2.8% despite the positive economic environment in Germany overall. This was primarily due to a decline in engine oil, hydraulic oil, process oil and base oil sales, while demand for gear oils rose by 4.0%, and for lubricating grease by 3.8%.

Contrary to expectations of further growth, global investments in renewable energies saw a considerable 18% drop in 2016 to USD287.5 billion. One reason for this was the continued decline in plant prices, especially in the solar energy sector. Lower feed-in tariffs were another reason investments went down, decreasing in China by 26% to USD87.8 billion and by 43% in Japan to USD22.8 billion. Investments were also down in the USA year on year by 7% to USD58.6 billion. This was due to the fact that subsidies in the form of Investment Tax Credits (ITC) and Production Tax Credits (PTC) were extended by five years in December 2015 shortly before they were set to expire. Since project development requires a certain lead time, it was not possible to build new plants in 2016 on the same scale as in the previous year. Europe grew slightly by 3% to USD70.9 billion; Germany, which is the largest individual market, recorded a 16% decrease in the level of investment to USD15.2 billion, however.

Photovoltaic capacity expansion worldwide was up 34% year on year in 2016 at an estimated 75 gigawatts (GW), which was significantly higher than the anticipated 64 GW. With 30 GW, 40% of newly installed plants were located in China, followed by the USA, which, with 13.7 GW, accounted for a share of 18%. In Japan, the third largest market for photovoltaic systems, newly added output decreased by 21.7% to around 9 GW, down from 11.5 GW in the previous year. The expansion of photovoltaic systems began to slow down in Europe as well. With 6.9 GW, Europe only accounted for a share of just under 9% in worldwide capacity expansion. At 1.5 GW, new photovoltaic installations in Germany slightly exceeded the level from 2015 thanks to a strong development at the end of the year, which put it a little above expectations, but considerably below the range of 2.4 GW to 2.6 GW specified by the German Renewable Energy Sources Act (EEG). At the end of 2016, the total output of the solar power plants compensated under the EEG installed in Germany was 41.2 GW. While growth rates of newly installed capacities are falling or the added volume is below the levels from the previous year in many developed countries, a number of new markets, such as India, Latin America and the Middle East, contributed to global market growth.

The Global Wind Energy Council (GWEC) estimates that wind turbine capacity expanded by 54.6 GW in 2016, which corresponds to a year-on-year decline of just under 14% and falls short of the 63 GW of added capacity forecast at the beginning of the year. While key markets, such as China or the USA, saw a slowdown in the build-up of further wind turbines, new markets, such as Turkey and India, exhibited strong growth – though still at a low level. In China, newly installed capacity stood at around 23 GW, down from 29 GW in the previous year. The share of additional global capacity attributed to China decreased from 51% in 2015 to 42.7% in 2016. The USA, which is the second largest market in the world for wind turbines, as it was in 2015 as well, grew only slightly in 2016 with an increase in volume of 8.2 GW. With 0.7 GW, the UK recorded a significantly higher wind turbine capacity increase than in the previous year, though growth was smaller than forecast. In Germany, wind power capacity expansion from onshore turbines reached roughly 4.6 GW (2015: 3.5 GW), which was significantly higher than the figure of 2.5 GW targeted by the German federal government and above expectations. This boom was due to the change in how EEG subsidies are granted. From 2017, newly approved turbines will only receive the allowance if they offer the lowest price in a tendering process. At the end of 2016, onshore wind turbines with a total output of 45.9 GW were operating in Germany, which corresponds to a total year-on-year increase of around 11%.

Approximately 9,150 biogas plants were operating in Germany at the end of 2016, with a total output of roughly 4.2 GW. As expected, only 150 plants were connected to the grid in the reporting year, following 200 plants in the previous year. Most of them were 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. Due to the complex regulations in Germany, there have been few incentives for new biomass projects since the entry into force of the new EEG as at 1 January 2017. However, existing plants that use at least 50% slurry and residual materials are set to receive fixed feed-in tariffs depending on their size for another 10 years. 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 performance

With consumers having taken advantage of the previous year's falling prices to fill up their tanks, and with tanks still largely full as a result of the mild 2015/16 winter, heating oil sales in BayWa's conventional energy business fell – as forecast – by 3.2% in the financial year 2016. Due in particular to the takeover of the sales activities of Dr. Gies Vermögensverwaltung Future Energie GmbH in June 2016, sales of wood pellets rose by 11.0%. BayWa Group fuel sales rose marginally by 0.8% year on year and were therefore within the forecast range. In particular, sales of diesel saw positive development thanks to supply activities for construction sites and the fleet business, with haulage companies increasingly adding BayWa fuel stations to their fleet cards. Contrary to expectations, the lubricant business recorded a 5.3% drop in sales in 2016, which was attributable solely to the Austrian Group companies. BayWa has been able to acquire new customers in heat contracting. For example, it took over the heating supply contracts for renewable energies with municipalities, administrative districts and industrial customers in Upper Bavaria (Oberbayern) from ECOLOHE AG. Conventional energy sales declined by €216.3 million, or 9.6%, in the reporting year to €2,030.1 million, primarily on account of the lower average prices for heating oil and fuel year on year and were therefore lower than expected at the start of the year. EBITDA improved by 1.0% to €24.2 million, mainly as a result of the increase in sales as well as positive margin development in the fuel business. Depreciation and amortisation fell by €0.2 million to €8.4 million. As a result, EBIT improved by €0.4 million to €15.8 million, contrary to the forecast of a decline. Financing costs decreased slightly to €0.1 million in the reporting year. Total earnings before tax improved to €15.7 million (2015: €15.2 million).

The international orientation of activities in the Renewable Energies business unit proved to be successful once again in 2016. The output generated by all wind power, solar power and biomass plants commissioned in 2016 came to 265.0 megawatts (MW) in the reporting year (2015: 294.9 MW). Of that amount, 121.1 MW (2015: 205.2 MW) was attributable to wind turbines, 141.3 MW (2015: 86.6 MW) to solar power and 2.6 MW (2015: 3.1 MW) to biomass plants. Completed systems were sold in Germany, France, the United Kingdom and the United States in the reporting year. Eight solar power projects with a total output of 123.7 MW – 70.3 MW of which in the United Kingdom and 53,4 MW in the United States – were sold in the reporting year. Eight wind power plants with a total output of 89.2 MW were sold in Germany (15.3 MW), France (44.2 MW) and the United Kingdom (29.7 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. Worldwide, the total plant capacity under BayWa r.e.'s management now stands at 2.3 GW. In addition, two geothermal power plants with 11.0 MW of electrical output were sold in Germany in the reporting year. In trading with photovoltaic modules, sales increased by 11% to 272.3 megawatt peak power output (MWp) due, in particular, to market entries in Australia and Luxembourg. Revenues fell by 7.1% to €945.9 million, especially on account of lower market prices for solar components. In particular, the strong international project business helped keep EBITDA in the Renewable Energies business unit (€89.5 million) at the same high level as in the previous year (€90.8 million). At €22.2 million, depreciation and amortisation were €6.8 million lower than in the previous year. As a result, EBIT rose by €5.5 million, or 8.9%, and set a new record of

€67.3 million. The operating result therefore outperformed the forecast, which had predicted a significant decline. At €13.7 million, financing costs were up €2.5 million year on year due to the further growth of the project pipeline. In total, the business unit's earnings before tax set a new record of €53.7 million (2015: €50.6 million).

At €2,976.0 million, the Energy Segment's total revenues in the financial year 2016 were down €288.2 million, or 8.8%, from the previous year's figure of €3,264.2 million and were therefore lower than forecast at the start of the year. The segment's EBITDA, at €113.7 million, was almost on par with the previous year (€114.8 million). Adjusted for depreciation and amortisation, which fell by €7.0 million year on year to €30.6 million, EBIT climbed by €5.9 million, or 7.7%, to €83.1 million. As a result, the operating result outperformed the forecast by a large margin. Financing costs increased in total by €2.4 million to €13.8 million. All told, the Energy Segment's earnings before tax of €69.3 million in 2016 exceeded the very good level of €65.8 million seen in the previous year.

Building Materials Segment

Market and industry development

The German construction industry experienced positive development in 2016. Throughout the year, construction activity was not hampered by any unfavourable weather conditions. Thanks to the highest orders on hand in 20 years at the end of 2015 and at the start of 2016, and thanks to continuing high demand over the course of the year, companies in the construction sector generated nominal revenue growth of approximately 6% to €106.9 billion. As a result, growth was 3 percentage points higher than expected at the start of the year. Development was driven by residential construction, which recorded strong revenue growth of 8.7% to €40.1 billion. The expectations had anticipated a 5.0% increase in investments in residential construction. High net immigration and continuing internal migration to major urban areas are leading to a rising need for housing. Including renovations and conversions of existing housing stock, some 280,000 to 290,000 residential units are likely to have been completed last year. However, completions therefore still remained well below the forecast requirement of at least 350,000 a year. Growth was primarily due to a sharp rise in the construction of new multi-storey residential properties; building completion for this type rose by just under 19% year on year in 2016. By contrast, construction volume in refurbishment, renovation and modernisation business was down slightly year on year. Contractors faced capacity constraints as a result of the good employment situation in the construction sector, thereby impacting development. At an annual average of 28,000, the number of unemployed skilled construction workers fell to an all-time low in 2016, indicating that the labour reserve in the German construction sector has largely been exhausted. In the Deutsche Industrie- und Handelskammertag (DIHK) autumn survey, 69% of construction sector companies named the shortage of skilled labour as the greatest risk for their businesses' development. Revenues in commercial construction increased by 3.4% to around €37.2 billion. Here, too, growth was stronger than anticipated at the start of 2016. The constant rise in capacity utilisation in the manufacturing sector over the course of the year led primarily to investments in factory and workshop buildings; the number of permits issued for this type of construction increased by more than 25%. With a 5.2% rise in revenues to €29.6 billion, public-sector construction recorded its highest growth since 2011 and therefore also outperformed the forecast of 2.2% from the start of the year. Investments increased mainly as a result of the modernisation and expansion of transport infrastructure at federal level.

In Austria, construction activity picked up again in 2016 following the decline in the previous year. At 1.6%, the rise in construction investment somewhat outpaced macroeconomic output, with the sector benefiting in the first quarter from the milder winter than in the previous year. The sector therefore developed better than forecast at the start of the year. Other construction activities saw the strongest growth. Residential construction also grew, although the measures in connection with the government's residential construction initiative have yet to come into effect. This development was driven mainly by the rising need for housing. As expected, civil engineering, in which some 60% of orders originate from the public sector, did not see any improvement.

Business performance

The building materials business benefited in the financial year 2016 from the mild weather conditions at the start of the year, the ongoing positive development in the construction industry in Germany and high capacity utilisation in the construction industry throughout the year. Sales volumes of the entire building materials portfolio benefited in particular from the boom in residential construction. As a result, demand for prefabricated construction components such as stairs, ceilings and garages also rose sharply. The increase in repairs and modernisations performed on motorways, bridges and tunnels throughout the course of the year buoyed demand for the product range for civil engineering and road construction work. Contrary to the original forecast, and despite the continued fierce price competition in the building materials sector, revenues in the Building Materials Segment increased on account of sales volumes by €33.7 million, or 2.3%, to €1,530.1 million (2015: €1,496.4 million). Although the share attributable to the lower-margin transit business rose slightly, EBITDA improved thanks to the expansion of own brands, the further optimisation of the network of locations and the oil-price-related €1.7 million reduction in logistics costs to €43.9 million. Following depreciation and amortisation of €15.3 million (2015: €14.8 million), the segment's operating result (EBIT) increased by €1.1 million to €28.5 million. A slight decline in EBIT had been anticipated at the start of the year. At €18.8 million, earnings before tax were up €1.3 million year on year due to the €0.2 million drop in financing costs to €9.8 million.

Innovation & Digitalisation Segment

Market and industry development

The market for digital applications in agriculture primarily comprises the fields of precision farming and smart farming. Precision farming focuses on the automation of processes and the optimisation of the use of operating resources. Smart farming builds on this and makes it possible to connect all areas of operations, from logistics to linking to the customer via online interfaces for the electronic ordering of spare parts or operating resources. Worldwide, market volume was estimated at around €3 billion in 2016. Forecasts predict growth to around €4.5 billion by 2020, which corresponds to an average annual growth rate of almost 11%. Drivers of growth include the cost advantages for small and medium-sized farms as well as the further consolidation in the agriculture sector, which is leading to ever-larger farms. At the same time, qualified personnel is in ever-shorter supply, resulting in the need to manage larger farms with fewer staff. The provider structure in this market is highly fragmented. On the one hand, every manufacturer of agricultural equipment already offers a wide range of electronic components to support farmers. On the other hand, new companies – software start-ups – that are making it possible to professionally use the opportunities offered by information technology in agriculture are joining established IT providers in the market. Here, the spectrum ranges from satellite-based soil analysis for precision agriculture to business analysis software. The challenge is to connect the technological possibilities to create an overall system.

Market volume in interactive retail (online and mail-order retail) and e-commerce has doubled over the past eight years and stood at around €72.5 billion in total for all goods and services in Germany in 2016. According to estimates by the German E-Commerce and Distance Selling Trade Association (bevh), interactive retail grew by around 10% in 2016, and e-commerce grew by around 15%, thereby significantly outpacing overall retail growth. At around €35.5 billion, almost half of overall revenues generated with physical goods was attributable to the top 1,000 online shops. Market growth in e-commerce is being driven mainly by these major players. As a result, market concentration has increased consistently in recent years.

Business performance

In the second half of 2016, the activities of the former Digital Farming business unit were transferred to the newly founded Innovation & Digitalisation Segment, which pools all of the BayWa Group's activities in the fields of digital farming and e-commerce. BayWa has set itself the target of taking on a leading role as a component partner to the agricultural industry when it comes to digital farming and farm management solutions. Its offerings include the Agrar Office and NEXT Farming software products, digital map material, analyses and advisory services. E-commerce brings together all of the BayWa Group's online activities. However, the revenues and income from the activities are attributed to the respective business unit responsible for the respective sold product. In addition to product revenues with external customers, the segment plays a service role within the Group. In the reporting year, the Innovation & Digitalisation Segment generated revenues of €6.0 million, which was 14.9% higher than those of the Digital Farming business unit in 2015. At more than 60%, the majority of those revenues were attributable to software licences and maintenance contracts, followed by digital map material, including analyses and advice, at just under 30%; sensors and other hardware accounted for around 10%. On account of the high investment volume for the development of digital farming solutions and the new BayWa Online World in addition to the service function for the operating business units, which is not offset by immediate income, the Innovation & Digitalisation Segment reported negative EBITDA of €6.6 million (2015: €–2.2 million). After depreciation and amortisation of €1.9 million, EBIT came to €–8.6 million in 2016 (2015: €–2.9 million) and was within the expected range. The business unit's earnings before tax also came to this figure, since no major financing costs were incurred, as in the previous year.

Development of the Other Activities Segment in 2016

At €13.3 million, the Other Activities Segment's revenues in the reporting year were essentially on par with the previous year (2015: €12.8 million). EBIT resulting from Other Activities consists of the Group's administration costs, as well as consolidation effects; in 2016, it came to €–28.6 million following €–33.7 million in the previous year.

Assets, Financial Position and Earnings Position of the BayWa Group

Earnings position

in € million	2012	2013	2014	2015	**2016**	Change in % 2016/15
Revenues	10,531.1	15,957.6	15,201.8	14,928.1	15,409.9	3.2
EBITDA	306.6	281.4	279.8	288.3	272.6	– 5.4
EBITDA margin (in %)	2.9	1.8	1.8	1.9	1.8	–
EBIT	186.8	137.4	152.1	158.1	144.7	– 8.5
EBIT margin (in %)	1.8	0.9	1.0	1.1	0.9	–
EBT	122.6	75.1	80.4	88.1	69.6	– 21.0
Consolidated net income	118.0	54.3	80.7	61.6	52.7	– 14.4

Revenues of the BayWa Group rose in the financial year 2016 by 3.2%, or €481.8 million, to €15,409.9 million. The increase in the BAST and BAV business units due to the expansion of international trading activities was the main reason for this rise. Revenues in agricultural trade increased accordingly year on year by €646.9 million to €8,968.4 million. Fruit trading also saw revenue growth of €91.9 million to €659.3 million. In the Agriculture Segment, agricultural equipment reported a €3.9 million drop in revenues to €1,256.8 million on account of farms' tense liquidity situation. The Building Materials Segment also performed well on the back of good development in the construction sector and posted a €33.7 million increase in revenues to €1,530.1 million. The Innovation & Digitalisation Segment contributed €6.0 million to total revenues. In the Energy Segment, the sharp drop in the prices of heating oil and fuels was the main factor behind the decline in revenues in the Conventional Energy business unit from €2,246.4 million to €2,030.1 million. With total revenues of €945.9 million, the Renewable Energies business unit was unable to match the previous year's figure of €1,017.8 million. This was due in particular to lower market prices for solar components.

Other operating income increased by a total of €37.0 million in the reporting year to €194.9 million. This increase was due primarily to far higher income from asset disposals and higher price gains. At around €41.3 million, income from asset disposals was significantly higher than the previous year's figure of €26.5 million and was mainly attributable to the disposal of real estate (€7.1 million) not essential to the operations of the Group and purchase price adjustments related to real estate purchases made in previous years, as well as to the disposal of the packaging logistics business unit in New Zealand by Group company T&G Global Limited. The increase in price gains from €18.1 million to €36.1 million resulted in particular from project-related hedges in the field of renewable energies and the global business activities of the Group companies in New Zealand. At €43.3 million, other income was up €6.3 million year on year, which was mainly due to the transitional consolidation of VIELA Export GmbH (€6.6 million) and Hafen Vierow - Gesellschaft mit beschränkter Haftung (€2.5 million). These two companies have been included in the consolidated financial statements of BayWa AG as associated companies rather than affiliated companies since BayWa AG relinquished control over them effective 1 January 2016. Higher income from the reversal of provisions in the amount of €11.6 million (2015: €10.0 million) also contributed to this increase. The reversal of value adjustments of receivables and income from receivables written down of €5.7 million offset this increase (2015: €7.5 million). Total remaining other income came to €56.9 million, up €1.7 million year on year.

The increase in inventories in the financial year of €66.7 million was largely due to the project developments in the Renewable Energies business unit during the financial year 2016.

Along with the increase in revenues, cost of materials also increased, rising by €477.4 million, or 3.5%. Gross profit rose by €25.4 million, or 1.6%, to €1,626.6 million.

Personnel expenses climbed year on year by 4.6%, or €38.0 million, to €863.1 million, primarily due to the expansion of business activities. This was largely a result of the business activities of the companies newly acquired in the previous year, which were included for the full year for the first time in the current year, and the company acquisitions in the current year, as well as the further expansion of business activities in the BayWa Agri Supply & Trade and Renewable Energies business units.

At €512.8 million, other operating expenses were up by €17.4 million, or 3.5%, on the 2015 figure of €495.3 million in the financial year 2016. The primary factors in this increase were rental and leasing costs of €54.2 million (2015: €51.3 million); consultancy, auditing and legal fees of €41.8 million (2015: €36.3 million); amortisation of receivables and/or value adjustments of €16.5 million (2015: €11.4 million); currency losses of €23.4 million (2015: €17.7 million); and higher other expenses of €46.5 million (2015: €40.5 million). These were offset in particular by losses from the sale of assets of €4.1 million (2015: €11.1 million), lower vehicle fleet costs of €71.6 million (2015: €73.9 million) and lower decommissioning and disposal costs of €6.3 million (2015: €8.4 million). Total remaining other operating expenses came to €248.4 million, up €3.8 million year on year.

Earnings before interest, tax, depreciation and amortisation (EBITDA) fell by €15.7 million, or 5.5%, to €272.6 million in the financial year 2016 (2015: €288.3 million).

Scheduled depreciation and amortisation at the BayWa Group decreased marginally by €2.3 million in the reporting year from €130.2 million to €127.9 million, as the previous year's figure contained impairment losses on existing plants in the Renewable Energies business unit.

All in all, earnings before interest and tax (EBIT) of the BayWa Group declined by €13.5 million, or 8.5%, in the financial year 2016 to €144.7 million.

The financial result comprises income from participating interests, which is allocated to EBITDA and EBIT, and net interest. The result of participating interests increased in the reporting year by €14.2 million to €21.8 million. Income from the disposal of the joint venture Süddeutsche Geothermie-Projekte GmbH & Co. KG, which led to a significant rise in the equity result to €18.9 million, made a particular contribution to this development. By contrast, the other result of participating interests declined. Net interest fell by €5.0 million to €–75.1 million on account of higher interest expenses payable to banks and for project financing.

The BayWa Group's earnings before tax (EBT) fell by €18.5 million, or 21.0%, to €69.6 million. Accounting for €21.0 million, the Agriculture Segment was primarily responsible for this decline. Due to the intensification of product development activities, the Innovation & Digitalisation Segment also reported a decrease of €5.7 million. By contrast, EBT increased by €1.3 million in the Building Materials Segment and by €3.6 million in the Energy Segment. The corresponding earnings indicators from the Other Activities Segment, together with the consolidation effects presented in the transition, came to €–41.7 million in the reporting year, up by €3.5 million on the previous year's figure of €–45.2 million.

Income tax expense for the BayWa Group stood at €16.9 million in the financial year 2016, which corresponds to a year-on-year decrease of €9.6 million, or 36.1%. The tax rate therefore came to 24.3% in the reporting year (2015: 30.1%).

Taking account of income tax, the BayWa Group generated net income of €52.7 million in the financial year 2016 (2015: €61.6 million); compared with the previous year's figure; this represents a decline of 14.4%. The share in profit due to shareholders of the parent company went down by 35.4% from €48.2 million in the previous year to €31.1 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 34,764,480 (dividend-bearing shares less treasury shares), fell from €1.39 in the previous year to €0.90 in the financial year 2016.

Comparison of forecast business development with actual business development

In the Outlook section of the 2015 Management Report on the Group, BayWa forecast a substantial rise in consolidated revenues in the financial year 2016 and a slight improvement in the Group's tax-relevant key earnings indicators, EBITDA, EBIT and EBT.

In the BAST and BAV business units' agricultural trade activities, sales volumes of agricultural produce were supposed to rise on the back of good subsequent collection and storage business, higher inventories of grain and the high forecast harvest for the grain year 2015/16. It was assumed that sales of operating resources would also rise marginally on account of gains in market share. The operating result (EBIT) was also supposed to benefit from the resulting significant rise in revenues by posting an unusually sharp increase. In fact, actual development in the financial year 2016 differed from these expectations. High harvest volumes of important agricultural produce led to a rise in trading volume, but also to a sharp drop in grain prices in the first half of the year and unfavourable development in the price of soya. In trade in operating resources, sales of seed, fertilisers and crop protection fell, in particular due to savings by farmers and adverse weather conditions. As a consequence, original expectations regarding revenues and the operating result were not fulfilled; revenues exceeded the previous year's figure by a clear margin, while EBIT fell significantly year on year.

In fruit trading, the acquisition of the Dutch company TFC fuelled expectations of significant revenue growth. The operating result (EBIT) was supposed to see an exceptionally strong rise due to anticipated one-off income from the sale of FCC. Both revenues and the forecast increase in EBIT materialised to their full extent.

Revenues in agricultural equipment business were expected to rise slightly, with a significant decline in the operating result (EBIT). With a decline of 0.3%, revenues saw weaker-than-expected development. The development of EBIT, which fell by 50.7%, corresponded to the forecast range.

In total, revenues in the Agriculture Segment increased significantly by 7.2% to €10,884.5 million. However, the forecast unusually sharp increase did not materialise. The operating result (EBIT) fell by 22.1% to €70.1 million despite the forecast of a significant rise.

Revenues from the conventional energy business were forecast to increase substantially year on year, with a significant decrease in the operating result (EBIT). The business unit recorded a 9.6% decrease in revenues in 2016 on account of the crude oil price, which was lower on average over the course of the year. In contrast, the operating result (EBIT) significantly outperformed expectations by rising 2.6% as a result of the increase in sales and positive margin development in the fuel business.

According to the forecast, revenues in the Renewable Energies business unit were set to rise by a substantial margin in 2016 compared to the previous year. By contrast, a significant decline in the operating result (EBIT) was forecast. With revenue down 7.1%, the developments failed to meet the expectations. EBIT significantly outperformed expectations by improving 8.9%, 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 –8.8%, with a substantial rise having been forecast. The operating result (EBIT) fared significantly better by rising 7.7% to €83.1 million. The forecast had predicted a significant decline.

A marginal revenue decrease was anticipated in the Building Materials Segment. Actual development exceeded the forecast, with a 2.3% increase in revenues. The operating result (EBIT), which was forecast to decline marginally, also outperformed expectations by rising 4.0%.

The forecast for the then Digital Farming business unit at the start of 2016 anticipated revenues in the high single-digit millions. In reality, the Innovation & Digitalisation Segment that emerged from the business unit in the second half of 2016 did not live up to the forecast, with revenues of €6.0 million. The operating result (EBIT), which was expected to be negative in the low single-digit millions, disappointed expectations by coming in at €–8.6 million.

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.

A substantial overall rise in revenues and a marginal improvement in earnings in the financial year 2016 were forecast for the BayWa Group in the 2015 Group management report. On account of the outlined developments in the business units, revenues at Group level rose by 3.2% and therefore failed to live up to the expectations. The operating consolidated result (EBIT) fell by 8.5% and therefore did not develop as well as expected.

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.

Within 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 US, 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 unit have access to separate non-recourse financing (without the lenders having access to the BayWa Group's assets and cash flows).

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

Interest rate risks inherent in short-term debt are covered by BayWa in the context of its risk management through the use of simple derivative instruments. 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	2012	2013	2014	2015	**2016**	Change in % 2016/15
Equity	1,078.0	1,115.0	1,050.4	1,075.9	1,098.3	2.1
Equity ratio (in %)	24.2	21.4	18.6	17.8	17.0	–
Short-term borrowing [1]	1,974.2	2,421.7	2,493.5	2,769.3	3,084.4	11.4
Long-term borrowing	1,408.0	1,662.5	2,108.1	2,191.5	2,292.2	4.6
Debt	3,382.2	4,084.2	4,601.6	4,960.8	5,376.6	8.4
Debt ratio (in %)	75.8	78.6	81.4	82.2	83.0	–
Total capital (equity plus debt)	4,460.2	5,199.3	5,652.0	6,036.7	6,474.9	7.3

1 Including liabilities from non-current assets held for sale

As at the balance sheet date, the BayWa Group equity ratio stood at 17.0%. 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 BayWa Group uses equity-to-fixed-assets ratio II as a target in its capital management process. Equity and long-term borrowing should cover at least 90% of non-current assets. As at 31 December 2016, the equity-to-fixed-assets ratio was in excess of 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. Additional short-term debt was taken out to expand international agricultural trade activities, and additional long-term debt was taken out for project financing purposes in the Renewable Energies business unit. Furthermore, the method in which actuarial gains and losses from provisions for pensions and severance pay in the financial year 2016 and 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 €–245.4 million as at 31 December 2016 following €–215.7 million in the previous year. As this reserve results from a change of parameters not within the company's control when calculating provisions for pensions and severance pay, BayWa's capital management uses an equity ratio of 20.8% (2015: 21.4%), 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 €315.1 million, or 11.4%, and includes a rise in current liabilities of €198.1 million. By contrast, long-term borrowing increased by just 4.6%, or €100.7 million. Some 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. Additionally borrowed funds were used to expand agricultural trade business activities and project business in the renewable energies business sector. 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 2016, the BayWa Group's total assets climbed by €438.2 million in comparison with the previous year's figure. Borrowing increased by €415.8 million, whereas equity increased by €22.4 million.

Cash flow statement and development of cash and cash equivalents

in € million	2012	2013	2014	2015	**2016**
Cash flow from operating activities	150.0	230.3	– 90.6	19.0	208.6
Cash flow from investing activities	– 193.7	84.5	– 227.6	– 143.5	– 123.6
Cash flow from financing activities	37.4	– 297.0	334.4	98.7	– 63.0
Cash and cash equivalents at the end of the period	83.2	92.1	108.4	84.5	104.4

Cash flow from operating activities stood at €208.6 million in the financial year 2016, which was €189.6 million higher than the previous year's figure of €19.0 million. With consolidated net income down €8.9 million year on year, this increase – which was accompanied by a rise in inventories and trade receivables – resulted in particular from a decline in other assets not attributable to investment and financing activities along with a rise in trade payables and other liabilities not attributable to investment and financing activities. The increase in inventories and trade receivables was therefore financed by cash outflows.

Despite a rise in payments for company acquisitions, cash flow from investing activities recorded a €19.9 million decline in cash outflow. Payments for company acquisitions amounted to €71.2 million in the financial year 2016 (2015: €36.9 million) and mainly pertained to the acquisition of TFC Holland B.V., Evergrain Germany GmbH & Co. KG and Agrimec Group B.V. This figure also includes subsequent purchase price payments for company acquisitions made in previous years. By contrast, the disposal of intangible assets, property, plant and equipment, and investment property resulted in cash inflow of €54.0 million (2015: €64.7 million); disposals of financial assets resulted in cash inflow of €41.0 million (2015: €16.3 million). Investments in intangible assets and property, plant and equipment totalled €154.1 million (2015: €174.5 million); €11.3 million (2015: €23.3 million) was invested in financial assets. Furthermore, the dividend received, other income assumed and interest received led to cash inflows of €14.1 million.

Cash flow from financing activities amounted to €–63.0 million in the financial year and resulted in particular from the partial repayment of the bonded loans issued in previous years as well as the repayment of additional debts. In addition, cash outflows from dividend payments at the parent company and at subsidiaries totalled €35.7 million and interest payments €27.8 million. This was offset by cash inflows from the borrowing of financial liabilities primarily related to renewable energies project business. The year-on-year reduction in cash flow from financing activities was particularly the result of the placement of a long-term BayWa AG bonded loan of €200.0 million in the previous year along with lower loan repayments

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 investment and financing activities was completely compensated by cash inflow from operating activities. As a result, cash and cash equivalents as at the end of the reporting year came to €104.4 million, which is €19.9 million higher than in the previous year.

Financial base and capital requirements

The BayWa Group's financial base is primarily replenished by funds from operating activities. Furthermore, the Group was allocated funds from the placement of a new bonded loan in the previous year; these funds are 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.

Along with short-term borrowing, the Group finances itself by way of a multi-currency Commercial Paper Programme, which was topped up by €100.0 million in 2015 to a total volume of €500.0 million. As at the balance sheet date, securities were issued in various currencies in the amount of €475.0 million (2015: €266.5 million) with an average weighted residual term of 49 days (2015: 33 days). By the end of the reporting period, €127.1 million (2015: €121.8 million) in receivables had been financed at their nominal value from the ongoing Asset-Backed Securitisation Programme.

Investments

In the financial year 2016, the BayWa Group invested around €154.1 million in intangible assets (€25.9 million) and property, plant and equipment (€128.2 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 2016, roughly €57.2 million was invested in new business premises Group-wide. The main focus was on the completion of buildings related to company operations and investment in sites' technical facilities.

Investments in the financial year 2016 included €11.4 million in a logistics centre for the Agricultural Equipment business unit in Röthlein. A further €3.2 million was invested in other agricultural equipment sites in Großweitzschen and Heimerdingen.

In the BAV business unit, major investments were made at the locations in Großmehring (€5.6 million), Tettnang (€3.1 million) and Vilsbiburg (€2.6 million) in the reporting year. In addition, a plot of land in Großenhain was acquired for €3.0 million. A total of €6.5 million was invested in the building materials centre in Munich-Moosfeld. Furthermore, €7.1 million was invested in the expansion of the DIY and garden centre in Wolfratshausen.

The Group company BayWa Obst GmbH & Co. KG invested €1.7 million, in particular for a sorting machine in Kressborn. In addition, RWA AG invested €12.2 million in its warehouse for agricultural produce in Aschach.

Ultimately, investment measures totalling €50.4 million began in the financial year 2016; these concern BayWa AG sites as well as sites belonging to other Group companies and are to be completed in the financial year 2017.

Payments for company acquisitions amounted to €71.2 million in the financial year 2016 and mainly pertained to the acquisition of TFC Holland B.V., Evergrain Germany GmbH & Co. KG and Agrimec Group B.V., as well as to subsequent purchase price payments for company acquisitions made in previous years.

Including acquisitions, roughly 67% of total investments in non-current assets at 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. Some 14% of the total investments were made in the Energy Segment, while almost 8% was attributed to the Building Materials Segment and just under 10% to Other Activities. Owing to the development of the Group's business portfolio with the addition of the Innovation & Digitalisation Segment, some 1% was invested here.

Asset position

In the reporting year, non-current assets increased marginally year on year by 3.0%, or €68.5 million, to €2,355.7 million. Additions to intangible assets and property, plant and equipment amounting to €216.6 million within the scope of investing activities and changes to the group of consolidated companies in core business were offset by disposals of €37.8 million and transfers amounting to €33.0 million. Adjusted for scheduled depreciation and amortisation in the financial year of €126.2 million and exchange rate-induced increases of €9.1 million, intangible assets and property, plant and equipment increased by a total of €28.7 million. Shares in companies recognised at equity rose by €11.3 million to €215.2 million. This was primarily due to the inclusion of VIELA Export GmbH and Hafen Vierow - Gesellschaft mit beschränkter Haftung as a joint venture in accordance with the provisions of the equity method since 1 January 2016. Largely caused by the first-time valuation of the shares of Raiffeisen Ware Austria Aktiengesellschaft, Vienna, Austria, in a financial institution at fair value, other financial assets increased by €20.9 million to €189.1 million. Sales completed in the financial year 2016 or property sales planned for the coming financial year and the resulting recognition of the properties concerned under non-current assets held for sale, coupled with scheduled depreciation, led to a reduction in investment real estate of €14.3 million. Non-current liabilities and other assets declined by €11.1 million, whereas deferred tax assets were up by €34.5 million.

Project developments in the Renewable Energies business unit and the international expansion of agricultural trade activities saw the BayWa Group's inventories increased by €238.7 million year on year to €2,380.3 million. The decline in financial assets from €222.4 million to €153.1 million was due to a reduction in fluctuations of agricultural produce and operating resources prices. At €1,395.9 million, the value of other current receivables and other assets as at the reporting date climbed by €141.1 million year on year. This development was primarily due to a rise in trade receivables, which was partially compensated for by a decline in receivables from affiliated companies and a decrease in other assets. There was also an increase in non-current assets and disposal groups held for sale, which rose by €15.1 million to €24.9 million. 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 7.3%, or €438.2 million, to €6,474.9 million as at the reporting date of 31 December 2016.

Traditionally, BayWa has always placed an emphasis on ensuring matching maturities in the financing of assets. Current liabilities of €3,084.3 million – consisting of current financial liabilities, trade payables, financial liabilities, tax, other liabilities along with current provisions and liabilities from disposal groups – were offset by current assets and assets held for sale/disposal groups of €4,119.1 million. By the same token, there is roughly 144% coverage for non-current assets amounting to €2,355.8 million through equity and long-term borrowing of €3,390.5 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	2012	2013	2014	2015	**2016**	Change in % 2016/15
Non-current assets	1,783.3	2,094.0	2,261.7	2,287.2	2,355.7	3.0
of which land and buildings	530.1	775.4	814.4	845.4	850.4	0.6
of which financial assets	232.8	251.5	181.5	168.2	189.1	12.4
of which investment property	86.2	82.4	72.8	55.9	41.9	– 25.0
Non-current asset ratio (in %)	40.0	40.3	40.2	37.9	36.4	–
Current assets	2,444.4	3,061.8	3,371.8	3,739.7	4,094.8	9.5
of which inventories	1,432.6	1,836.0	1,986.3	2,141.5	2,459.9	14.9
Current asset ratio (in %)	54.8	58.9	59.5	61.9	63.2	
Assets/disposal groups held for sale	232.5	43.4	18.5	9.8	24.9	> 100
Total assets	**4,460.2**	**5,199.3**	**5,652.0**	**6,036.7**	**6,474.9**	**7.3**

General statement on the business situation of the Group

The Board of Management considers the business performance of the BayWa Group to be satisfactory overall at the time this management report is prepared, even though development in individual business units and segments was extremely varied in 2016. The Fruit business unit in the Agriculture Segment generated the best result in its history, providing impressive confirmation of its internationalisation strategy. However, earnings in the Agriculture Segment were negatively impacted in 2016 primarily by a number of unusual, market-related factors in the BayWa Agri Supply & Trade (BAST), BayWa Agri Services (BAS) and Agricultural Equipment business units. The medium-to long-term prospects of the Agriculture Segment remain positive. By contrast, the Energy Segment – and particularly the Renewable Energies business unit – performed extremely well and set a new earnings record. Restructuring efforts in previous years also had an impact in the Building Materials Segment and resulted in an improvement in earnings. Diversification, the strategic orientation towards international markets and the development of new business areas stabilised the development of the BayWa Group considerably in 2016. The BayWa Group has a well-balanced, fit-for-the-future business portfolio to underpin its success in the future. It will continue to focus on optimising portfolio quality and expanding its specialities business.

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 2016:

Key financial earnings figures

	Earnings before interest, tax, depreciation and amortisation (EBITDA)			Earnings before interest and tax (EBIT)			Earnings before tax (EBT)		
in € million 2016		Change (absolute)	Change (in %)		Change (absolute)	Change (in %)		Change (absolute)	Change (in %)
BayWa Agri Supply & Trade (BAST)	– 8.0	– 25.3	– 35.2	– 11.5	– 24.4	– 58.4	– 18.2	– 25.0	> – 100
BayWa Agricultural Sales (BAV)	54.6			28.7			12.8		
Fruit	57.2	17.1	42.8	42.3	15.3	56.5	36.4	15.2	71.3
Agricultural Equipment	21.8	– 10.1	– 31.6	10.6	– 10.9	– 50.7	0.8	- 11.1	– 93.2
Agriculture Segment	**125.6**	**– 18.3**	**– 12.7**	**70.1**	**– 19.9**	**– 22.1**	**31.8**	**– 21.0**	**– 39.8**
Energy	24.2	0.2	1.0	15.8	0.4	2.6	15.7	0.5	3.3
Renewable Energies	89.5	– 1.3	– 1.4	67.3	5.5	8.9	53.7	3.1	6.0
Energy Segment	**113.7**	**– 1.1**	**– 0.9**	**83.1**	**5.9**	**7.7**	**69.3**	**3.6**	**5.4**
Building Materials Segment	**43.9**	**1.7**	**4.0**	**28.5**	**1.1**	**4.0**	**18.8**	**1.3**	**7.4**
Innovation & Digitalisation Segment	**– 6.6**	**– 4.4**	**> – 100**	**– 8.6**	**– 5.7**	**> – 100**	**– 8.6**	**– 5.7**	**> – 100**

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 2016	BayWa Agri Supply & Trade (BAST)	BayWa Agricultural Sales (BAV)	Fruit	Agricultural Equipment	Energy	Renewable Energies	Building Materials	Innovation & Digitalisation
Net operating profit	– 11.5	28.7	42.3	10.6	15.8	67.3	28.5	– 8.6
Average invested capital [1]	847.3	1,016.0	327.4	476.1	31.7	980.5	394.5	6.0
ROIC (in %)	– 1.36	2.82	12.92	2.23	49.84	6.86	7.22	– 143.33
Weighted average cost of capital (WACC) (in %)	5.70	5.70	5.80	6.70	5.90	4.40	6.10	5.70
Difference (ROIC less WACC) (in %)	– 7.06	– 2.88	7.12	– 4.47	43.94	2.46	1.12	– 149.03
Economic profit by business unit	– 59.8	– 29.2	23.3	– 21.3	13.9	24.2	4.4	– 8.9
				Agriculture		Energy	Building Materials	Innovation & Digitalisation
Economic profit by segment				– 87.0		38.1	4.4	– 8.9

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

In the financial year 2016, the BayWa Group's Energy and Building Materials Segments, as well as its Fruit business unit in the Agriculture Segment, achieved positive economic profit (in other words, positive net income after respective capital costs). In the Energy Segment, the Renewable Energies business unit raised its economic profit to €24.2 million from €15.0 million in the previous year as a result of its strong international project business. In the Conventional Energy business unit, the economic profit was able to be increased in the reporting year primarily through higher sales volumes and a positive margin trend to €13.9 million (2015: €12.9 million). The Energy Segment's economic profit totalled €38.1 million. The Building Materials Segment generated positive economic profit in the financial year 2016 of €4.4 million, primarily as a result of increased sales volumes caused by the positive development of the construction industry. The Fruit business unit was able to more than double its economic profit year on year from €9.8 million to €23.3 million in the reporting year. This increase was due to the ongoing positive performance of international business and the larger range of fruit on offer. However, the Agriculture Segment as a whole recorded economic profit of €–87.0 million in 2016. In the BayWa Agri Supply & Trade (BAST) business unit, economic profit stood at €–59.8 million owing to negative effects impacting the trading result and stiff competition. Economic profit of €–29.2 million was recorded in the BayWa Agricultural Sales (BAV) business unit; this was due to weaker business involving operating resources and a fall in income in recording agricultural produce. Economic profit in the Agricultural Equipment business unit of €–21.3 million was primarily the result of the fall in farmers' willingness to invest. The Innovation & Digitalisation Segment posted economic profit of €–8.9 million as expected in its planning.

Employees

The number of employees at BayWa rose once again in 2016. By the end of the year, the BayWa Group employed 16,711 employees (2015: 16,229). In terms of an annual average, the number of employees rose year on year by 351 to 16,960, equating to an increase of 2.1%. This increase is largely based on a number of strategic acquisitions in various business areas. The international standing of BayWa's fruit and agricultural equipment trading activities was strengthened through targeted acquisitions, while the Innovation & Digitalisation Segment, established in 2016, was expanded further. There were also two smaller acquisitions in the Building Materials Segment. The number of employees in the Conventional Energy business unit remained stable year on year, whereas there were major increases in employee numbers in the Renewable Energies business unit.

Development of the average number of employees in the BayWa Group

	2013	2014	2015	**2016**	Change 2016/15	Change in %
Agriculture	9,038	9,489	9,997[1]	10,212	215	2.2
Energy	1,720	1,830	1,825	1,911	86	4.7
Building Materials	4,718	4,178	4,093	4,081	– 12	– 0.3
Innovation & Digitalisation	–	–	97[2]	126	29	29.9
Other Activities	498	575	597	630	33	5.5
BayWa Group	**15,974**	**16,072**	**16,609**	**16,960**	**351**	**2.1**

1 Figure adjusted for the former Digital Farming business unit 2 Figure attributable to the former Digital Farming business unit

Human resources development – E-learning, webinars and blended learning for a digital BayWa world

Motivated and highly qualified employees and managers are the cornerstone of BayWa's success. That is why strategic human resources development and the latest innovations in training are absolutely essential. The digitalised world is a decisive factor in how we learn and work today. BayWa already draws on online training, new blended learning training concepts and webinars with great success.

Over 21,000 people took part in various online training courses in 2016. At the current time these are primarily used for compulsory training such as courses on issues of compliance or data protection, but also for specific training courses relating to agriculture and building materials. Online training courses are an integral part of the HR portal, allowing every employee to keep up to date on his or her training history and manage their courses at the touch of a button.

Blended learning involves marrying conventional on-site training with virtual elements. This concept applies to the "Ideenschmiede" internal development programme and to leadership training for managers at building materials sites, among others. Here, the virtual element comprises webinars held via Skype. As part of BayWa's seminar programme, human resources development is offering Führungs-Toolbox 2, a course for experienced management personnel, as a Skype webinar in 2017.

In total, well over 17,000 employees took part in training courses and seminars in 2016, completing just under 29,500 days' training. The majority of training courses focused on qualification in specialist topics, which accounted for 17,500 days' training. Just under 12,000 training days were spent on developing personal and social competences.

"Development of the Group" programme

Topics such as internationalisation and digitalisation are constantly shifting the goalposts. In order to remain successful moving forward, BayWa requires management personnel who are able to cope with these changes. That is why BayWa launched a programme in 2016 with the aim of uncovering the potential of its managers and developing customised development plans. This programme involves carrying out online assessments and management audits and, after analysing the results, determining the next steps in manager development. A follow-up project, Development of the Group II, is planned in 2017 alongside individual measures with a view of achieving the long-term goal of changing the management culture at BayWa.

Diversity and opportunity

BayWa strives to achieve diversity in every facet and aspect – including gender, nationality and age. Diversity and equal opportunities are key components of the corporate social responsibility BayWa bears for its employees. It focuses on gender management to ensure that female and male employees have the same career opportunities at all levels of the BayWa hierarchy and across all the company's functions. Another of BayWa's focuses is the process of demographic change and the challenges this presents, as well as internationalisation and the promotion of dialogue between different cultures.

Quality training for a successful future

High-quality training lays the best possible foundations for a successful future – both for trainees and for BayWa. The Group is a very important training company, with just under 1,300 trainees. At over 10%, the trainee ratio is far higher than the average among companies providing training. In 2016, BayWa launched an online campaign with social media elements, expanded its cooperation with schools and visited trade fairs to ensure that its supply of new talent continues in 2017.

New management trainee programme

On 1 December 2016, a new training programme began at the BayWa headquarters in Munich involving four management trainees in the Agriculture Segment. The first group of trainees to start the new two-year programme will gain hugely varied insight into a number of different product areas and complete a three-month assignment at one of BayWa's agricultural subsidiaries abroad. This prepares these young management trainees for the international orientation of the Group right from the outset and ensures that they are well equipped for functional and management tasks after completing their traineeship.

Healthy employees in safe workplaces

Occupational health and safety for all employees and the protection of the environment are key issues at BayWa. That is why BayWa launched the "Fit für alle Felder" employee campaign in collaboration with the FC Bayern Basketball team. With the focus on physical and mental fitness, healthy eating and basketball knowledge, participating employees are given the opportunity to improve their health and safety in their day-to-day activities. The kick-off event in Munich in November 2016 was a resounding success, with the programme set to be rolled out across further BayWa sites in 2017.

In spring 2016, all employees who work at height received training on height safety and using the right equipment at a BayWa training centre. In addition, all truck drivers in the Building Materials business unit received extra training on first aid and what to do in the event of an accident. The environmental protection department also organised a number of seminars involving practical exercises on the subjects of transporting hazardous goods, storing and disposing of hazardous materials and fire safety. Since mid-2016, all international issues relating to occupational health and safety and environmental protection have been pooled in the Environment, Health & Safety department.

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

BayWa' corporate social responsibility has been set in stone since the establishment of the BayWa Foundation in 1998. The Foundation's 20 educational projects help contribute to ensuring that everyone has access to a healthy diet and an education as well as generating clean energy. The issue of nutrition is particularly important. For the BayWa Foundation, the work starts at home by raising awareness for a healthy diet and improving children's health. In its "Planting vegetables. Harvesting health." project, for instance, the BayWa Foundation has already opened 120 school gardens. Children are shown where food comes from and why maintaining a balanced diet is so important for their daily school lives. At the same time, the project also conveys the value of agriculture. Another project involves the creation of clean energy in Tanzania, with the BayWa Foundation organising the construction of eight biogas plants and one municipal plant at a girls' school. A centre for biogas competence has since been set up there. All of these projects are about helping people to help themselves, thus increasing quality of life over the long term. For further information on the projects please visit www.baywastiftung.de.

Sustainability at BayWa

BayWa's products and services cover basic human needs, such as food, energy and shelter. The company has always linked solid and profitable growth with a focus on the interests of future generations. Tradition and innovation are defining elements of BayWa's sustainability philosophy, which is supported by strategic sustainability goals. Working together with customers, employees, investors and suppliers as a partner across all processes plays a key role. The principles of the brand concept – trust, solidity and innovation – form the foundation of this approach.

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 a listed trading company, BayWa maintains constant dialogue with its stakeholders. To do so, BayWa engages in transparent communication as part of its investor relations and press work, organises one-to-one meetings with customers and employees, attends events, carries out surveys and ensures that it maintains efficient risk and complaints management processes.

Our society and economy have a number of global challenges to contend with, such as rising demand for food and extreme weather events. That is why BayWa helps its customers to maximise yields and conserve resources when it comes to their processes and products – increasingly through digital solutions. In addition, the extensive range of products and services offered as part of the BayWa Eco range is aimed at the growing market for ecological agriculture. BayWa is also committed to the efficient use of resources and environmentally friendly logistics in its internal process, with examples including the greater use of rail and ship transport. BayWa works for its employees to ensure equal opportunities among genders, foster dialogue between different generations and embrace cultural diversity. BayWa is one of the leading companies in Germany where training is concerned.

The BayWa Foundation (www.baywastiftung.de) is the face of BayWa's wide range of corporate social commitments. Its mission is to help ensure that everyone has access to an education, a healthy diet and clean energy. BayWa covers the Foundation's administrative costs and doubles the donations received. BayWa's corporate responsibility has traditionally also extended to promoting sporting activities. In the reporting year, BayWa supported FC Bayern as the main sponsor of its basketball team and maintained its commitment to top-level sport.

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 €89,347,033.60 on the reporting date and is divided up into 34,901,185 registered shares with an arithmetical portion of €2.56 each in the share capital. Of the shares issued, 33,540,729 are registered shares with restricted transferability and 117,205 recently registered shares with restricted transferability (dividend-bearing employee shares from 1 January 2017 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 AG holds a small portfolio of registered shares (19,500 units), which, pursuant to Section 71b of the German Stock Corporation Act (AktG), do not carry voting rights as long as they are in BayWa AG's possession. There are no other restrictions that relate to the voting rights or the transfer of shares.

Affiliated companies with over 10% of voting rights

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

Bayerische Raiffeisen-Beteiligungs-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 Board of Management is authorised to raise the share capital on or before 31 May 2021 by up to a nominal amount of €12,500,000 through the issuance of new registered shares against contributions in kind. The authorisation can be used in part amounts. Shareholders' subscription rights are excluded. Subject to approval by the Supervisory Board, the Board of Management is authorised to specify the further content of the share rights and conditions under which the shares are to be issued.

Furthermore, the Board of Management is also authorised to raise the share capital one or several times on or before 18 May 2020 by up to a nominal amount of €4,389,847.04 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.

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 part amounts. Shareholders' subscription rights are excluded. Subject to approval by the Supervisory Board, the Board of Management is authorised to specify the further content of the share rights and conditions under which the shares are to be issued.

Furthermore, the Board of Management is authorised to offer held shares to third parties within the framework of the acquisition of or investment in companies or of mergers and to withdraw part or all of the shares without requiring a further resolution to be passed by the Annual General Meeting of Shareholders.
The Board of Management has not been further authorised by the Annual General Meeting of Shareholders to buy back shares. There are no agreements within the meaning of Section 315 para. 4 items 8 and 9 of the German Commercial Code (HGB).

Remuneration Report

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

Remuneration of the Board of Management

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

The long-term variable component takes the form of what is known as a bonus bank. The bonus bank will be supplemented or charged on a yearly basis depending on the extent to which objectives, linked to the success of the company (earnings before tax) and determined by the Supervisory Board for three years in advance, have been achieved, exceeded or undershot. If objectives are exceeded, the amount which can be transferred to the bonus bank is capped at 150% of the target figure. If there is a credit balance on the bonus bank, one third will be provisionally paid out for the financial year 2016 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). Employees do not reach retirement age before they turn 66. Since 1 December 2012, all obligations from pension commitments have been transferred to an external pension fund in the form of an earned entitlement, or to a provident fund. Running payments made to the pension fund or provident fund are included in the overall remuneration disclosed for the Board of Management.
There are no commitments in the employment contracts of the Board of Management members if service to the company is prematurely terminated. There are also no Change of Control clauses.

The total remuneration of the Board of Management for the financial year 2016 came to €6.910 million (2015: €6.326 million); of this amount, €2.036 million (2015: €2.262 million) is variable. Contributions amounting to €1.555 million (2015: €1.105 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 position and performance.
Since 1 January 2010, members of the Supervisory Board have received fixed annual remuneration of €10,000, payable after the conclusion of the financial year, plus variable remuneration of €250 for each cash dividend portion of €0.01 per share approved by the Annual General Meeting of Shareholders which is distributed to shareholders in excess of a share in profit of €0.10 per share. Variable remuneration is due and payable at the end of the Annual General Meeting of Shareholders, which has passed a resolution on the aforementioned cash dividend portion.

The Chairman of the Supervisory Board receives three times the amount and the Vice Chairman twice the amount of remuneration paid as described in the paragraph above. Additional fixed annual remuneration of €2,500 is paid for committee work. The chairmen each receive three times the respective amount.
Supervisory Board members who serve on the Supervisory Board and/or its committees for only part of the financial year will receive remuneration on a proportionate basis.
In addition, they are reimbursed for their expenses and value added tax which falls due on account of their activities as member of the Supervisory Board or its committees. In addition, members of the Supervisory Board are also included in the company's group accident insurance policy. The company also maintains an insurance policy against legal proceedings and pecuniary losses and a D&O insurance and legal protection policy on behalf of its Supervisory Board members and in the interests of the company. The company pays the insurance premiums.
The total remuneration of the Supervisory Board comes to €0.761 million (2015: €0.686 million); of this amount €0.425 million (2015: €0.369 million) is variable.
Disclosure of remuneration paid to the members of the Supervisory Board in the Notes to the Consolidated Financial Statements has not been itemised (reason given in the Declaration of Conformity).

Opportunity and Risk Report

Opportunity and risk management

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

Principles of opportunity and risk management

BayWa exploits opportunities that arise in the context of its business activities but, at the same time, also enters into entrepreneurial risks. The identification of entrepreneurial opportunities, the safeguarding of the assets and the enhancing of enterprise value therefore necessitate an opportunity and risk management system.

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

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

Opportunity and risk management within BayWa Group

In BayWa Group risk management is an integral component of the planning and management and control processes. A comprehensive risk management system records and monitors both the development of the Group and any existing weak points on an ongoing basis. The risk management system covers all segments and is included as a key component of reporting. A particularly important task of risk management is to guarantee that risks to the Group as a going concern are identified and kept to a minimum. This enables the management of Group companies to react swiftly and effectively. All units have risk officers and risk reporting officers who are responsible for implementing the reporting process.

The reporting process classifies opportunities and risks into categories and estimates their probable occurrence and potential financial impact. The system is based on individual observations, supported by the relevant management processes, and forms an integral part of core activities. It starts with strategic planning and proceeds through to procurement, sales and distribution and, finally, to the management of counterparty risk. As an extension of the planning process that takes place in the business units and in procurement, sales organisations and centralised functions, the opportunity and risk management system serves to detect and assess potential divergences from expected developments. In addition to identifying and assessing key developments influencing business, this system facilitates the prioritisation and implementation of activities. As a result, BayWa Group can make better use of the opportunities while avoiding or reducing the risks.

A cornerstone of the risk management system are 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 warning component makes an indispensable contribution to strengthening and consistently building up a Group-wide opportunity and risk culture.

A key component and, at the same time, an evolution of the opportunity and risk management is the "Risk Board", which has been in place since the financial year 2009. Presided over by the Chief Executive Officer, the Risk Board, which consists of operations managers and support staff, meets regularly to discuss and assess operational opportunities and risks. Minuted meetings are used to develop an understanding of the opportunities and risks and form the basis of the 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 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 MaRisk comprises the risk-bearing capacity as well as the formulation of strategies and the establishment of internal control procedures. 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 setting up of a risk controlling function.

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

These control mechanisms are supported by a standardised IT system solution 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 Agriculture Risk Committee is part of Risk Governance and acts 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 Committee decides on risk limits 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 agriculture trading companies to ensure that the provisions of the Agriculture Risk Committee 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 in the trading companies covers all risk processes within the company, including limit monitoring and reporting. The Agrar Risk Controlling Board, which is comprised of Group Risk Control as well as the Risk Officers of the trade departments, is also part of Risk Governance and aims to promote regular, at least weekly, structured exchange on risk-relevant incidents.

The Global Book System (GBS) was created in 2014 and continues to coordinate trade management activities; it is responsible for the overarching coordination and optimisation of the trading and risk positions of the individual product lines in the trading of grain, oilseed and co-products for the national and international sectors. The Economics and Public Affairs Department (EPAD) organisational unit was disbanded in 2016. However, fundamental market analyses continue to be performed within the scope of the market research activities to estimate the global supply and demand situation; these analyses are discussed in weekly meetings with the trade departments.

Macroeconomic opportunities and risks

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

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 presence diversification in the Agriculture Segment as this would reduce the dependence on individual markets and increase procurement and marketing flexibility. BayWa also combats quality risks by performing samplings and checks. Risks posed by a deterioration in the quality of inventories are reduced by professional warehousing standards. Logistics risks resulting from a lack of transport capacities due to weather conditions or strikes are identified and managed early on by the early warning systems. Global climate changes also have a long-term effect on agriculture. The global demand for agricultural products, particularly grain, continues to grow. This may give rise to a sustained price uptrend. The fruit-growing activities pose a financial risk to the Group, which arises from the delay between cash outflow for buying, growing and maintaining the trees and vines as well as the costs of the harvest and cash inflow from the sale of the fruit. This risk is managed by actively monitoring net working capital. The development of income in the agriculture sector filters through directly to investment capacity and propensity and therefore to the sale of operating equipment and high-end agricultural machinery.

In the energy business, renewable energies are particularly affected by changes in promotion measures. Against this backdrop, geographic diversification stabilises the development of revenues and income and diversification across a number of different energy carriers – above all, wind energy, solar power and biomass – mitigates risk in certain markets that remain strongly dependent on subsidisation. Climatic risks (wind, sunshine) also play a role for BayWa's electricity-generating Group companies in the field of renewable energies. Long-term expert opinions 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. In general terms, ageing housing stock in Germany will encourage growing demand for modernisation and renovation. In the Building Materials Segment, BayWa Group is the franchiser for 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, there is a risk that the franchise company in BayWa Group will no longer meet its contractual obligations to the franchisees in the previous way and of the previous quality. Among other things, this may lead to claims for damages on the part of franchisees. This risk was counteracted by the Group concluding long-term agreements with Hellweg.

Risks and opportunities from financial instruments

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

Price opportunities and risks

BayWa trades in merchandise that displays very high price volatility, such as grain, oilseeds, fertilizers, mineral oil, biomethane and solar components, especially in its Agriculture and Energy segments. The warehousing of the merchandise and the signing of delivery contracts governing the acquisition of merchandise in the future means that BayWa is also exposed to the risk of prices fluctuating. Whereas the risk inherent in mineral oils and biomethane is relatively low due to BayWa's pure distribution function, fluctuations in the price of grain, oilseeds, fertilizers and solar components may incur greater risks, also owing to their warehousing, if there is no matching in the agreements on the buying and selling of merchandise. What's more, activities by financial investors and technical market mechanisms can sometimes exacerbate price volatility considerably. In addition to absolute price risks, business developments may be influenced by various price developments in the local premiums, in the temporal price curve as well as different quality grades. If there are no hedging transactions existing at the time when agreements are signed, the ensuing risk is monitored on an ongoing basis by the respective executive bodies. Whenever necessary, appropriate measures to limit risk are initiated. BayWa also operates as a project developer in the field of renewable energies. This business harbours a risk that, for instance, the planning and building of solar power plants, wind farms and biogas plants are delayed and that they may be connected to the grid later than originally planned. 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 (5 trading days). The value-at-risk calculated as at 31 December 2016 amounted to €1.791 million and indicates that the potential loss from the commodity futures considered will, with a probability of 95%, not exceed €1.791 million within the next five trading days.

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 bonds denominated in foreign currencies is prohibited.

Interest rate opportunities and risks

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

In the financial year 2016, the average interest rate for variable-interest financial liabilities stood at 1.1100% (2015: 1.0225%) A change in this interest rate of plus 1.0% to 2.1100% would cause interest expenses to rise by €10,878 million, provided this could not at least be partially covered by revenues. A 1.0% reduction in the interest rate to 0.1100% would result in interest expenses declining by €10.878 million.

Legal and regulatory opportunities and risks

The companies of the Group are exposed to a number of risks in connection with litigation in which they are currently involved or may be involved in the future. Such litigation comes about in the course of normal business activities, in particular in relation to the assertion of claims from services and deliveries that are not up to standard or from payment disputes. Legal risks can also rise from breaches of compliance regulations by individual employees. Antitrust investigations were conducted at various agricultural companies in Germany in 2015, including BayWa, with regard to crop protection wholesale operations. The Bundeskartellamt (German federal antitrust authority) conducted a further search in a number of agricultural equipment offices at BayWa headquarters in January 2016 on the basis of a warrant issued by the Bonn district court. The investigation is based on the suspicion that employees of BayWa 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. Both investigations continue and the results or partial results were not available at the time of the conclusion of the consolidated financial statements. 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 forms reserves for the event of such legal risks if the occurrence of an obligation event is probable and the amount can be adequately estimated. In the individual case, actual utilisation may exceed the reserve amount.

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

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

Credit and counterparty risks

As part of its entrepreneurial activities, 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.

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

There is currently no discernible concentration of default risk from business relationships with individual debtors or groups of debtors. The maximum credit risk exposure at the end of the reporting period corresponds to the book value of trade receivables. The expected default risk amounts to €13.533 million (2015: €12.604 million).

Liquidity risks

The liquidity risk is the risk that BayWa Group may not – or only to a limited extent – be able to fulfil its financial obligations. In 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, BayWa Group does not currently have any risk clusters in liquidity. BayWa Group's financing structure with its mostly matching maturities ensures that interest-related opportunities are reflected within the Group.

Rating of BayWa Group

BayWa AG enjoys a positive rating among banks. This achievement is due to the solidity as well as to the long and successful history of the company and its high enterprise value, underpinned by assets such as real estate. In 2016, the BayWa Group was once again able to raise its total credit lines. For reasons of cost effectiveness, BayWa AG deliberately dispenses with the use of external ratings.

Opportunities and risks associated with personnel

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

At the same time, BayWa AG promotes the ongoing vocational training and development of its employees. With more than 1,300 trainees in 2016, the Group ranks among the largest companies offering training specifically in rural areas. BayWa recruits a large majority of its future specialist and managerial employees from the ranks of these trainees. Long years of service to the company are a testament to the great loyalty that employees show to BayWa. This attitude creates stability and continuity and also secures the transfer of expertise down the generations.

IT opportunities and risks

The use of cutting-edge information technology characterises the entire business activity of BayWa Group. All key business processes are supported by IT and mapped using state-of-the-art software solutions. In a trading company with high numbers of employees, having work processes supported electronically is imperative. The continuous monitoring and reviewing of processes mapped electronically, however, involves more than the mere implementation of new IT components. It is always accompanied by an optimisation of process workflows, as a result of which opportunities in the form of energy and cost savings potential can be identified and realised. At the same time, the risk inherent in the system rises in tandem with the growing complexity and dependency on the availability and reliability of the IT systems.

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

Overall assessment of the opportunity and risk situation by Group management

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

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

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

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

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

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

The obligation of all subsidiaries to report their figures every month 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 Group companies.

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

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

The employment of highly qualified personnel, 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

According to the Federal Ministry of Food and Agriculture (BMEL), the agricultural industry is an international growth market. The long-term forces driving expansion include, in particular, the constantly expanding global population, whose need for food is continuously increasing. 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 increase over the medium term. In addition, the digitalisation of agriculture, expanding at a dynamic rate, is having 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 improve yields per hectare. The global interlinking of agricultural produce markets is broadening the procurement and sales basis, while 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.

According to the latest forecasts by the United States Department of Agriculture (USDA), the 2016/17 harvest season promises excellent grain and oilseeds harvests. The worldwide harvest volume of grain – excluding rice – is set to rise by 93 million tonnes to a new record-breaking figure of 2,077 million tonnes. Worldwide consumption is expected to rise by some 5% to 2,065 million tonnes, meaning that inventories are likely to increase by approximately 12 million tonnes to 498 million tonnes. The coverage of the inventory stocks will decline marginally by 2 days to 88 days due to the sharp rise in consumption in grain year 2016/17. The harvest in the European Union is forecast to decline by just under 5% to 297 million tonnes in grain year 2016/17, but the supply situation will remain positive overall thanks to a self-sufficiency rate of over 100%. Compared over several years, grain prices are currently well down on the record-breaking figures recorded in 2011 and 2012. Following the slight recovery in the fourth quarter of 2016, grain prices are expected to remain stable at their current level of roughly €170 per tonne in 2017, with production and consumption growing in almost equal measure worldwide. Worldwide oilseed harvest volumes are forecast to rise by 5% to 712 million tonnes in grain year 2016/17. Given the anticipated record-breaking harvest volume, there is little potential for long-term price increases from a fundamental perspective.

In the case of feedstuff grain, the USDA forecasts a minor increase in inventories in the grain year 2016/17, as the anticipated consumption of 1,315 million tonnes is just below the production volume at 1,320 million tonnes. Following the significant decline in prices in 2016, the positive supply situation means that there is once again little potential for feedstuff grain price increases in 2017. Generally, the prices of staple feed and mixed feed tend to follow the grain and oilseed markets, meaning that price development over the course of the year will be increasingly influenced by expectations for the grain year 2017/18.

In terms of agricultural operating resources, market volume of seed is expected to remain stable at least in Germany in 2017, as the severe frost in January and February 2017 could have resulted in winter kill, which would necessitate resowing in certain areas. Assuming that the cultivation structure remains largely the same in 2017 and that we will see normal weather conditions, the use of crop protection is expected to be slightly up on the previous year's level. Sustained strong rainfall early in the summer of 2016 made access to fields impossible, particularly in Bavaria and Baden-Württemberg, meaning that crop protection could not be applied. Rising demand for fertilizers is expected in 2017. In the previous year, a number of farmers reduced the scope of their fertilizer application for reasons of cost. This means that the amount of nutrients available to plants in fields will be low in spring 2017. In order to maintain yields, it is assumed that high volumes of fertilizer will be applied in the 2017 fertilizer season. However, the introduction of the German Fertiliser Ordinance (DuV) 2017 in March could see restrictions imposed on fertilizer application in the second half of the year under the planned blackout periods. Assuming normal weather and vegetation conditions, it is expected that prices will tend to be high throughout 2017 following the significant rise in the price of fertilizer at the start of the year. Rising energy prices and a decline in production in China could inflate the price of nitrogen fertilizers particularly, according to the German Farmers' Association (Deutscher Bauernverband – DVB). As in previous years, different types of fertilizer are expected to develop differently.

Assuming normal weather conditions and no changes in the amount of land available for cultivation in Germany, the Federal Statistical Office (Destatis) expects the average harvest volume of apples – the most important of the pome fruits – to stand at roughly 965,000 tonnes in 2017. The political and regulatory framework is also the same as in the previous year. The Russian ban on importing European fruit has been extended until the end of 2017. 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. According to the World Apple and Pear Association (WAPA), the southern hemisphere apple harvest is expected to stand at approximately 5.4 million tonnes based on current fruit development (2015: approximately 5.0 million tonnes). In New Zealand, apple production is expected to increase by some 6% to roughly 572,000 tonnes – a new record. This is due to the start of production at new plantations and favourable weather conditions in the bloom phase. Exports are set to rise slightly to 365,000 tonnes. This is due to an increase in trade with Asian markets in which New Zealand is specialising by cultivating varieties popular there. 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 the first half of 2016. As a result, there was a significant deterioration in sentiment, which slumped to its lowest point in several years in March 2016. Sentiment may not have recovered yet, but it has already improved noticeably. At 29%, the propensity of farmers to make investments in the first half of 2017 is slightly up on the previous-year figure of 28%. Planned investment volume rose slightly to €3.6 billion, from €3.3 billion in the previous year. The volume of investment in machinery and equipment is likely to continue to fall, whereas higher investments are planned in the areas of renewable energies, commercial buildings and farm and animal equipment. Against this backdrop, the German Engineering Foundation (DVMA) anticipates a slight decline in investment in Germany in 2017 of approximately 1% to €7.1 billion (2015: €7.2 billion). However, the agricultural equipment industry will benefit over the medium and long term from the continued increase in the use of technology to step up agricultural production and boost efficiency.

Anticipated business performance

Trading volumes of agricultural produce – particularly grain and oilseeds – in the BayWa Agri Supply & Trade (BAST) business unit is likely to increase slightly on the previous year in 2017. 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 2016/17. In addition, malting barley trader Evergrain, acquired in February 2016 as part of BayWa's international expansion strategy, and speciality trader Thegra Tracomex, acquired at the start of 2017, will contribute to revenues and earnings for the entire year. Altogether, this is likely to result in the expansion of the handling volume of grain and oilseed to approximately 35 million tonnes. Based on anticipated price developments, the revenues generated by the BayWa Agri Supply & Trade (BAST) business unit are likely to increase considerably. Its operating result (EBIT) is also expected to rise by a significant margin. The main driving forces behind this improvement in earnings are the optimisation of the purchase price allocation in international business, which was achieved by adjusting the financing provided for trading in standard produce with lower rates of return. The funding released as a result will be used to further expand higher-margin speciality business.

In the BayWa Agricultural Sales (BAV) business unit, a noticeable year-on-year rise in revenues is expected in the financial year 2017. Sales of operating resources are forecast to rise overall. This is likely to be due for the most part to farms' improved liquidity situation after the noticeable recovery in prices for agricultural produce in the second half of 2016. On the other hand, the use of fertilizers and crop protection is also likely to be up year on year assuming weather conditions are normal. However, demand for fertilizers in the second half of the year could be impacted by the new German Fertiliser Ordinance (DuV). Sales of seed are forecast to increase slightly on the previous year's figures, as this area of business could benefit from potential winter kill. In addition, the locations in Großenhain and Tuningen acquired in July 2016 will contribute to full-year revenues and earnings for the first time. Sales of feedstuffs are not likely to increase in 2017, as farmers could use more of their own grain to feed their animals. The operating result (EBIT) of the BayWa Agricultural Sales (BAV) business unit is likely to increase significantly due to the anticipated rise in the volumes of seed, crop protection and fertilizers and rising prices for fertilizers in particular.

In the fruit business, the entire marketing volume of the BayWa Group is set to increase further. This expectation is based on the forecast record-breaking apple harvest in New Zealand. The full-year inclusion of the Dutch supplier of exotic fruits and vegetables, TFC Holland B.V. (TFC), also contributed to this rise. Additional sales channels were also established in Germany and Europe for TFC. In addition, the investment of Chinese firm Golden Wing Mau in a 19.99% stake in T&G could open up new distribution opportunities in China. Overall, the Fruit business unit will be able to considerably increase revenues year on year. The operating result (EBIT) will be noticeably down on the high level recorded in 2016, as the previous year's figure includes one-off income of approximately €7.5 million from the sale of T&G's packaging logistics company (Fruit Case Company).

Investments in the agricultural equipment business could rise again over the course of the year against the backdrop of recovering prices for agricultural produce, as order intake has picked up since the second half of 2016. Business with newly registered tractors is therefore set to remain on par with the previous year at least in 2017. Service business should also develop stably. The new sales organisation for Massey Ferguson products in southern Germany is also expected to create positive momentum. International business will generate further growth in 2017: This is primarily due to the full-year inclusion of revenue and earnings contributions from the full acquisition of Dutch company Agrimec in July 2016 and the cooperation with CLAAS in Canada since August 2016. All in all, the revenues generated by the Agricultural Equipment business unit are expected to increase markedly. Additional earnings contributions are also expected from BHBW Holdings, a joint venture established in November 2016 in South Africa, meaning that this business unit's operating result (EBIT) should increase significantly.

On the whole, BayWa anticipates significant revenue growth in the Agriculture Segment and a significant rise in the operating result (EBIT) in the financial year 2017.

Outlook for the Energy Segment

Expected market and industry development

Demand for fossil fuels in the heating business is subject to weather-related fluctuations in consumption. Purchasing behaviour is also influenced by the heating oil price trend, which, in turn, is highly dependent on the price of crude oil. The DZ Bank crude oil price forecasts are based on the assumption that current supply surplus will be reduced over the course of the first quarter of 2017 as a result of agreed production cuts. This should have a stabilising effect on the price of oil. Against this backdrop, it is expected that the price of oil will range from USD50 to 60 per barrel in 2017. Structural factors such as the rise of renewable energies, the increased use of gas and cuts to consumption through the use of modern technologies and energy-efficient building renovation have resulted in a long-term decline in heating oil consumption in core BayWa regions. This trend is also likely to continue moving forward. However, the significantly colder winter in 2017 compared to previous years is likely to offset this effect. The resulting increase in heating oil consumption would have to be covered over the rest of the year. Sales of wood pellets are benefiting from the sharp rise in installed wood pellet-based heating systems over the past few years. 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 1.8% for Germany in 2017, demand can be expected to rise moderately.

In terms of renewable energies, the course has been set for long-term development: In December 2015, 196 nations adopted a climate agreement binding under international law at the Climate Change Conference in Paris. The aim of this agreement is to limit the rise in global temperatures. At its core is carbon-neutral energy production from renewable sources. At the United Nations' Marrakech Climate Change Conference in November 2016, 196 participating nations agreed to fully ratify the Paris agreement. The energy concept introduced by the German federal government aims to 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.

The new version of the German Renewable Energy Sources Act (EEG), which entered into force on 1 January 2017, pursues three goals: The first of these is compliance with existing expansion corridors for wind and solar power and biomass plants, so that the development of the power grid can match the pace of expansion in renewable energies. Secondly, competitive tendering is to be used to achieve greater cost efficiency in capacity expansion projects. Thirdly, the variety of potential bidders able to take part in a tendering process is to be maintained, giving all market stakeholders a fair chance. In the Bundesnetzagentur's annual tender procedure, contracts are awarded to the lowest bidders until the scope of services to be tendered has been covered.

In Germany, the new version of the German Renewable Energy Sources Act (EEG) is expected to slow down the rate of capacity expansion in renewable energies, as is policymakers' intention. Capacity expansion, particularly in terms of wind power, will significantly exceed the expansion corridor in the short term as a result of the projects with a total output of 8.5 gigawatts (GW) that were already approved in 2016; under the transitional regulations, these projects fall under the remuneration system of the former version of the EEG. Capacity expansion in some southern European countries and the United Kingdom will decline further due to reductions in or complete cuts to subsidies. Chinese and Japanese capacity expansion is also expected to lose considerable momentum. All in all, worldwide expansion of installed capacity is expected to marginally exceed the 2016 figure in 2017, as new markets such as India, the Middle East and North Africa are still set to generate increased growth. However, the volume of global investment in renewable energies is only likely to remain on par with the previous year due to falling system prices.

According to Bloomberg New Energy Finance (BNEF), total worldwide capacity of wind energy is likely to increase by 7.5%, or 54 GW, in 2017. This growth will be driven by a number of new markets. Particularly high growth is expected in the Middle East and in southern Africa. China remains the largest single market in wind energy by some considerable distance, with installed capacity expansion expected to reach 21 GW; this does, however, equate to a 9% year-on-year decline. In the US, the world's second largest wind energy market, expansion of wind turbine capacity in 2017 is expected to decline year on year to 7.3 GW. Newly installed output in Germany, the largest market in Europe, is set to remain on par with the previous year at a minimum of 4.5 GW. This puts it above the adjusted expansion corridor for onshore wind turbines for the years 2017 to 2019 of 2.8 GW, as plants approved by 31 December 2016 and to be commissioned over the next two years still fall under the previous subsidy system.

Global expansion of photovoltaic capacity is set to reach 80 GW in 2017 according to the BNEF, equating to a rate of growth of approximately 7%. At approximately 30 GW, China is likely to continue to account for the largest share of this growth, followed by the US, which is expected to see installed output rise by 10.8 GW. With between 8 to 9 GW of newly installed capacity, India is set to become the world's third largest photovoltaic market, pushing Japan down to fourth position with forecast capacity expansion of 6 GW. In Germany, newly installed capacity is expected to amount to 1.7 GW in 2017 due to the fall in prices for system components.

In terms of new biomass systems, all material-based special remuneration was discontinued through the German Renewable Energy Sources Act (EEG) 2014. The expansion of biomass technology has since focused on the use of residual materials such as slurry and refuse. In the EEG 2017, the capacity expansion target has been increased to 150 megawatts (MW), on the basis of which biogas electricity is put out for tender on an annual basis. The bidder with the best offer is then awarded the contract for the EEG remuneration period: in the case of new systems, this period is for 20 years. A second remuneration period of 10 years is granted for existing systems that can also participate in the tender process. This should make investments in the continued operation of systems following the end of subsidisation under the EEG financially attractive again through the reorientation towards peak power requirements and full use of heat energy. Barely any positive momentum is expected to be generated in the construction of new systems in view of the complex regulatory environment. Generally speaking, the new regulations open up prospects to modify existing plants.

Anticipated business performance

Demand for heating oil is expected to increase over the course of the year in the wake of the significantly colder and longer winter in 2017 compared to 2016. However, customer ordering is extremely sensitive to prices. The noticeable rise in prices recently is likely to cause many consumers to bide their time and wait until prices fall. In light of the ongoing structural decline in consumption of heating oil, sales are expected to remain stable in 2017. There are further growth opportunities in the sale of wood pellets through the acquisition of the business operations of Dr. Gies Vermögensverwaltung in June 2016. In terms of fuels, the volume of diesel sales could rise on the back of the increasing mutual acceptance of filling station cards among BayWa, AVIA and star. Sales of lubricants are forecast to increase slightly due to the expansion of sales activities. In 2017, revenues in fossil and renewable heating fuels, fuels and lubricants are set to be up considerably in a year-on-year comparison across all product areas as a result of the rise in prices. However, a sharp decline in the operating result (EBIT) is expected as the higher price of crude oil is likely to shrink margins in heating oil and fuel business.

The Renewable Energies business unit is set to continue down its path towards international growth in 2017 through organic developments and acquisitions. In 2016 BayWa r.e. set up two new companies in Singapore and Bangkok to participate in the dynamic growth in South-East Asia. These companies are initially focused on the Thai, Philippine, Malaysian and Indonesian markets. In addition, a new subsidiary was established in Luxembourg, which involved the partial acquisition of an existing business. BayWa r.e. is also expanding its sales of photovoltaic components in Belgium, the Netherlands and France. As Europe's leading provider, sales at BayWa r.e. are also likely to benefit from further declines in the prices of photovoltaic systems. The acquisition of the photovoltaic wholesale distributor Solarmatrix based in Perth, Australia, in September 2016 marks another step forward on the path towards strategic growth as well. These companies will make full-year contributions to revenues and earnings for the first time in the financial year 2017. Declines in certain countries or technology industries will be more than compensated for by growth in other markets. In terms of project business, the commissioning and turbine/plant sales pipeline in the areas of wind, solar and bioenergy currently totals approximately 510 MW for 2017. Of this amount, 300 MW is attributable to photovoltaic plants, 200 MW to wind power plants and some 10 MW to bioenergy. The focus of solar activities will be on new projects in the UK, France and the US. Activities relating to wind turbines are mainly centred on Germany and France. In terms of bioenergy business in Germany, the focus continues to be on the repowering of existing plants, consultancy services and raw materials management. Three biogas plants are scheduled to be sold in 2017. The BayWa r.e. business unit's revenues are expected to increase by a moderate amount primarily on account of expansion in trading with photovoltaic components and the solid project pipeline. In addition, Kenergia Sviluppo S.r.l. and Green Hedge Operational Services Limited, companies operating in technical and commercial power plant management acquired in 2016, will inject further impetus into service business in 2017. Stable revenues will be able to be generated here thanks to long-term contractual terms. That being said, the operating result (EBIT) is likely to fall significantly short of the record-breaking figure generated in 2016 in 2017 on account of the fall in margin potential caused by the increase in price competition in project business.

Overall, there is likely to be a considerable increase in the Energy Segment's revenues for 2017 on the basis of anticipated development in individual areas. The operating result (EBIT) is likely to be noticeably down on the previous year due to shrinking margins in conventional energy business and business involving renewable energies.

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 accelerate year on year; the construction industry's revenues are forecast to increase by 5.0% to €112.2 billion overall. This will mark the highest level of revenues recorded in the construction industry in 20 years. This forecast is based on the level of orders recorded at the end of September 2016, which, at almost €37 billion, is at its highest level since 1995, and the positive macroeconomic framework. Based on the 22.0% rise in planning approvals in 2016, revenues in residential construction are expected to rise by 7.0% to €42.9 billion in 2017. New construction is set to be nearly 8.0% higher than in 2016. Investments in modernisation measures, on the other hand, are only likely to increase by 0.3%. The commercial construction sector is set to continue the positive trend observed in the previous year with revenue growth of 3.0% to €38.3 billion. Investment here is expected to be driven by high capacity utilisation in the manufacturing sector. Public construction revenues are expected to rise by 5.0% to €31.1 billion on account of the rise in investment in transport infrastructure by the German federal government. What's more, investment in construction is also expected to increase slightly at the federal state and municipality level in view of the improved income situation.

The Austria construction industry is expected to generate slightly less growth in 2017 compared to the previous year: According to the Austrian Institute of Economic Research (WIFO), real investment in construction activity is expected to reach 1.5%. This would put growth in the construction sector in 2017 at roughly the same level forecast for macroeconomic output. Residential construction and commercial construction are set to expand by slightly above-average margins of 1.6% and 1.9% respectively, while civil engineering activities are likely to struggle to overcome the previous year's figure with a forecast rise of 0.2%.

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 new multi-storey residential properties in major urban areas, as living space in these locations remains highly scarce. In rural areas, however, underlying factors will remain a mixed bag. The volume of construction in terms of agricultural commercial properties is expected to remain on par with the previous year. By contrast, recovery is anticipated in commercial structural engineering. The BayWa building materials trade is likely to be able to participate in the positive overall environment in the construction industry in 2017 thanks to its broad range of products. In particular, BayWa should profit from the growing trend towards pre-fabrication and rising demand for flat roofs, as these are some of the areas it specialises in in terms of distribution activities. In addition, the granite trade business acquired in summer 2016 and the building materials centre in Munich-Moosfeld, which was opened in autumn 2016, will make full-year contributions to revenues and earnings. Additional potential for value creation is being developed through the expansion of digital services: For instance, from mid-2017, private developers and construction firms will be able to plan and calculate their projects using the "Mr+Mrs Homes" property configurator and realise them right through to the turnkey handover of the finished house by drawing on a connected network of partners. In B2B business, the BayWa Bau-Cockpit went online in January in time for the BAU 2017 trade fair; besides intelligent purchasing functions, this system also provides an extensive range of site management tools. Through the continued expansion of e-commerce, additional growth opportunities are opening up beyond the existing market area. Running contrary to this trend in terms of revenues was the sale and closure of several sites in the financial year 2016 within the scope of the site optimisation strategy. However, taken as a whole, the effect of these measures will be positive. Revenues, and particularly sales volumes, in the Building Materials Segment are likely to increase markedly in 2017. The operating result (EBIT) should be able to mildly exceed the figure reported in 2016 in spite of cost rises in certain areas, such as costs of wages.

Outlook for the Innovation & Digitalisation Segment

Expected market and industry development

Digitalisation has long since been a fixed part of supporting day-to-day agricultural operations. Agriculture's ratio of investment to annual revenues of roughly 10% puts it in the top one-third of all industries according to PricewaterhouseCoopers (PwC). More than half of German farmers have already invested in digital technologies. 40% of farmers questioned plan to invest for the first time or continue to invest, while 28% plan to increase their investment. Digitalisation is being fuelled by the optimisation of the value chain. In precision farming, information is processed digitally and made available from farm management systems, weather apps or online platforms to help farmers make decisions. According to a study by PwC in December 2016, smart farming is also going one step further. Here, machines and systems process information independently and make decisions with at least some degree of autonomy. Examples of this include autonomous soil cultivation and harvesting machines, real-time soil analysis and site-specific farm management. This process optimisation not only results in cost savings, it also improves efficiency in the use of operating resources. The best possible use of operating resources ultimately boosts yields. The digital integration of supply chain partners, customers and suppliers also creates the possibility for new services and data-driven business models. Interconnectivity in online stores and applications enables operating resources and spare parts to be provided as and when needed or allows electronic troubleshooting to be carried out in the case of machine failure, with the results sent directly to the responsible service technician. Against this backdrop, the market for digital applications in agriculture is expected to grow by approximately 11% annually over the medium to long term and be worth €4.5 billion by 2020.

According to a study published jointly by eco – Association of the Internet Industry and Arthur D. Little, the internet industry in Germany is expected to generate dynamic annual growth of 12% until 2019. This strong growth is likely to continue across all market segments. E-commerce is expected to generate revenue growth of 11% in 2017, with online retail growing much more significantly than the retail industry as a whole (online and bricks-and-mortar), which is only expected to grow by 2.3%.

Anticipated business performance

In the Digital Farming business unit of the Innovation & Digitalisation Segment, revenues are likely to increase by a significant margin in 2017. Revenue growth should be fuelled primarily by the introduction of paid licences for the NEXT Farming software on 1 January 2017 and the planned international expansion of software sales – such as in Poland and the Netherlands. The German Fertiliser Ordinance (DuV) is also likely to have a positive impact on demand for farm management software and digital farming solutions in 2017, as it stipulates stricter documentation obligations and the optimisation of fertilizer application. The newly developed Leitspurmanager software, coupled with digitalised field databases, enables seed to be sowed and fertilizer and crop protection to be applied automatically and without any overlap. BayWa's e-commerce activities are likely to generate revenues in the high nine-digit range. However, revenues and income from these activities are attributed to the respective business unit responsible for the respective sold product. All in all, the revenues generated by the Innovation & Digitalisation Segment are likely to increase significantly in 2017. Costs of e-commerce activities are distributed using a cost allocation key. Due to administrative costs and start-up costs for investments in new developments, start-up losses are expected through to 2019 within the scope of medium-term planning. In 2017, the operating result (EBIT) of the Innovation & Digitalisation Segment is likely to be negative in the high nine-digit range.

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 overall for 2017 on the basis of the expected underlying conditions in the segments. Group revenues are likely to increase noticeably in 2017 in consideration of anticipated price developments and volatilities. The Group's operating earnings indicators, EBITDA, EBIT and EBT, should improve significantly year on year. 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.