property buyers due to high interest rates. Moreover, inflation-related adjustments to collective bargaining agreements will have to be made, which will lead to higher costs in the segment.

Outlook for the Innovation & Digitalisation Segment

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

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

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

Other Activities

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

Opportunity and Risk Report

Principles of opportunity and risk management

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

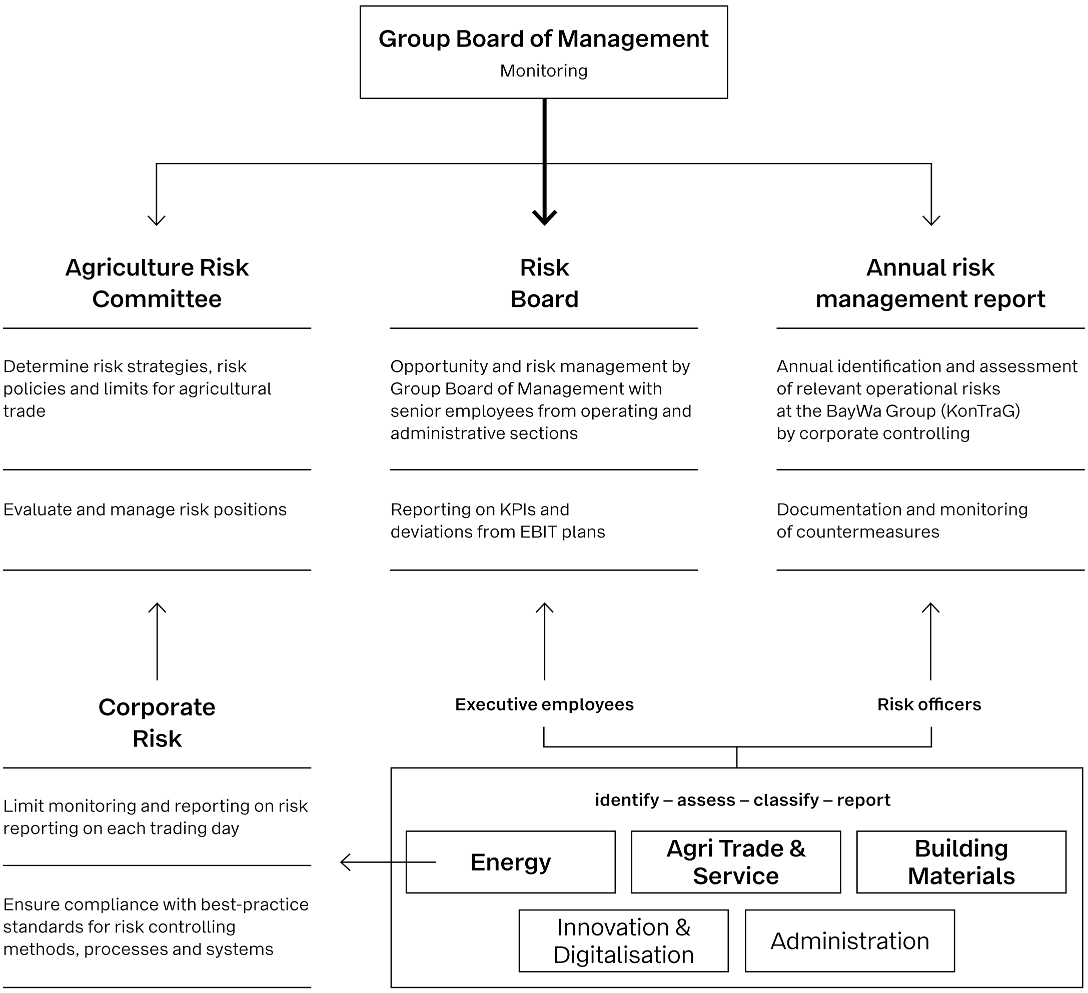
The principles underlying the system set in place within BayWa Group to identify and monitor risks specific to the business have been described in a risk management manual approved by the Board of Management. In addition, the Internal Audit Department regularly audits the internal risk management system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

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

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

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

Structure of opportunity and risk management within the BayWa Group



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

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

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

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

Risk management process within the BayWa Group

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

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

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

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

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

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

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

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

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

Identification of opportunities within the BayWa Group

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

Classification of risks and opportunities within the BayWa Group

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

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

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

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

Composition of the risk and opportunities categories within the BayWa Group

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

Compliance risks

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

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

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

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

Operating risks and opportunities

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

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

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

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

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

Market risks and opportunities

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

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

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

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

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

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

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

Financial risks and opportunities

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

Foreign currency opportunities and risks

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

Credit and counterparty risks and default risks

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

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

Interest rate risks

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

Tax risks

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

Legal risks

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

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

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

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

Strategic risks and opportunities

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

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

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

Risks and opportunities of the organisational structure and workflow

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

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

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

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

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

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

Overall assessment of the opportunity and risk situation by Group management

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

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

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Key features of the internal control and risk management system

Internal control system (ICS)

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

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

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

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

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

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

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

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

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

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

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

Risk management system (RMS)

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

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

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

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

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

Remuneration Report

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

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

Composition of subscribed capital

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

Restrictions on voting rights and the transfer of shares

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