Consolidated Management Report of BayWa AG for the Financial Year 2023

Note about this consolidated management report

- Qualitative and comparative statements are used to describe changes in results and earnings, as well as forecast ranges. Explanation of the qualitative and comparative statements:
  - slight, moderate, low ≙ 1–5%;
  - noticeable, clear ≙ 5–10%;
  - substantial, considerable ≙ 10–20%;
  - significant ≙ 20–50%;
  - sharp, steep, strong ≙ > 50%
- For reasons of readability, gender-specific wording and formal reference to all gender identities are not used. The selected form stands for all genders (m/f/other).
- As in the previous year, this consolidated management report includes disclosures that do not constitute mandatory content of the management report in accordance with the relevant legal provisions or the requirements of German Accounting Standard 20 (GAS 20). These disclosures, known as "atypical" disclosures, are not required to be included in the audit. They are therefore clearly highlighted and labelled as such in this report to distinguish them from audited management report disclosures. Examples of such atypical management report disclosures include descriptions of the key characteristics of the internal control system (ICS) and of the risk management system, which were included in the consolidated management report in accordance with Recommendation A.5 in conjunction with Principle 5 of the German Corporate Governance Code (GCGC) 2022 and can be found on pages 65 and 66.

Overview

As expected, the BayWa Group recorded a decline in the financial year 2023 compared to the exceptional year 2022. The price shocks and supply bottlenecks on the commodity and energy markets triggered by the war against Ukraine have largely dissipated. Some of the previous year's extraordinary price rises have reversed and led to extreme price falls, particularly for agricultural commodities. Lower prices and sales volumes than in the previous year also resulted in lower margin potential for BayWa in some cases. Cyclone Gabrielle in New Zealand in the Global Produce Segment, as well as the massive weakness of the construction industry in Germany also had a negative impact. The Agricultural Equipment and Cefetra Group Segments, on the other hand, performed positively, with further growth compared to the record year. Compared to the years before the start of the war against Ukraine, the Group was able to increase revenues and EBIT, although high interest and tax expenses led to a net loss for the year. The profitability of all segments is to be sustainably improved through cost-cutting and optimisation measures.

The energy business unit (Renewable Energies and Energy Segments) recorded weaker revenues and earnings performance, mainly due to the sharp year-on-year fall in prices on the energy and raw materials markets. Revenues in the reporting year totalled €8,609.4 million, down 12.4% on the previous year's figure of €9,832.8 million. EBIT fell by 27.7% to €211.6 million (2022: €292.7 million).

While the Renewable Energies Segment continued to expand year on year in energy trading, revenue and earnings performance was negatively impacted by weak demand and the fall in module prices in solar trading. The segment's revenues in the financial year 2023 amounted to €5,789.4 million, which corresponds to a decrease of 10.8% compared to the previous year's figure of €6,489.2 million. At €193.8 million, EBIT in the reporting year was 18.9% below the previous year's high figure of €239.1 million.

Business development in the Energy Segment was primarily characterised by the weaker trading momentum for fossil fuels and lubricants compared to 2022 and lower trading margins as a result of the downward price trend on the energy commodity markets. As a result, a substantial decline in revenues of 15.7% to €2,820.0 million was recorded in the reporting year (2022: €3,343.6 million). On the earnings side, EBIT fell by almost 67% to €17.8 million compared to the record level of the previous year (2022: €53.6 million).

In the agriculture business unit (Cefetra Group, Agri Trade & Service, Agricultural Equipment and Global Produce Segments), revenues fell by 10.3% year on year to €13,326.5 million. At €160.5 million, EBIT was 37.2% below the previous year's figure of €255.5 million. The development of the individual segments was varied.

The Cefetra Group's trading environment continued to be affected by turbulence and volatility on the commodities markets in the reporting year 2023. Nevertheless, the Cefetra Group was able to participate in the trading opportunities that arose in the financial year 2023 in both its conventional and speciality business and, following the record result in 2022 – characterised by numerous highs in agricultural products – was able to report very pleasing performance. In the higher-margin speciality business, the new subsidiaries Cefetra Dairy and Sedaco contributed to the positive development. Revenues in the Cefetra Group Segment fell from €6,111.2 million to €5,309.3 million in the reporting year, a decrease of 13.1%. This is mainly due to falling prices for many products following the market exuberance in the previous year. In the previous year's result, the cancellation of grain contracts due to the war against Ukraine was compensated for by more expensive hedging on the spot market. There were no such burdens in the reporting year, which is why the Cefetra Group's EBIT of €64.6 million is 8.6% higher in 2023 than the very successful record year of 2022, when it came to €59.5 million.

Business in the Agri Trade & Service Segment has largely normalised following the exceptional year of 2022 and the effects of the war against Ukraine. However, better availability of agricultural commodities led to greater competitive pressure. In addition, extreme weather conditions between drought and heavy rainfall at harvest time had a negative impact on the quantity and quality of produce and the demand for agricultural inputs, such as crop protection and fertilizer. Against this backdrop, BayWa recorded a substantial volume- and price-related decline in revenues of 14.8% to €4,899.3 million in the financial year 2023. Following the extreme market turbulence in 2022, EBIT fell sharply by 74.8% from €104.7 million to €26.4 million in the reporting year 2023. In addition to rising personnel costs due to collective wage agreements, it was primarily the fall in fertilizer prices that led to a significant decline in trading margins and triggered a write-down of fertilizer inventories. Nevertheless, EBIT in 2023 is almost twice the level it was in 2021.

The Agricultural Equipment Segment continued to develop favourably. Sales of new machines rose by over 5% in 2023. In addition to a high willingness on the part of farmers to invest in their fleets, the sales of new machinery benefited above all from the resolution of supply chain problems and the resulting improvement in manufacturers' ability to deliver compared to the previous year. The maintenance and service business as well as trading in spare parts and specialised trade products in all sales channels also developed correspondingly positively. Overall, the Agricultural Equipment Segment was able to increase the previous year's record revenues by 7.8% to €2,239.3 million. EBIT amounted to €84.6 million in the reporting year, an increase of over 20% compared to the figure generated in the previous year of €70.2 million.

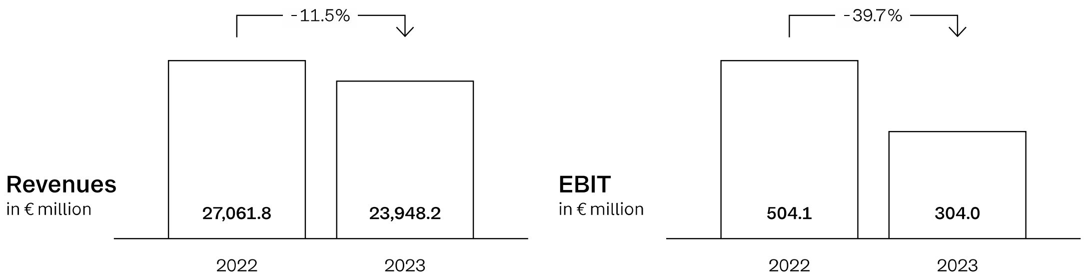
The Global Produce Segment was confronted with persistently difficult conditions in the financial year 2023. The consequences of Cyclone Gabrielle in New Zealand, an important production and procurement market for BayWa, also had a negative impact on business, as did the lower availability of goods due to weak harvests in Europe and other important supply regions. The higher prices could not compensate for the costs of the storm damage and the lower sales volume. In the reporting year, insurance companies only paid out part of the total claims from the cyclone damage, which were made up of financial losses and business interruption losses.

Overall, the Global Produce Segment generated revenues of €878.6 million in the reporting period, down from €921.3 million in the previous year. EBIT fell from €21.1 million in the previous year to minus €15.1 million in 2023.

The building materials business unit (Building Materials Segment) was impacted more quickly than expected by the slump in construction activity in Germany in 2023. The construction crisis led to a substantial decline in revenues, particularly in the building construction, gardening and landscaping and roofing product ranges. In addition, the segment was also disproportionately affected by inflation-related wage increases and special expenses for the bonus to mark BayWa's centenary due to the high share of personnel costs of over 70%. In the reporting year, the company implemented cost-cutting measures by closing five locations and selling one. At the same time, the company's management has halted further recruitment and introduced further measures to reduce costs. However, the measures taken will essentially only have an impact on earnings in the course of the current financial year 2024. In the reporting year 2023, revenues in the Building Materials Segment totalled €1,988.3 million (2022: €2,346.9 million). The segment's EBIT fell from €70.4 million to €6.6 million.

At €10.4 million, revenues in the Innovation & Digitalisation Segment were on a par with the previous year. Following investments in the development of Digital Farming, EBIT remained negative at minus €10.8 million, but showed a substantial improvement compared to the same period of the previous year. In the past financial year, BayWa restructured its Digital Farming division and sold the NEXT Farming software solutions and the associated software development and sales activities of the Group company FarmFacts GmbH to its long-standing partner AGCO. As a result of this strategic decision, the segment will be dissolved in the current financial year 2024 and FarmFacts GmbH will be allocated to the Agricultural Equipment Segment. The remaining subsidiaries are reclassified as other activities.

BayWa Group



All in all, the BayWa Group recorded a substantial deterioration in EBIT with its significantly lower revenues, thereby falling slightly short of its own annual forecast of between €320 million and €370 million. High interest expenses as a result of the sharp rise in benchmark interest rates led to a sharp drop in earnings before taxes (EBT) to minus €37.7 million (2022: €319.6 million). After tax expenses of €55.7 million, the consolidated net result for the year was minus €93.4 million, €332.9 million below the previous year's figure. The share of BayWa shareholders in the consolidated annual result fell by €266.2 million to minus €98.1 million. Earnings per share totalled minus €2.84, compared to €4.36 in the previous year. Due to the unsatisfactory earnings performance in the financial year 2023 and the priority of reducing debt and to strengthen the equity base, the Board of Management and Supervisory Board will propose to the Annual General Meeting the suspension of the dividend for the financial year 2023.

For the current financial year 2024, the management expects a Group EBIT with a significant improvement compared to the financial year 2023, which is also well above the average figures for previous years. In addition, the management has postponed the Group's medium-term target by one year, particularly in view of the persistently weak construction sector. The key financial target of the BayWa Group is to generate sustainable operating earnings (EBIT) in the range of €470 million to €520 million by the end of 2026.

The Board of Management has determined comprehensive measures to optimise processes and cost structures at the start of the financial year 2024. The aim is to reduce the commitment of funds and thus debt, sustainably increase the Group's profitability and strengthen its resilience to crises. The company is also relying on the continued high attractiveness of the markets it serves in the future-oriented fields of nutrition and energy.